A LIFETIME OF INVESTING

Magnitude

WHETHER YOU'RE INVESTING FOR THE NEXT 10, 20 OR 30 YEARS, HISTORY SUGGESTS THAT TIME IS ON YOUR SIDE AND THAT THE RETURNS FROM INVESTING FOR GROWTH ARE LIKELY TO REWARD THE VOLATILITY YOU ENDURE ALONG THE WAY.

TIME IS ON YOUR SIDE

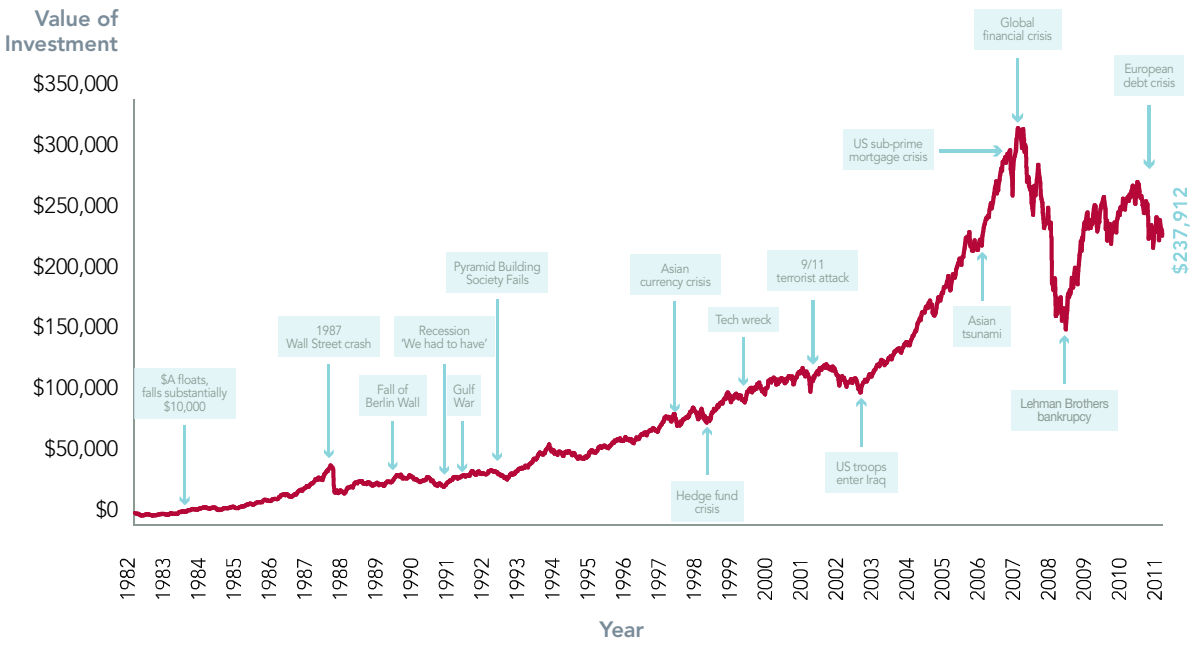
Remember back to when you originally put your investment strategy together? You probably identified some financial objectives that were years into the future. You might have worked out that the appropriate strategy to meet those long-term objectives was to invest in growth assets, such as shares. This was because despite any short-term volatility, they are still a great vehicle to give you the increase in value you need to meet those objectives.

Nothing has changed; despite the sustained volatility, growth assets are still an excellent choice for long-term growth.

WHEN IS A CRISIS NOT A CRISIS? WHEN IT HAPPENED 10 YEARS AGO

The chart below also highlights the long-term benefits of patient growth investing. Each of the market crises shown below – including the 1987 Stockmarket crash, Tech wreck, Credit crisis and Iraq invasion – were world-changing events that saw stockmarkets plunge and investors wonder whether their capital would ever recover, just as you are probably wondering now. Given time however, companies managed to adapt to the new world order and got back to making money for their investors. They will do so again.

Effect of market crises



Source: eQR Securities.

DOLLAR COST AVERAGING – NOW IS THE TIME TO START

Many investment experts highlight the value and benefits of dollar cost averaging. This is where you invest a set amount of money on a regular basis (eg as you do with your superannuation contributions). This strategy enables you to buy more units in a fund when prices are falling and less when prices are rising. Right now, you can buy a lot more for a lot less. Over time what happens is that the average price at which you buy your units is lower, which makes it easier to make a profit.

You are also rewarded with this approach because:

- as you are regularly investing, you avoid the temptation (and the likelihood of failure) of trying to time the markets by buying when you think prices are at their lowest, and then selling when prices are at their peak. Not even the experts get this right all the time.
- it requires no self-discipline (other than getting started). Dollar cost averaging makes it easy to invest.

A simple way to start dollar cost averaging is to set up a regular contribution plan into a managed fund or increase your regular superannuation contributions through salary sacrificing. Even though most people laugh at the thought of having spare cash at the moment, if you can manage it, there could be great rewards a few years down the track when you see how much your savings have grown. In the current market, you have a great opportunity to buy assets that are now much cheaper than they were even a few months ago.

REMEMBER: YOU'RE A SERIOUS LONG-TERM INVESTOR

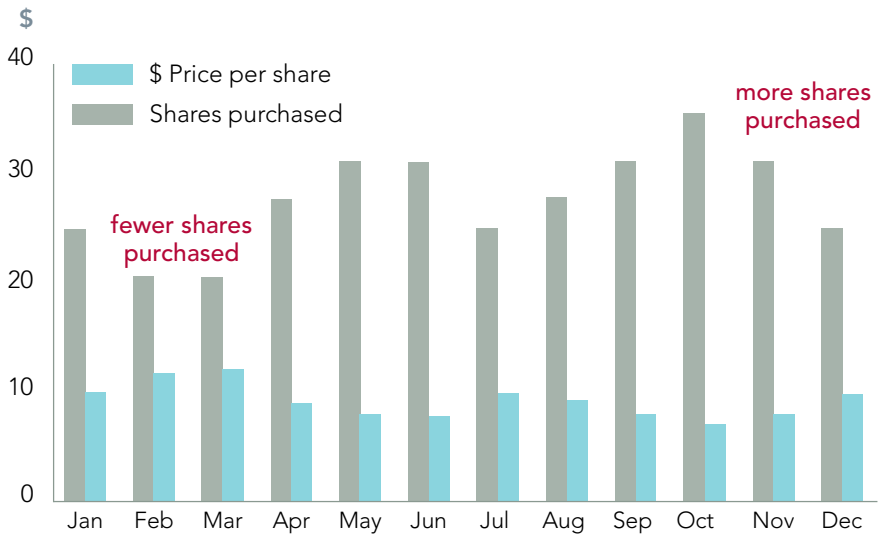
Our compulsory superannuation system means every working Australian is also a serious investor, whether it is a conscious choice or not. Over the years you will accumulate a significant amount of money, and you have no choice but to think of it as a future gain.

So why not apply that thinking to your other investments? Of course, you have more flexibility and choice with investments outside super, but if you are planning to grow your wealth over the long-term, the same discipline applies: you are likely to be rewarded for riding out periods of volatility in growth asset markets.

Whatever the state of the current market, remember that growth comes from long-term investments such as shares. However if you still have concerns about whether your investment strategy is still appropriate to meet your needs, we strongly recommend you speak to your financial adviser. Put your needs first, and worry about the market's movements second.

Thinking about your superannuation is a good way to train yourself to think long term because it forces you to look at what your investments do for you down the track rather than what they are doing today. If you're investing for the next 10, 20 or 30 years, there is no doubt you will experience more bear markets during your investing life. However, history suggests that time is on your side and that the returns from investing for growth are likely to reward you for the volatility you endure.

Example of Dollar cost averaging at work



Source: Investment Solutions

Based upon hypothetical market activities. The example does not take into account the reinvestment of distributions. There is no guarantee that dollarcost averaging will result in better returns than lump sum investing.

Only a financial adviser can provide you with tailored solutions to meet your individual situation and objectives.

This information was prepared by Magnitude Group Pty Ltd, ABN 54 086 266 202 AFSL & Australian Credit Licence (ACL) 221557 (Magnitude) and is current as at 1 March 2012.
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