CommonwealthBank GroupSuper

Keeping a cool head in volatile markets

Many investors become concerned when volatility occurs in global financial markets – particularly about the impact to their superannuation and other investments. At these times, it's important to understand the causes of market movements and how to make calm decisions.

Why do markets move so much?

Markets are influenced by many things – industrial, economic, political and social factors can all have an impact. For example, consumer and business confidence affect spending and therefore company profits.

Global trade and production naturally affect economic growth. Poor political and fiscal decisions in some countries may lead to a flow-on effect in other countries. And of course, natural disasters can cause major damage to any economy with no warning.

During times of market volatility, it's important to remember one of the fundamental principles of investing – markets move in cycles.

Volatility is a natural part of the economic cycle. Markets are influenced by a range of factors and are inherently unpredictable.

What's the effect of market volatility on super funds?

For most members, super is a long-term investment that can handle the volatility produced by these cycles.

History shows that sharemarkets have generally trended upward over the long term.

Shares, which usually form a large part of most balanced super accounts, are also generally a long-term investment. They are designed to provide capital growth over a period of five years or more. Think in years, not days.

The timeframe for super may be 20 years or more, so short-term volatility shouldn't diminish the long-term potential of your investments. Growth assets (such as shares) tend to fluctuate in the short term, but have historically provided excellent returns for investors over the long term.

When sharemarkets fall in value, it may be tempting to sell up. However, trying to time the market by selling now and buying back later can be a risky strategy.

By taking a long-term view of investing, you may ride out any short-term fluctuations in the market and take advantage of growth opportunities over the long term.

For Accumulate Plus and Retirement Access members:

Find out more or log in at **oursuperfund.com.au**

Call **1800 023 928** 8am–7pm, Mon–Fri or email **oursuperfund@cba.com.au**

Post to **GPO Box 4758, Sydney NSW 2001**

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Understand your risk profile

All investments carry some risk. How much risk you're willing to accept will be influenced by your financial situation, family considerations, time horizon and even your personality.

If market volatility has caused you to reassess the way you feel about risk, it's important to consider talking to an expert who can help you.

To find out more about help and advice options available to you as a member, visit oursuperfund.com.au/advice.

Understanding the implications of switching or withdrawing

Before switching options or withdrawing from an investment, you should understand all the implications, risks and costs involved.

One thing to think about is that you may be crystallising losses. If the value of your investment is falling, you are technically only making a loss on paper. A rise in prices could return your investment to profit without you doing anything.

Selling your investment, including switching out of an investment option or withdrawing in cash from your account, makes any losses real.

You'll need to consider this with your own investment timeline in mind, as the ability to recoup 'paper' losses may depend on how long you have until you need to access your super for retirement.

Switches during volatile markets: do they really matter?

The chart below looks at outcomes for members who may have reacted differently to sharemarket volatility in and around the GFC period of 2007–08.

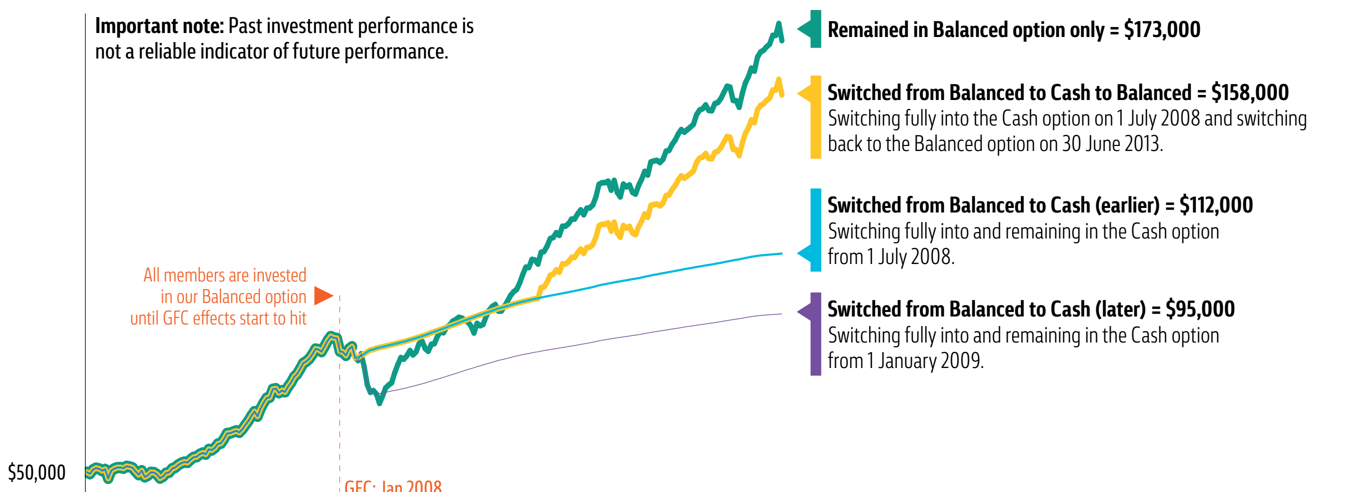
All members started with $50,000 invested in our Balanced (MySuper) option when investment choice was introduced on 22 February 2001. Our Balanced option is a pre-mixed or diversified option, meaning it invests across a range of asset classes, but it has a higher weighting to growth-type assets such as shares, and has a medium-high level of investment risk.

Returns for your account are determined through unit pricing for each investment option. The chart shows the change in account balance based on actual unit prices for the period for the Balanced and Cash options in Accumulate Plus, calculated after the deduction of investment fees, asset-based administration fees and any applicable taxes. The chart assumes no additional contributions or deductions to the account balance.

One thing to notice is that despite several shorter-term downturns in performance over the life of the chart, there has generally been positive growth over the longer term.

Remember the saying: *"It's time in the market, not timing the market."*

What effect might investment decisions during market volatility have on an account balance?



Source: Taxable unit prices for Accumulate Plus investment options from 22 February 2001 to 29 February 2020.

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