A pendulum of confidence

It's commonplace for investor confidence to swing like a pendulum. One day it's optimism and the next day it's pessimism.

Global sharemarkets recently fell as the US was unable to determine a way to tackle federal deficit. Meanwhile Europe continues to struggle with a debt crisis.

It was only a matter of weeks ago that the announcement of Italian Prime Minister Silvio Berlusconi's had an optimistic effect. The Italian parliament had passed an economic reforms package that may help the Italian government avoid bankruptcy. Newly sworn-in Greek Prime Minister Lucas Papademos is expected to work toward a European Union bailout deal and pull Greece back from teetering on bankruptcy.

Optimism was about to turn into exuberance if you read the headlines at the time.

But one thing is for certain - there is still a long way to go before a resolution is found for the Eurozone debt crisis or US woes. That means continued volatility.

It doesn't get any easier when economists, analysts, stockpickers, market timers, politicians and members of the media always have an opinion on what is happening and what will happen next. With so much discussion and so many differing points of view and motivations, it can be extremely difficult to filter through the information to see what is really going on.

Investors who react typically pay a very dear price. It can be difficult to stick to strategy, especially when the world at large was predicting a double-dip recession. Washington DC, Greece and Italy were meant to pull the whole world under. Suddenly there's optimism with new leadership in Greece and Italy.

But if we are to hold to long-term strategy during downturns, the same goes for upswings. Investing to achieve long-term financial and life-style objectives means being immune to emotional reactions.

Snapshot of global performance

Let's take a look at how markets across the world have performed. We'll look at three time periods of different length in order to get the right perspective.

The first period we'll look at for each market will be the two week period between 1 November 2011 and 14 November 2011. This will give us an accurate snapshot of the effect of recent announcements and events in the world. It's this period that will include the optimism mentioned above, as well as the 'investor exuberance' we're seeing in media headlines.

Taking a slightly broader view, the second period we'll look at will be the December quarter thus far, which is the six-week period from 1 October 2011 to 14 November 2011. This period is likely to show the effect of global volatility we've seen in recent times.

Lastly, we'll take a much broader view and the third period we'll look at for each market will include the full 2010/2011 financial year and the quarter and a half of the 2011/2012 financial year.

This will give us a wider snapshot of market movements from 1 July 2010 to 14 November 2011. Looking at this pictorially will give us the appropriate perspective.

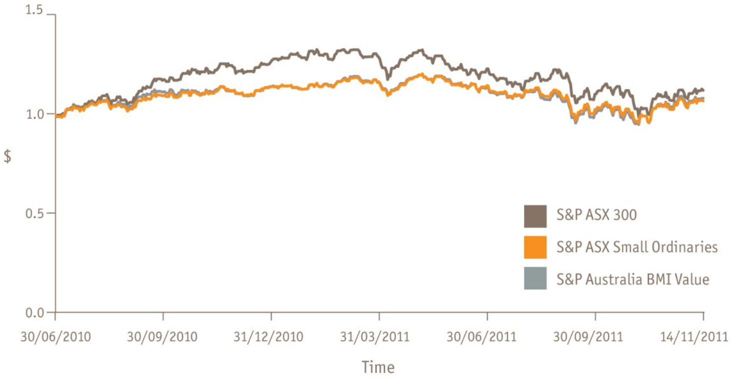
Each graph is based on the growth of $1 over the period and is provided in Australian Dollar terms.

Australia

In Australia, the S&P/ASX 300 benchmark rose 2.35% over the two-week period in the first half of November. When looked at over the six-week period of the December quarter, the benchmark has climbed 8.11%. Since 1 July 2010, the S&P/ASX 300 has increased 8.48%.

The Small Ordinaries Index added 3.46% in the two weeks in November, but has climbed 9.53% for the quarter period.

Since 1 July 2010, the Small Ords Index has risen 13.63%. The S&P Australia BMI Value Index increased by 1.74% in November, but has climbed 9.02% in the December quarter. Since 1 July 2010, the S&P BMI Value Index has climbed 9.44%.

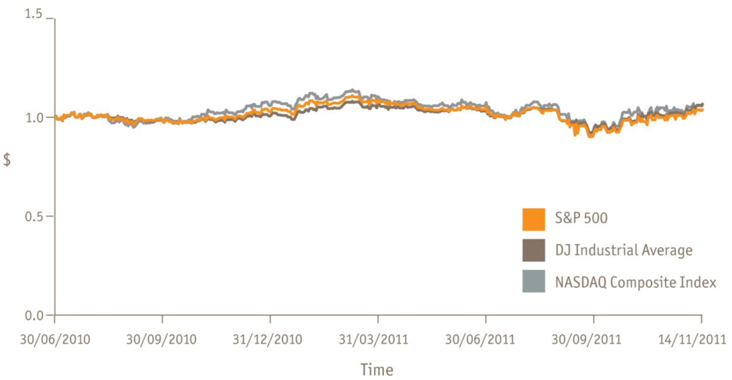


US

In the US, all three major indices returned to black for the periods. Standard & Poor's 500 index rose 3.82% over the two-week period in the first half of November. Over the fi rst half December quarter, the index climbed 5.62%. Since 1 July 2010, the S&P 500 has increased 2.65%.

The Dow Jones Industrial Average Index added 4.71% in the two weeks in November, increased 5.71% for the quarter period and since 1 July 2010, has risen 5.42%.

The NASDAQ Composite Index increased by 2.91% in November, and climbed 4.86% in the December quarter. Since 1 July 2010, the NASDAQ has climbed 4.96%.



Europe

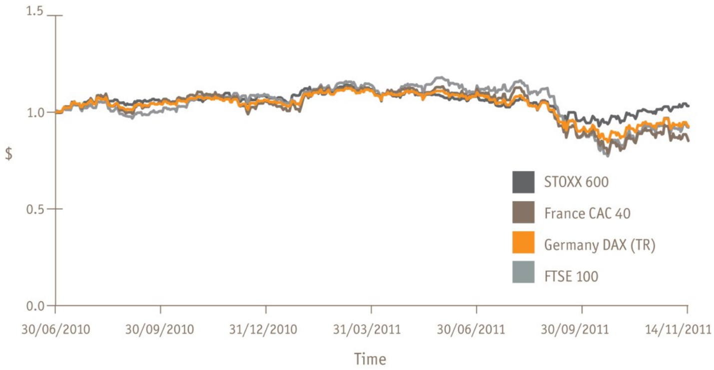
The STOXX Europe 600 index rose 2.21% over the two-week period in the first half of November. Over the December quarter, the index has climbed 2.21%. Since 1 July 2010, the STOXX Europe 600 has decreased by -6.61%.

The France CAC 40 Index added 2.11% in the two weeks in November, has climbed 1.04% for the quarter period and since 1 July 2010, has decreased -12.53%.

Germany's DAX 30 Index increased by 3.18% in November, and has climbed 5.23% in the first half of the December quarter.

Since 1 July 2010, the DAX 30 has decreased by -8.36%. The London FTSE 100 Index increased 2.71% in the two-week November period, having climbed 4.95% for the quarter period.

The FTSE 100 has increased by 3.57% since 1 July 2010.



Asia

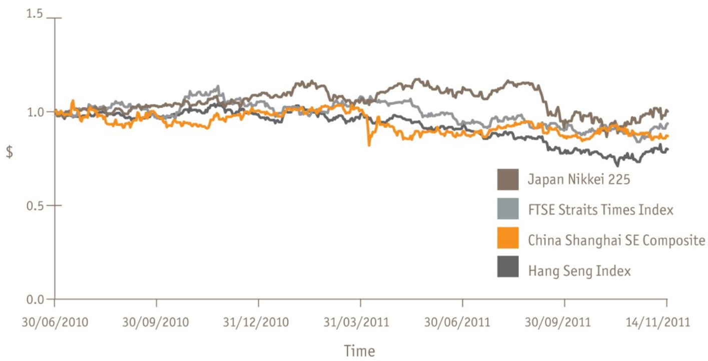
Asian markets currently tell a different story. Japan's Nikkei 225 fell -0.04% for the two-week November period. For the December quarter period, the Nikkei has fallen -5.69% and taking a broader point of view, has fallen -13.23% since 1 July 2010.

South Korea's Kospi Composite Index also fell for November at -0.28%, but has increased 7.38% over the quarter period. Since 1 July 2010, the Kospi has increased by 1.15%.

Singapore's Straits Times Index increased 1.99% in November, having risen 2.07% over the December quarter to 14 November. Since 1 July 2010, the Straits Times has decreased by -10.47%.

The Shanghai SE Composite Index returned 3.31% in November, 2.56% for the quarter period, and has returned -6.85% since 1 July 2010.

Hong Kong's Hang Seng Index returned 1.49% in November, 5.61% for the quarter period, and has slid -20.46% since 1 July 2010.

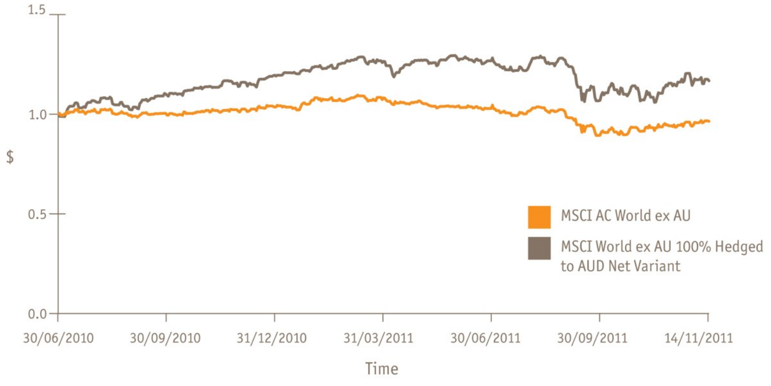


Global indices

Global indices are widely tracked global equity benchmarks and serve as the basis for over 400 exchanged traded funds throughout the world. The indices provide exhaustive equity market coverage for over 70 countries in the Developed, Emerging and Frontier Markets, applying a consistent index construction and maintenance methodology. This methodology allows for meaningful global views and cross regional comparisons across all market capitalisation size, sector and style segments and combinations.

The MSCI Accumulation World (excluding Australia) Index rose 2.63% over the two-week period in November and has climbed 3.42% for the December quarter period. Since 1 July 2010, the MSCI Accumulation World (ex Australia) Index has returned -4.03%.

The MSCI World (excluding Australia) – Hedged to the Australian Dollar increased by 2.04% in November, having climbed 7.60% for the quarter period. Since 1 July 2010, the MSCI World (ex Australia) – Hedged to AUD has returned 17.99%.



In conclusion

Volatility, market reactions and panic - risk is everywhere, but those who believe they can attain consistent profits by short-term trading are most probably incorrect.

It's important to remember that the news might be optimistic today, was negative recently, and can swing any direction in the future, in the same way that it has in the past.

We can react or overreact to inevitable downturns in markets or we can make sure our long-term strategies are aligned with our long-term goals. We can make sure our short-term assets remain liquid, safe and available to support us through the tough times. We can make sure we are not drowning in debt and living within our means.

Whether the duration of upheaval lasts a week, a month, a quarter or multiple years - the impact they have on an overall ability to achieve long-term financial and lifestyle objectives becomes less and less.

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