With you

Keeping your money safe in a volatile market

With sharemarkets rapidly moving up and down, many people are wondering just how safe their super is.

Where you are in your life, will shape what you do with your investments, especially during times like these.

For example, someone who is retired is in a very different position compared to someone who is still employed and contributing to their super.

If you're contributing to super

People who are building their super typically have a long investment time frame and are currently in a strong position to use the volatility in markets to their advantage.

This is because they don't need to draw on their superannuation for a few years to come, and current market circumstances are providing lots of opportunities to buy while values are low.

Ultimately, they'll see their balance grow because, while we're experiencing some pain from being in the market now, history tells us in the long term, the sharemarket has headed in one direction – up. It just takes time.

A way to take advantage of the short-term market volatility is to take out the guesswork. Because it's really hard, some say impossible, to predict market movements with accuracy, you can use dollar-cost averaging. That's where you invest a set amount at regular intervals.

This is essentially what you're doing when you regularly contribute to super. The table below shows a dollar-cost averaging strategy:

Month	Monthly investment	Unit price	Units purchased
1	$200	$10.00	20
2	$200	$6.66	30
3	$200	$5.00	40
4	$200	$6.66	30
5	$200	$10.00	20
Total	**$1000**		**140**

Total amount paid for investment = $1,000
Average price paid = $7.14 (ie $1000/140 units)
Investment value at the end of 5 months = $1400
(ie 140 units at $10 each)

By regularly buying units while the price fell, the investor has been able to buy more units.

If you're close to or in retirement

In markets like this, the hardest hit people are those who are either approaching retirement, or in retirement.

While the market has shown it has always recovered over time, the question still remains – will you have enough time to benefit from the inevitable bounce back?

The key message here is if you can afford the time to stay in the market you'll eventually benefit from the bounce back but you'll have to be patient.

Realistically though, the best advice at this point is to discuss your plans with your adviser if you haven't already.

They can sit down with you and talk about your immediate situation and balance this with your long term needs.

The real cost of cash

During uncertain times like this cash can appear, on the surface, as a safe haven.

If you are thinking about moving some of your investments to lower risk investments, like cash, here are some points to consider before you make your final decision.

Newton's law of motion - every action has an equal and opposite reaction – also applies to sharemarkets. After each downturn, the market eventually bounces back.

Keeping your money safe in a volatile market

So, if you do put some of your portfolio into cash, when the sharemarket inevitably recovers only the portion of your portfolio in the growth assets (shares) will benefit.

The graph below demonstrates some of the worst days on the Australian sharemarket in the last few years, and how it bounced back after six months, compared to the interest rate on a term deposit.

Date	Australian sharemarket		Term deposit	
	Fall in 10 day period	Six months later	Interest on a one year TD	Interest on a three year TD
12 Jan 2009	-8.9%	29.9%	3.55%	3.75%
24 Aug 1998	-4.5%	20.9%	4.50%	4.85%
29 Oct 1987	-10.2%	34.9%	12.15%	12.05%

Source: MLC Investment Management
Reserve Bank of Australia

Why are the interest rates so low in the comparison? Sometimes, when the sharemarket falls, the Reserve Bank of Australia cuts interest rates to encourage investment in riskier assets.

MLC Horizon 4 story – the argument for staying invested

Imagine you invested $100,000 in a one-year term deposit from December 2008 (soon after the collapse of Lehman brothers during the GFC).

If you continued to invest your money that way until today (end of July 2011), you would so far have earned $13,900, bringing your total investment to $113,900. This is before any fees and taxes.

If you stayed invested for the same time frame in our most popular diversified fund, MLC Horizon 4 (which is 70% growth assets, 30% debt securities) through super, you'd have earned $20,359 bringing your total investment to $120,359. This is after taking into account fees and superannuation taxes.

In the last 25 years, the Australian sharemarket has experienced 13 corrections (falls of at least 10%) and has always bounced back.

If an investor chooses to sell their investments, they'll incur losses and reduce their chances of making their money back when it recovers.