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Dear ,

Yes, the start to 2008 has been one of the worst in recent history for share market performance, and of course newspapers have revelled in it. Newspapers sell a great story by feeding people's fears, focusing on sensationalism and tapping into people's natural insecurities. What most newspapers don't say about the share market story is that the long term performance of the share market (over 10 years), provides investors with ongoing reliable dividends and ongoing reliable growth. Growth assets (such as shares) are necessary to combat the effects of inflation. Inflation erodes the purchasing power of our wealth one inch at a time.

Yes, selling assets that looked like they were going south required a perspective about individual investments which we do have. Indeed, the underlying shares that you have are quality companies. Whilst selling would have released cash to invest now, it could have also had the opposite effect. The companies you do hold are quality companies and good to continue to own, the fall in value of individual stocks is due to a broad market sell off; and it has been indiscriminate.

The current sell off was started by week retail sales data in the US that came out in early January. Prior to that time the market fell in August, the US Federal Reserve reacted reducing interest rates and the market increased to new highs in November as the chance of a recession in the United States was put at 20-40%, depending upon the economist. Whilst there were a small number talking about a recession, most had the chance of one occurring at less than 50%.

Timing the market is wonderful when it works; no question about that. However in investment portfolio management, it is regarded as a low quality risk to take, because it is very easy for cash to be left on the side lines when the market moves even higher.

#### **Time not timing**

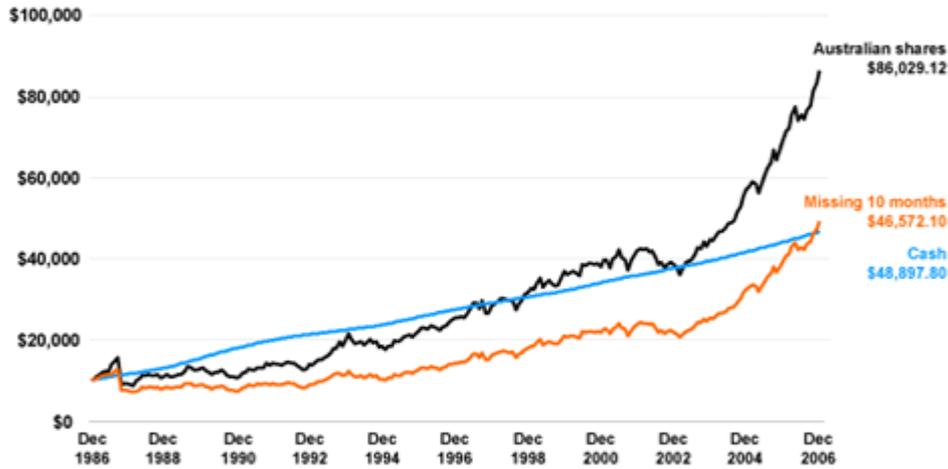
Please look at the first graph below. This shows that investing \$10,000 into the Australian sharemarket in 1986 grew to \$86,026 by Dec 2006. This period was specifically selected to show the impact of the October 1987 stock market correction of around 40% in the year after initially investing.

The graph also shows that selling and going into cash, and then attempting to time the re-entry back into the market can lead to significant loss of investment value. You will note that missing the best 10 months of investment market performance reduces the amount of wealth created by almost 50%. In other words, you would receive the same return as only a cash investment, not to mention paying unnecessary transaction costs and taxation in the process.

## Time in *not* timing

### Value of \$10,000 invested on 31 December 1986

If investors had missed the best performing month for each year by trying to time the market, their investment return would have been lower than the cash rate. Therefore, based on this historical performance example, it would have been more beneficial for investors to stay in the market continuously for the longer term.



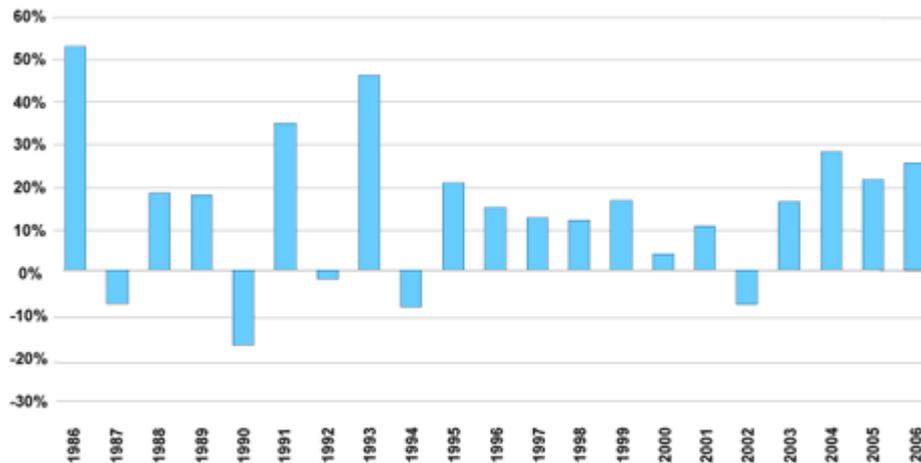
Figures shown are market indices. Market indices assume dividend reinvestment.  
 Australian shares - All Ordinaries Accumulation Index  
 Past performance is not a reliable indicator of future performance  
 Figures as at 31 December 2006

Source: Datastream/AMP Capital Investors

## Stick to your plan

Please look at the next graph below. This shows the returns the sharemarket has produced each year over the last 20 years. Looking at it, there were 5 negative years. Despite these negative years, investors have returned an average of 11.4% per annum.

### Annual movement of Australian shares 1986–2006



Figures shown are market indices. Market indices assume dividend reinvestment.  
 Australian shares - All Ordinaries Accumulation Index  
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 Figures as at 31 December 2006

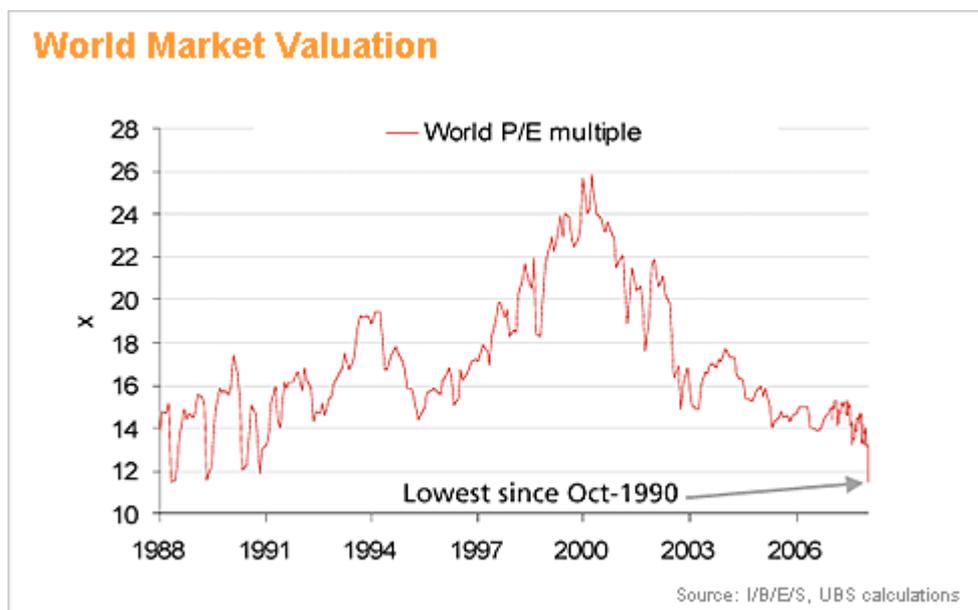
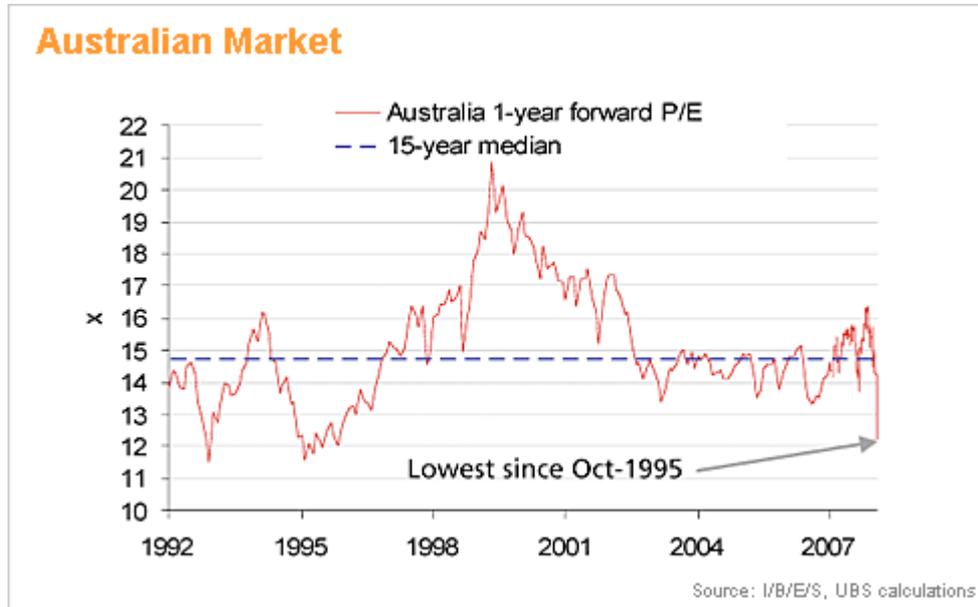
Source: Datastream/AMP Capital Investors

In relation to your future retirement it is critical that your portfolio deliver long term investment return outcomes, and this will allow your capital to fund an income stream over the course of your life. Our role is to assist you to achieve your long term goals and to do so with the greatest degree of

reliability. The outcomes will be far less reliable if trying to time entry and exit into the share market. It simply doesn't work.

### Company values look good

Please look at the next two graphs below. You will see that a common indicator of whether the market is cheap or expensive is the Price / Earnings Ratio (otherwise known as PE). The higher the PE, the more expensive the share market is, the lower the PE the cheaper the share market is. As you can see, valuations are below long term valuations at this point in time.



And so, on that note, we wish you and your investment portfolio a happy and prosperous 2008. We are committed to helping you maintain a long term investment strategy that can weather good times as well as bad. Please don't hesitate to give us a call if you have any questions.

Kind regards,

*James Walton Powell*

James Walker-Powell

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**General Advice Warning:** This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial advice prior to acting on this information.

**Investment Performance:** Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

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