

Major market movements and your super update

Significant global financial market movements have dominated media reports in recent weeks as the United States (US) and Europe grapple to manage sovereign debt issues.

Understandably, given the importance superannuation has in the lives of working Australians, we intently listen to these reports, watch the impact the fallout from the US and Europe has on our own investments and start to worry about our financial future.

While it's normal to feel anxious when markets take a downward turn, we need to keep in mind it is also normal for markets to do just that.

Ups and downs are all part of the cycle

Sharemarkets are impacted by sentiment and many different types of cycles. The business cycle represents short and long-term fluctuating levels of activity that an economy experiences. It significantly impacts the value of sharemarkets and is largely driven by monetary policy.

Many also believe that very long-term debt cycles (of 50 to 60 years or more) impact economic activity. This cycle is when the economy transitions from periods of low debt to high debt and visa-versa. You can see this cycle at work in Australia when the debt to gross domestic product (or GDP) ratio peaked in 1890 and 1930, offsetting severe economic depressions, and again in 1990 when Australia experienced a period of economic recession. Some argue many developed economies have again reached peak debt levels and that the cycle is now currently turning. If this is the case, debt reduction (also known as deleveraging) strategies will be apparent for many years to come.

Because major financial markets are currently volatile, they are also more sensitive to outside influences. Over the last 9 months events such as geopolitical tensions in the Middle East and North Africa, flooding in the eastern states of Australia, the devastating earthquake and tsunami that hit Japan and continuing sovereign debt issues have all contributed to weaker than expected global economic growth. These events, combined with the recent downgrading of the US economy and fears that Europe cannot contain its sovereign debt, have created

uncertainty and contributed to global market falls.

Stick to your long term objectives

While we cannot predict when markets will pick up, we do know that in the past, periods of negative returns are usually followed by periods of strong positive growth. And that's why it's important to achieve a balance between your attitude to risk and long-term investment objectives, especially during these uncertain times.

All investments are designed to deliver a return. However the return received is driven by the level of risk taken. As a rule, lower risk investments generally produce lower returns, while higher risk investments result in higher long-term gains.

If you are investing for the long term (5 to 7 years or more) you can ride out any short-term fluctuations to receive the higher returns asset classes such as shares and property provide in the long run. Whereas switching to a more conservative option when markets fall might offer more security now, but it could also mean locking in your losses. By reducing your level of investments in shares and other growth assets, you could miss out on significant gains when markets do recover.

Diversification is key

LGsuper is prepared for any potential challenges ahead. Our Board of Directors and team of professional, disciplined and well-regarded investment managers invest your money to achieve solid returns over the long term. We diversify investments across a broad range of non-traditional and traditional asset classes to reduce the fund's exposure to risk and volatility. We also actively seek new investment opportunities in quality companies when share prices are low, to benefit from the gains to be made when markets return to higher levels.

Make an investment choice that's right for you

Before making any decision you need to fully understand your options. Our Investment choice guide can help you do this. For a copy visit our website at www.lgsuper.org or give us a call on 1800 444 396.