

# Markets are by their nature volatile

27 June 2008

Sharemarkets around the world have this week continued to remind us of a basic fact of investing: the value of these markets will rise or fall every day. The past week has been particularly unsettling for investors with the Australian sharemarket falling 1.3 per cent on Friday alone. But this volatility needs to be put into perspective.

Sharemarkets entered a period of increased volatility in late August 2007. From its then record high on 24 July 2007 the S&P/ASX 200 Accumulation Index fell from 40,038 to 35,391 on 17 August, a fall of about 11.6 per cent in less than a month. By 18 October the market had recovered to set a new record at 42,693, a rise of 20 per cent from the August low.

The trigger for the August fall was the sub-prime mortgage melt-down in the US and as Christmas approached this issue had spread to the broader markets and companies with no direct exposure to the sub-prime market were feeling the pressure. Markets reacted accordingly and share prices were easing. By 22 January 2008 the index was down to 32,974, 22 per cent below the record October high.

Since the January low the Australian market has continued to recover and by mid May had recovered nearly 17 per cent from the January low. June has seen share prices ease again.

In the 12 months to 26 June 2008 the Australian market has fallen in value by more than 10 per cent. In the 12 months prior to that, the Australian market rose by nearly 30 per cent.

In the period from January 1989 to May 2008 the Australian All Ordinaries Price Index has fallen by more than 10 per cent on 16 occasions. And over the same period the market has produced a total return of nearly 720 per cent\*. Panic reactions to short-term volatility means investors can risk missing out on the long-term return potential of markets.

During times of stress, markets often sell down very good quality company shares, as well as the poor ones and those exposed to a specific problem. When the stress has eased, good quality, well-valued shares can recover and continue to build solid long-term returns. The only losses not recoverable in the long run are those that were locked in by panic sellers, and those lost on poor quality assets.

**Mark Dutton**  
Chief Investment Officer

\* As measured by the All Ordinaries Accumulation Index

This publication has been prepared for distribution to professional financial advisers only and is intended to provide factual information. AXA does not authorise the distribution of this publication to or use by existing or potential investors. Existing or potential investors should base their investment decision on the detailed information contained in the current product disclosure statement (PDS) and should consult their financial adviser. Applications for the issue of AXA products will only be accepted on receipt of an application form accompanying a current PDS. The National Mutual Life Association of Australasia Limited and its associates derive income from issuing interests in the products, full details of which are contained in the PDSs. This information is provided for persons in Australia only and is not being provided for the use of any person who is in any other country.

