

Understanding market volatility and unit prices

INVESTOR GUIDE

ABOUT UNIT PRICES

When you invest money (either by joining a super fund or investing directly in managed funds) your money is pooled together with that of other people. The investment manager then uses this pool of funds to buy investments and manage them on behalf of all the members or investors.

To keep track of what your share of the pool is worth, the fund or company divides the total value of assets in the pool into 'units' and quotes you a price for each unit. The fund or company also keeps a record of the number of units you originally bought, how many extra units you purchase when you deposit more money into your fund or investment account and how many units you withdraw when you redeem money from your fund or investment account.

Market volatility

It's important to remember that markets go through ups and downs. It may be tempting to sell an investment when its value falls or switch an investment option when its unit price drops, however, anticipating these market movements can be extremely difficult as all sorts of factors impact the markets. Proof that it's hard to make these judgements is illustrated in the table below – the best performing asset often changes from year-to-year. In other words, chasing last year's top asset is a risky strategy.

Chasing last year's best performing asset is a risky strategy

End of year	Aust. Shares %	Int. shares %	Aust. Property %	Fixed interest %	Cash %	Balanced %
Dec-86	52	46	35	19	17	40
Dec-87	-8	7	6	19	15	7
Dec-88	18	4	16	10	13	13
Dec-89	17	26	2	15	18	17
Dec-90	-18	-15	9	19	16	-4
Dec-91	34	20	20	25	11	27
Dec-92	-2	5	7	10	7	4
Dec-93	45	24	30	16	5	31
Dec-94	-9	-8	-6	-5	5	-7
Dec-95	20	26	13	19	8	20
Dec-96	15	6	14	12	8	12
Dec-97	12	42	20	12	6	19
Dec-98	12	32	18	10	5	16
Dec-99	16	17	-5	-1	5	9
Dec-00	5	2	18	12	6	8
Dec-01	10	-10	15	5	5	5
Dec-02	-9	-27	12	9	5	-6
Dec-03	15	-1	9	3	5	8
Dec-04	28	10	32	7	6	17
Dec-05	23	17	13	6	6	15
Dec-06	25	12	34	3	6	16

Graph prepared by Russell Investment Management Ltd from data sourced from ASX; Bloomberg; RBA.

The best performing asset often changes from year to year.

Why unit prices change

The price of units for any particular investment option or fund will generally change every day depending on earnings on the investments and on market movements. Market movements (often called market volatility) depend on many different factors such as economic strength or weakness in domestic and global markets, interest rates, oil and energy prices and inflation. Therefore, depending on the volatility of your investment option or fund your money is invested in, the value of your units will rise or fall.

Different investments have different levels of volatility. Investments expected to generate higher long-term returns (such as shares) generally show greater volatility in the short-term and this is why unit prices for these investments fluctuate more noticeably than other more stable investments (such as fixed interest investments).

Disciplined investing

Remember that investing is for the long-term. Disciplined investors should stick with their long-term investment objectives and look past short-term market fluctuations. Focusing on your investment goal makes it easier to manage emotions like fear, anxiety and greed.

Also important is making sure that your investment portfolio is diversified (spread across a range of investments that behave differently under different market conditions) and matching your objectives with realistic timeframes. If you're saving for a retirement that is 30 years away, you are more likely to be able to ride out the longest of market slumps. Lastly, get advice before you do anything hasty. Your Financial Adviser can work with you to make sure your investment portfolio contains the right mix of investments and takes into account your individual needs and objectives so you can meet your long-term investment goals.



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