

Market update

March 2008

Market volatility in perspective

Investment markets have continued to be volatile over the last few weeks and it is clear that many investors will receive negative returns for the March 2008 Quarter. Stock markets have periods when they increase rapidly (as we experienced in Australia over the period 2003-07) and times when decreases are recorded. There continues to be uncertainty with the flow on impact of the poor lending practices in the US housing market and that is creating some fear and uncertainty. As a result, stock markets and even some fixed interest markets have experienced declines over the past six months. Whilst RecruitmentSuper has not invested directly into the US housing market loan vehicles, these flow on impacts have been very widespread. As an example, we have seen stock prices for Australian Bank stocks decline in 2008, as investors try to assess how they will be affected by bad loans to those who have suffered in the market squeeze. However, the markets can move around quickly and we have seen some significant market increases in the first part of April 2008. The important principle to remember is that most investment markets should be viewed over a medium to long term. This translates to at least 5 to 10 years for share markets.

In recent weeks, Australia has seen another flow on impact as high profile stock broking firms and their clients have experienced severe difficulties. In these cases, one of the main underlying causes has been the practice of borrowing heavily to invest in stocks, in addition to the investor using their own funds. This practice is referred to as margin lending and can create considerable returns when the stock markets are progressing rapidly upward. However, the reverse applies when the markets go backward and investors lose some of their own funds as well as amounts in relation to the borrowings. In effect, this can magnify losses fairly quickly. As a result the lenders of the funds usually require the borrower to put in more cash or sell their shares; often at a loss in order to repay their debts. The underlying issue here is the need by investors to recognise real risk. Investing in market assets always carries some risk. Where investors use funds which are borrowed the risk is multiplied. It should be noted that institutional superannuation funds such as RecruitmentSuper cannot borrow funds to participate in buying additional assets. The level of regulation is greater for large superannuation funds, to provide greater protection for members.

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