CLIENT LETTER - March 2008

CONTINUING MARKET VOLATILITY

As the bumpy ride in Australian and International share markets continue we thought it would be timely to look at past experiences and re visit the reason that most people invest in the first place.

Long standing clients have experienced this type of volatility in the past, particularly through the post September 11, 2001 terrorist attacks, the Worldcom & Enron crisis, the Bali bombings and last year's Asian correction. However, for more recent clients this is their first experience of negative markets and, for many, it comes just a short time after establishing their super/pension investment portfolio.

Those clients will remember that in our initial meetings we spent considerable time determining their risk profile and ensuring that they understood the nature of the risk and the risk/return trade off. We also talked about what would happen **WHEN** markets fell and not **IF** markets fell. All too often the risk and return rationale tends to be forgotten in the good times, especially after a long period of strong returns which can cause investors to raise their expectations relating to investment returns.

The most important thing to remember is that the majority of investors are investing for the long term, in most cases, for the rest of their life. Unless personal circumstances have changed, the basic foundation of a sound financial plan for the long term need not change, regardless of what is happening in a market on any particular day.

Ipac chief investment officer, Jeff Rogers, warns that knee-jerk reactions are not suitable in current market conditions. Similarly, a new report by Standard & Poor's (S&P) states that "investors should not be selling out of markets despite the downward spiral most are in at present". S&P director, Simon Ibbetson, the author of the report, said "for those who are not forced sellers, in this market, especially those investing in super funds (read also pension funds), there is no real reason to sell now. We advise clients to hold a diversified portfolio so that you do not have all your eggs in one basket".

A TOUGH TIME FOR INVESTORS

For the first time since March, 2003 even conservative investors, with 72% of their portfolio in cash and fixed interest, are experiencing negative returns for the year to February, 2008. Until the extent of the US slowdown is revealed and the crisis of confidence in world credit markets fully plays out, it looks likely there is more pain to come over the next few months. The good news is that the US economy will, in time, respond to the stimulus of low rates and tax incentives. Whilst the doomsayers write a story of US stagflation due to the oil price remaining above the feted $100US level, the world economy looks much more robust than the case in other similar US slowdowns.

WHAT SHOULD INVESTORS DO ?

With running yields on some cash and interest products running above 8%, the temptation may be for investors to pull out of growth investments until the storm passes. This is fine in theory but virtually impossible to do in practice, even for the best investment minds in the world. Markets will move quickly to price in a recovery and unless you are invested in growth assets at that exact time you will most certainly miss out. Remember, bear markets tend to last for around 12 months and when the share market recovers they usually bounce strongly. Over the last 7 bear markets the Australian share market returned an average of 25.7% return one year after the share market recovery. Similar figures for the US share market showed an average return of 21.3% for the year immediately following the 10 worst three month declines in the S&P 500 Index since 1950.

A HISTORY LESSON

Riding out market fluctuations in investment markets has long been espoused by investment professionals around the world. We have already shared the story of one of our longstanding clients with some of you, for those who have not heard it, we would like to do so again.

Judy commenced an allocated pension with Asgard in December, 2000 with an investment of $500,422. Our original projection estimated that if Judy continued with her balanced asset allocation, and drew no capital, her anticipated account balance in December, 2007 would be $537,659.

Not factored into the projections were the market downturns brought about by all of the things mentioned above as well as the current credit crisis. Judy has experienced them all, kept her nerve and stuck with her asset allocation. Along the way, over the last 7 years, she has drawn out $35,000 in capital, for those little one off things that come along from time to time, and $250,839 in regular pension payments, a total of $285,839.

Her account balance fell as low as $418,000 in March, 2003 (it did not show any increase in value over the first 27 months) and reached a high of $542,000 in June of 2007. Today it sits at $454,422 (after all of the latest falls) and would have been $489,422 without the capital draw down.

Over the last 7 years she has experienced investment returns ranging from as low as -3% per annum to as high as 27% per annum, but instead of changing her asset allocation as a result of these wide variances, she has stuck with her original plan and has benefited as a result.

Judy's story is an example of the impact of volatility on a portfolio and what can be achieved when you stay focused, and again we thank her for allowing us to share it with our other clients.

All investors are different and some of you may wish to discuss re positioning your portfolio so that it has slightly less exposure to growth assets. If you would like to discuss this, the recent market movements, their impact on your portfolio or any other aspect of your portfolio, please do not hesitate to contact us.

Yours faithfully,

Colin McLoughlin