

The Perpetual Guide to Investing in Volatile Markets

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General Advice

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The Culprits...

Greed



Fear



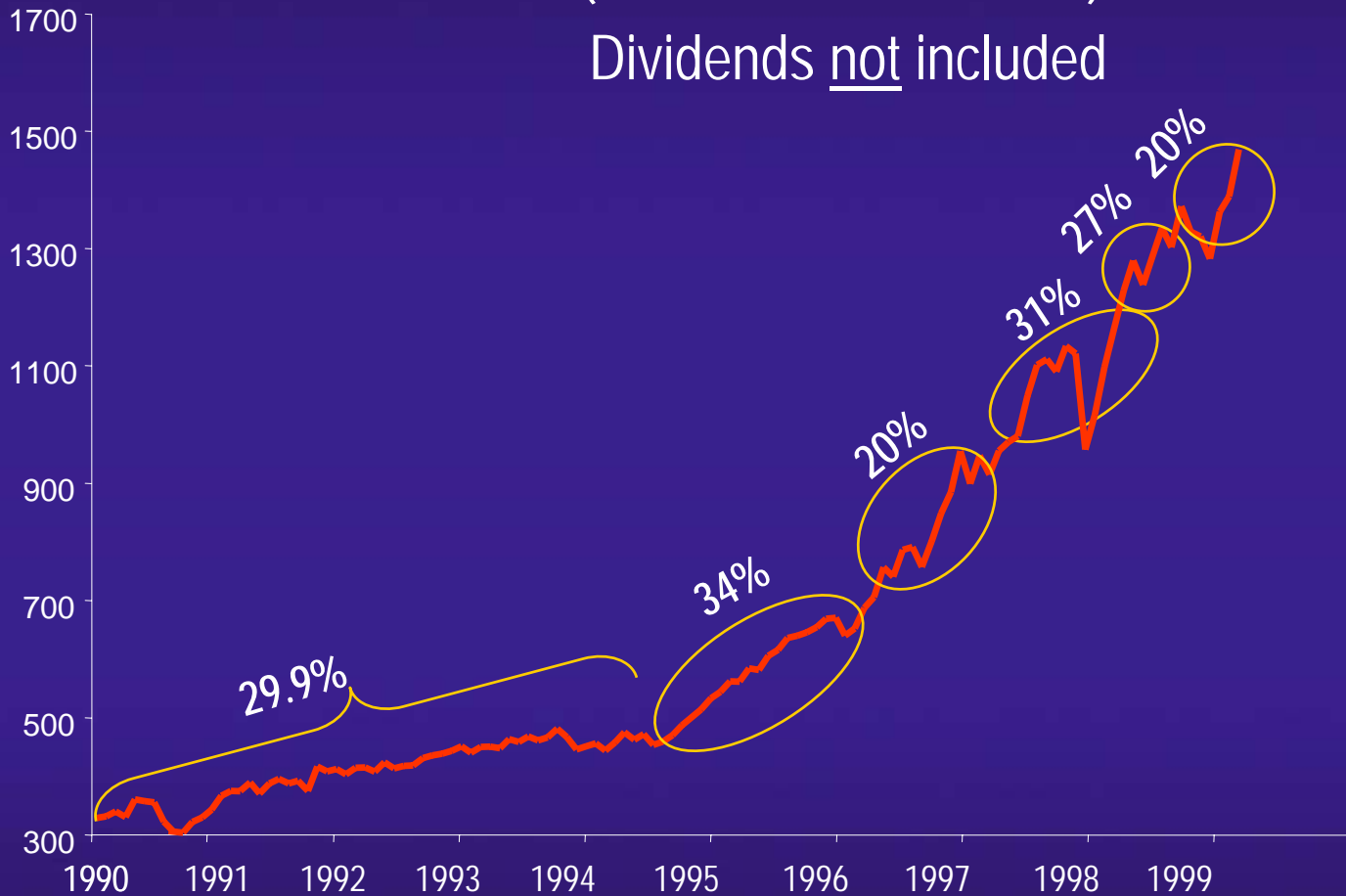
The booming 1980's & 90's

- Dow Jones increased 1100% (1982-2000)
- All Industrials 12% p.a. (1990-2000)
- Tech stocks' P/E ratios 75
- Investor exuberance prolonged bull market
- Overcome many obstacles

An early exit can be expensive

(S&P 500 1990 - 1999)

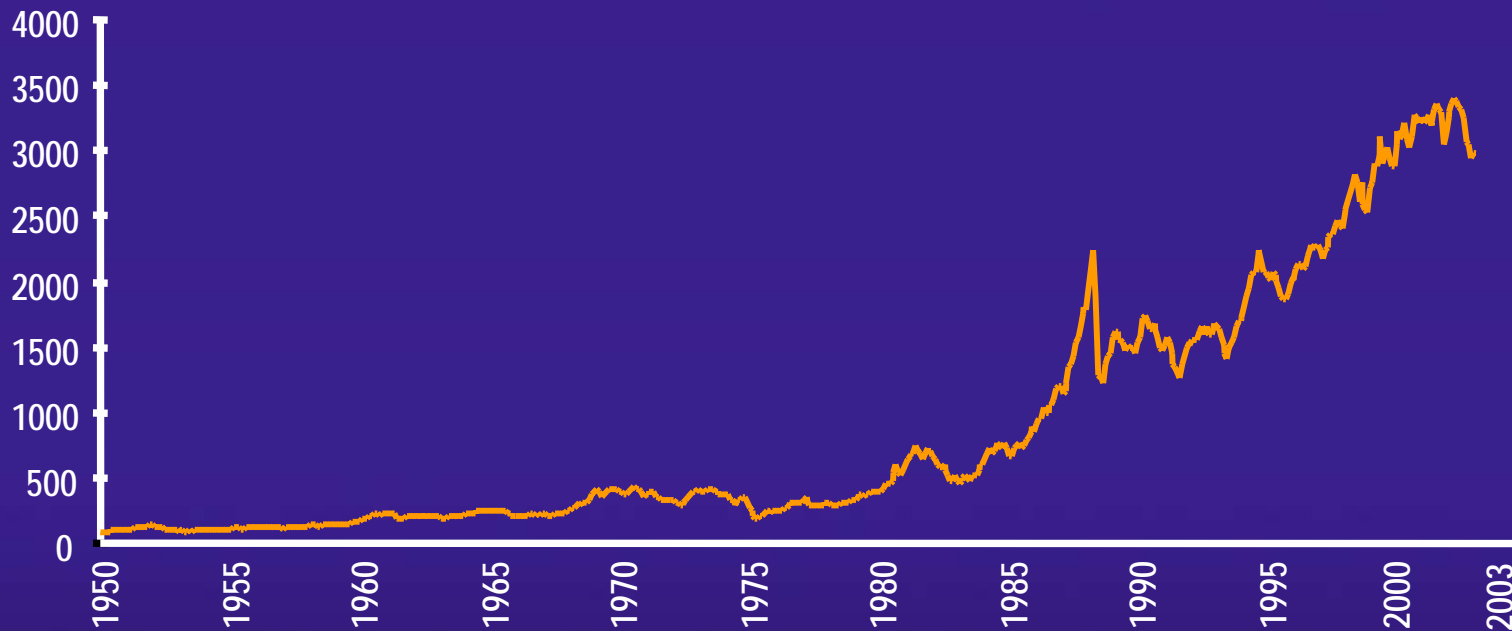
Dividends not included



Source: Perpetual Private Clients

The sharemarket always recovers

(All Ords Jan 1950 - Jan 2003)



Source: IRESS

Factors which could inhibit recovery

- War in Iraq
- Further oil price rises
- Escalation of terrorism
- Global recession
- Double dip recession in US
- Drought in Australia, and falls in business confidence and retail spending

Factors which could drive recovery

- Resolution of global political tensions
- Lagged effects of lower interest rates
- Personal tax cuts
- Lower oil price

Will your returns (at least) be commensurate with risk?



What is risk?

- Permanent loss of capital
- Interest rate risk
- Inflation risk
- Wealth risk
- Liquidity risk
- Regulatory risk
- Manager risk
- Currency risk
- Variation in returns

Variation of returns - Example

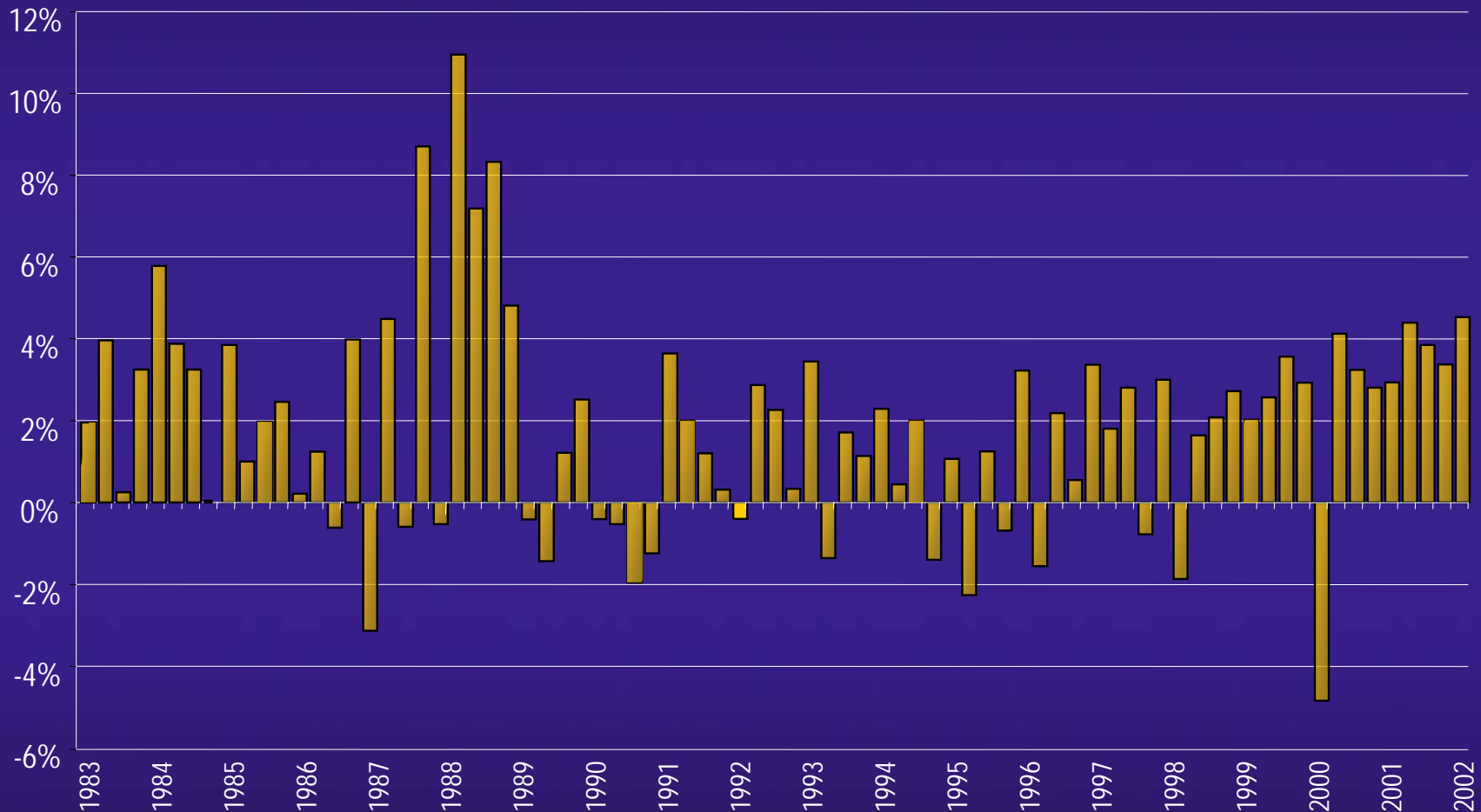
Shares Vs Bonds- 1 Year Returns 1950 to Jan 2003



Source: All Industrials Accumulation Index
Commonwealth Bank Bond Accumulation Index

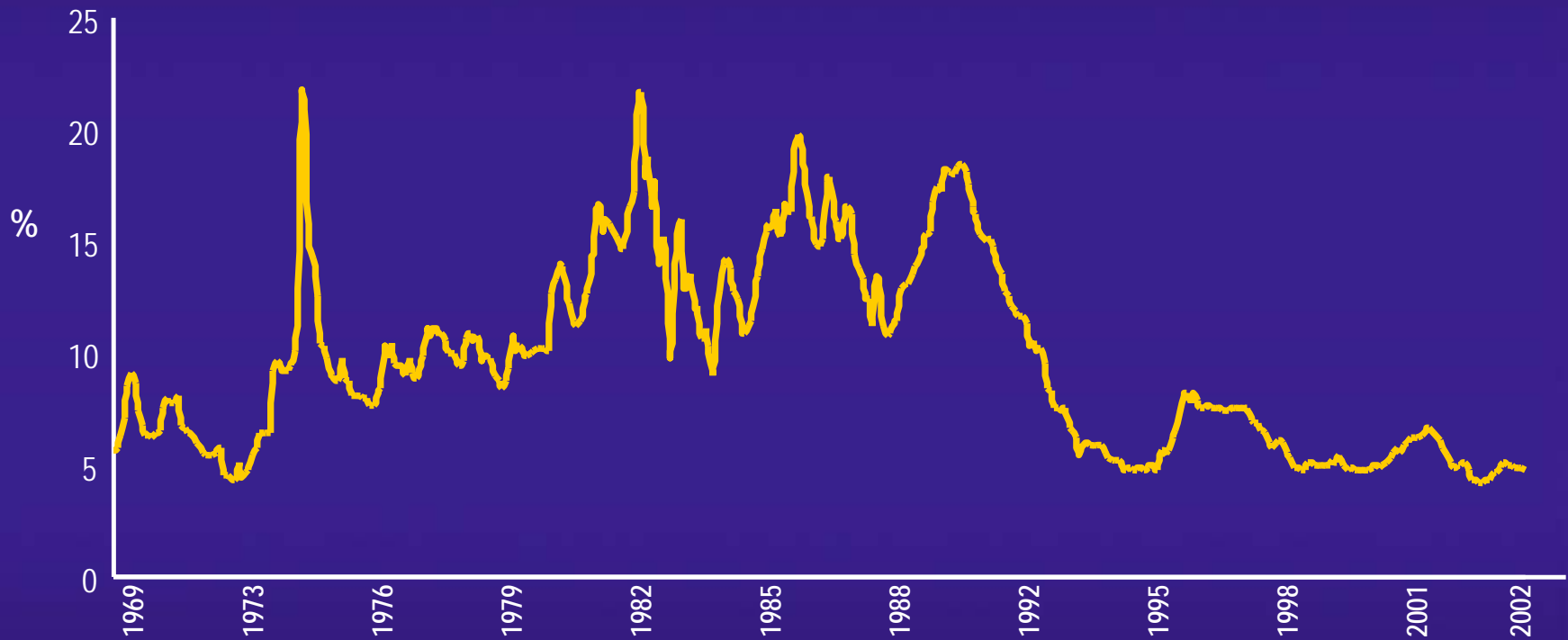
Residential Property (1980-2002)

Quarterly variations in Australian median house prices



Source: REIA and Perpetual

90 day Bank Bill Rate 1969-2003 (Monthly)



Source: IRESS

Growth assets worth the risk

\$100,000 Invested 20 Years ago
(Income Re-invested)



Source: Perpetual Private Clients and IRESS

How to manage most types of investment risk

How to manage most types of investment risk

Buy quality

Diversify

Benchmarks for your portfolio



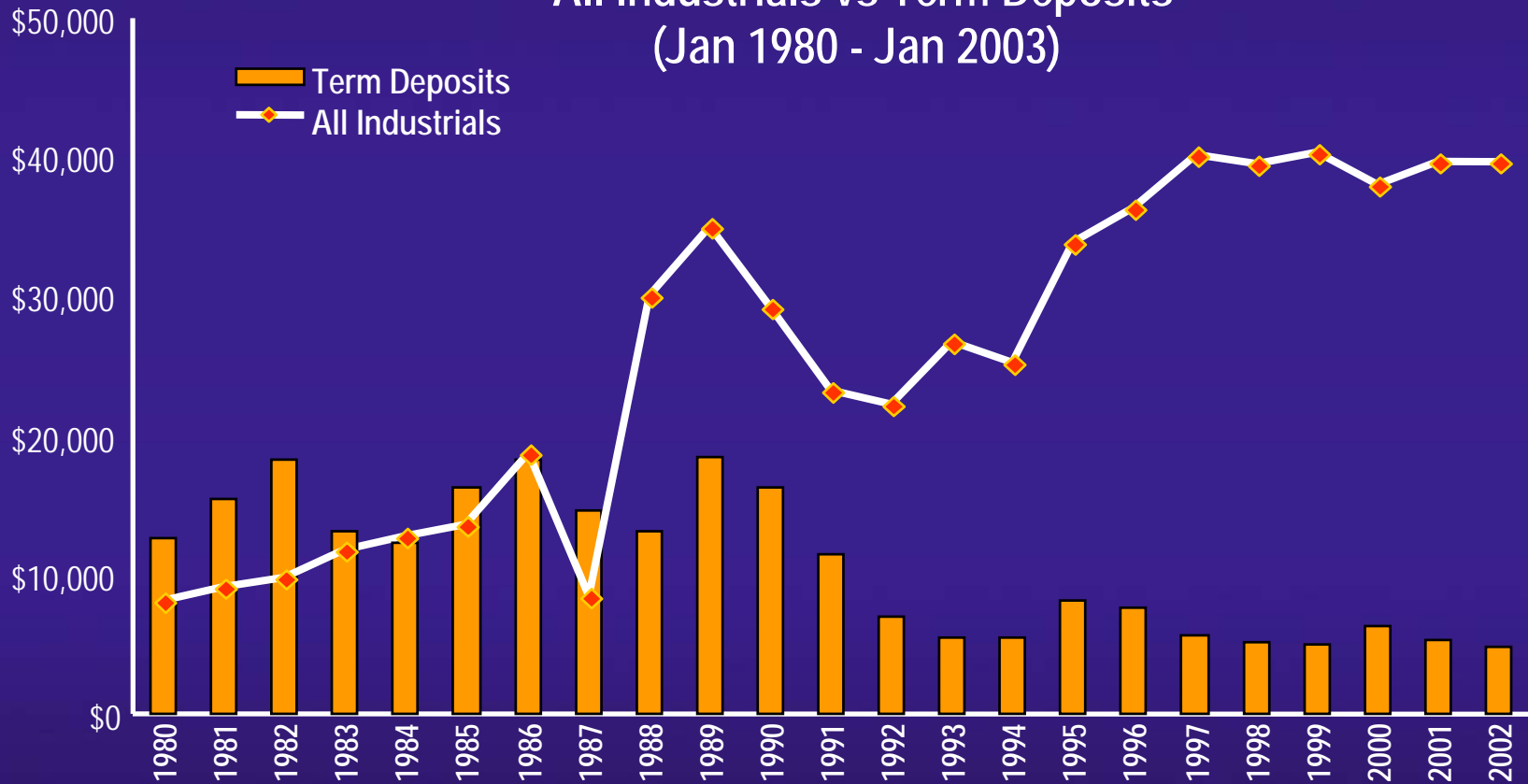
Source: Perpetual Private Clients and IRESS

Section Three:
**Focus on income to
minimise risk**



Don't be fooled by short term income

Income Year by Year on \$100,000
All Industrials vs Term Deposits
(Jan 1980 - Jan 2003)



Source: Perpetual Private Clients

The big picture tells the story

(1980 - 2003)

Term Deposits
Pre-tax

All Industrials
Pre-tax

Total Income

\$246,158

\$592,165

Capital Growth

Nil

\$905,100

Total return

\$246,158

\$1,497,295

Amount last payment

\$4,802

\$39,665

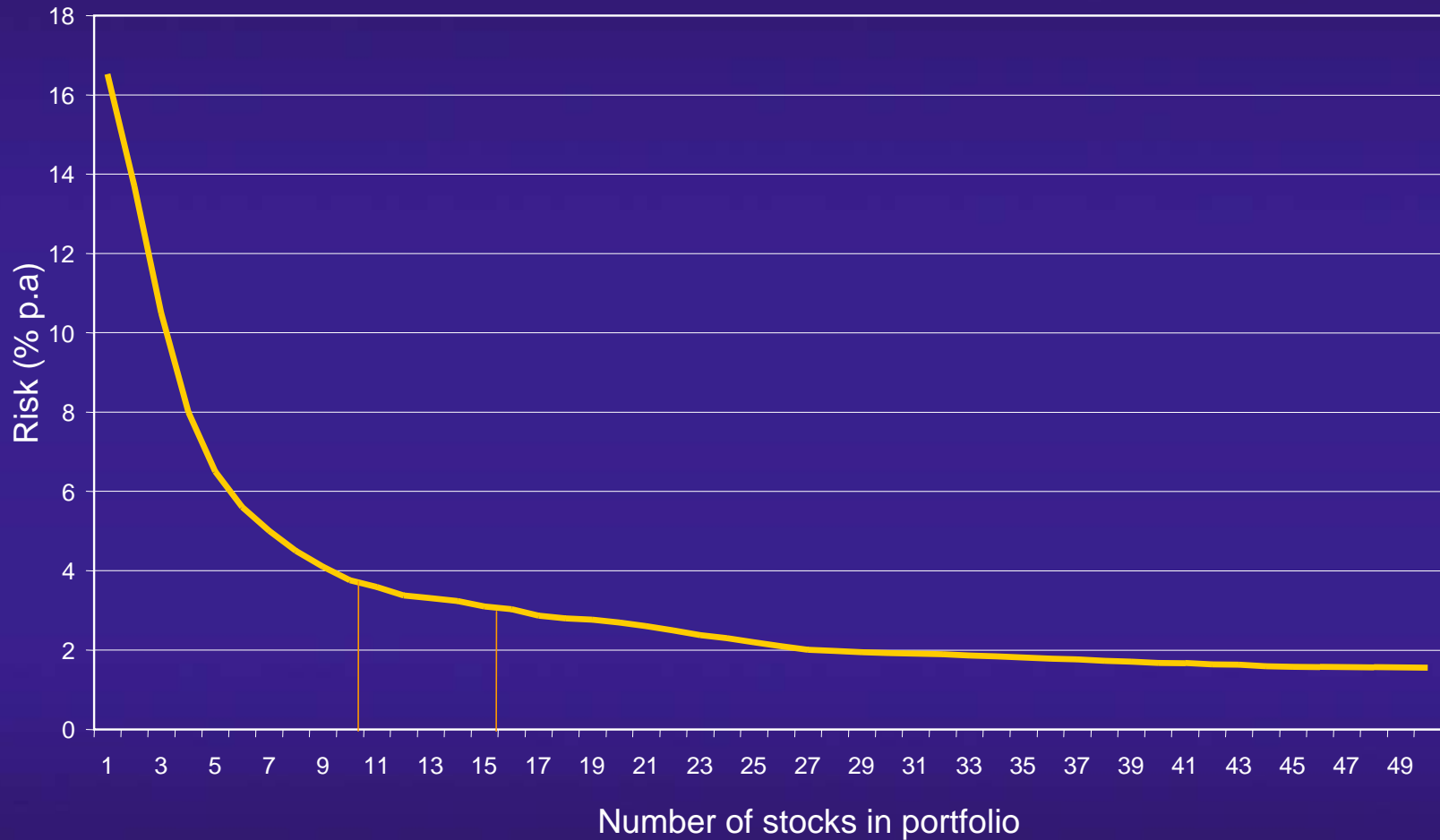
Section Four:
Taking some of the risk
out of the sharemarket



Australian Shares - Guidelines

- Buy well - with market intelligence
- Diversify across industry sectors
- Focus on companies with sustainable, high quality earnings
- Take 5+ year view
- Sell your losers, and take profits from winners
- Hold 10-15 stocks

Optimal number of shares



Source: Perpetual Private Clients and JB Were

Section Five: The 3 common investment mistakes

(or "How some investors increase
risk... and decrease returns")



Common Mistake No. 1: Trying to “time” the market

- You have to be quick
- You have to get it right twice
- The penalty for failing can be substantial

The cost of being "out of the market"

(All Ordinaries Index 1993 - 2003)



Not including dividends

Source: Data Stream & Perpetual Investments

Why the wait is worthwhile

Downturn

Reward

<u>Period</u>	<u>Return</u>	<u>Period</u>	<u>Return</u>
June 81 - March 82	-33%	April 82 - Dec 83	83%
Oct 87 - Feb 88	-44%	March 88 - Aug 89	52%
Sept 89 - Dec 90	-21%	Jan 91 - Dec 91	34%
Jun 92 - Oct 92	-13%	Nov 92 - Jan 94	69%
Feb 94 - Jan 95	-18%	Feb 95 - Jan 96	30%
Oct 97 - Nov 97	-10%	Dec 97 - April 99	32%
May 98 - Aug 98	-9%	Sept 98 - April 99	28%
May 99 - Sept 99	-6%	Oct 99 - June 00	17%
July 01 - Sept 01	-12%	Oct 01 - Jan 02	15%

Australian Shares - 1 year returns

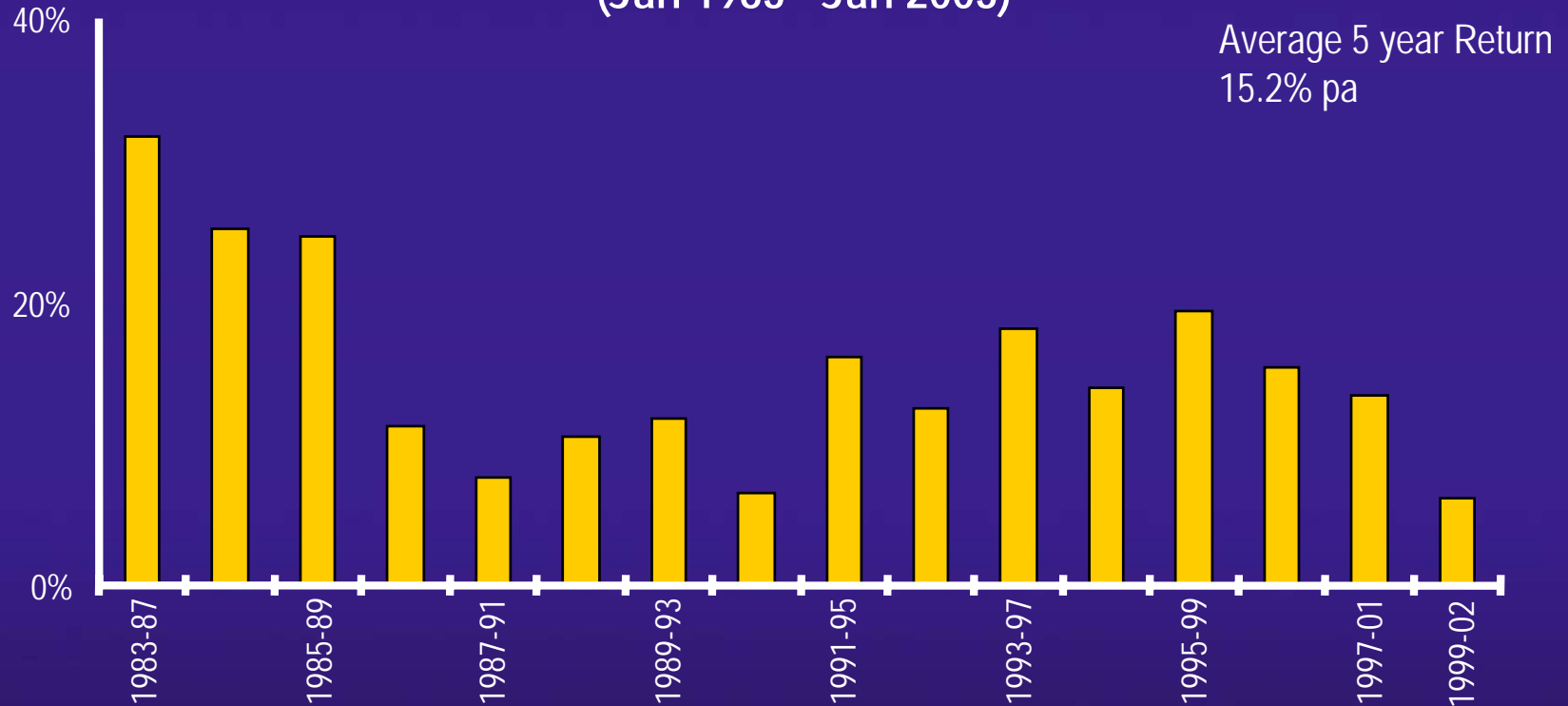
All Industrials Accumulation Index Annualised Returns for 1 Year Periods
(Jan 1983 - Jan 2003)



Source: All Industrials Accumulation Index

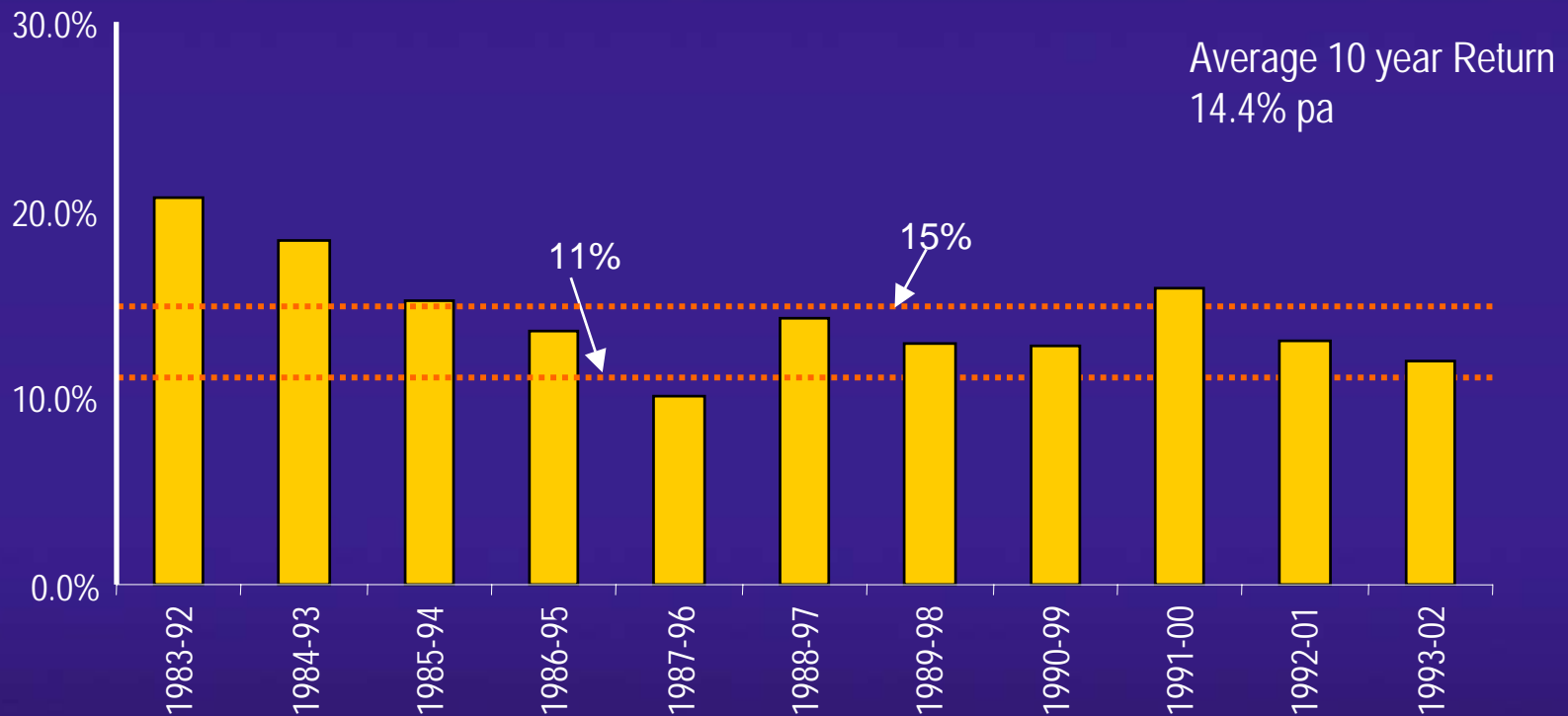
Australian Shares - 5 year returns

All Industrials Accumulation Index Annualised Returns for 5 Year Periods
(Jan 1983 - Jan 2003)



Australian Shares - 10 Year Returns

All Industrials Accumulation Index Annualised Returns for 10 Year Periods
(Jan 1983 to Jan 2003)



Common Mistake No. 2: Hibernation

- “Set & Forget” strategy not prudent
- Investment markets and securities subject to significant change over time
- Need for regular review and analysis

10 largest companies

1985

1. CRA

2. BHP

3. ANZ

4. Westpac

5. MIM

6. NAB

7. CSR

8. Western Mining

9. Boral

10. Santos

Position Now

(Rio Tinto)

3

6

7

39

1

20

30

48

36

2003

NAB

Newscorp

BHP Billiton

Comm Bank

Telstra

ANZ

Westpac

Woolworths

AMP

Westfarmers

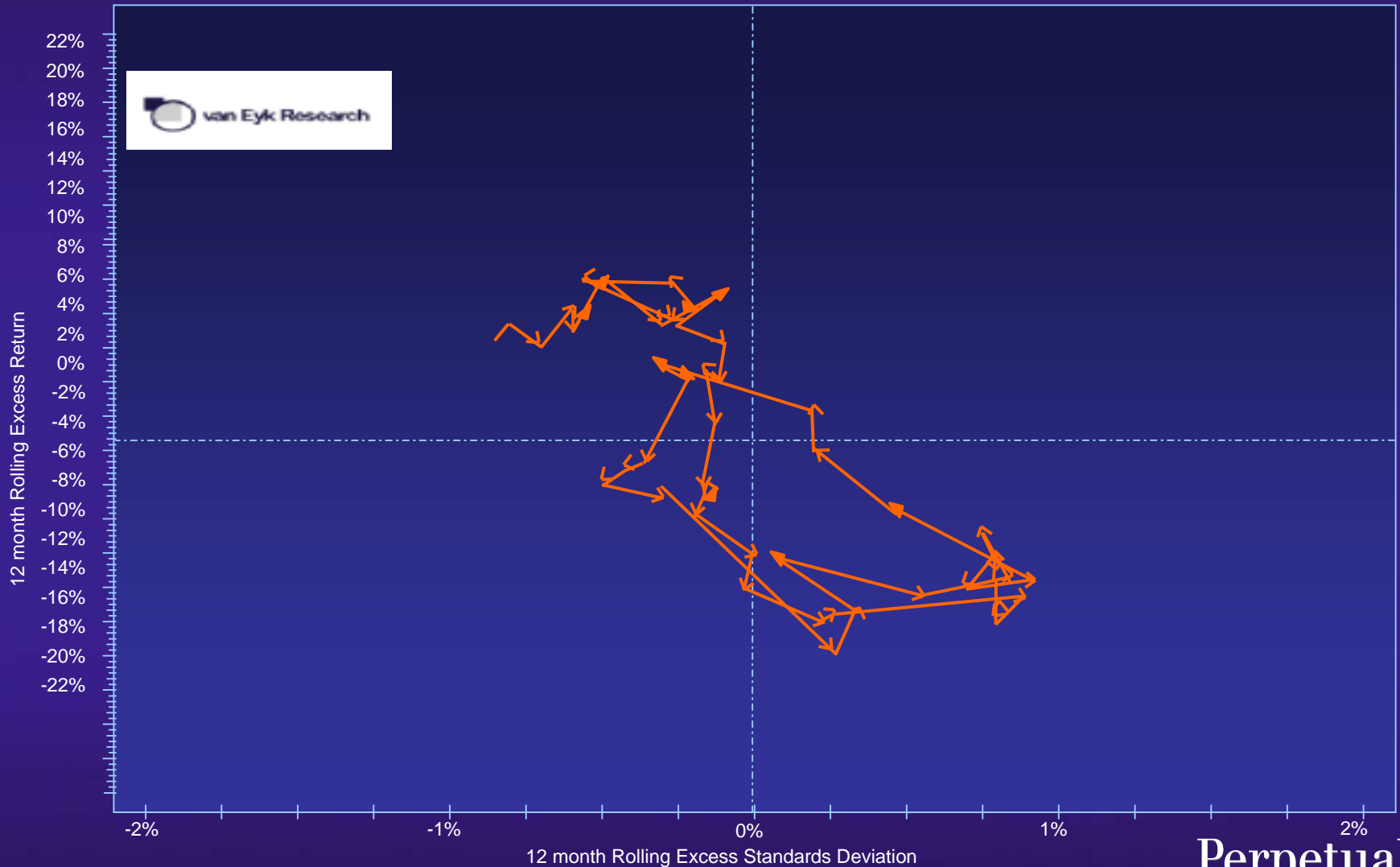
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Common Mistake No. 3: Not diversifying properly

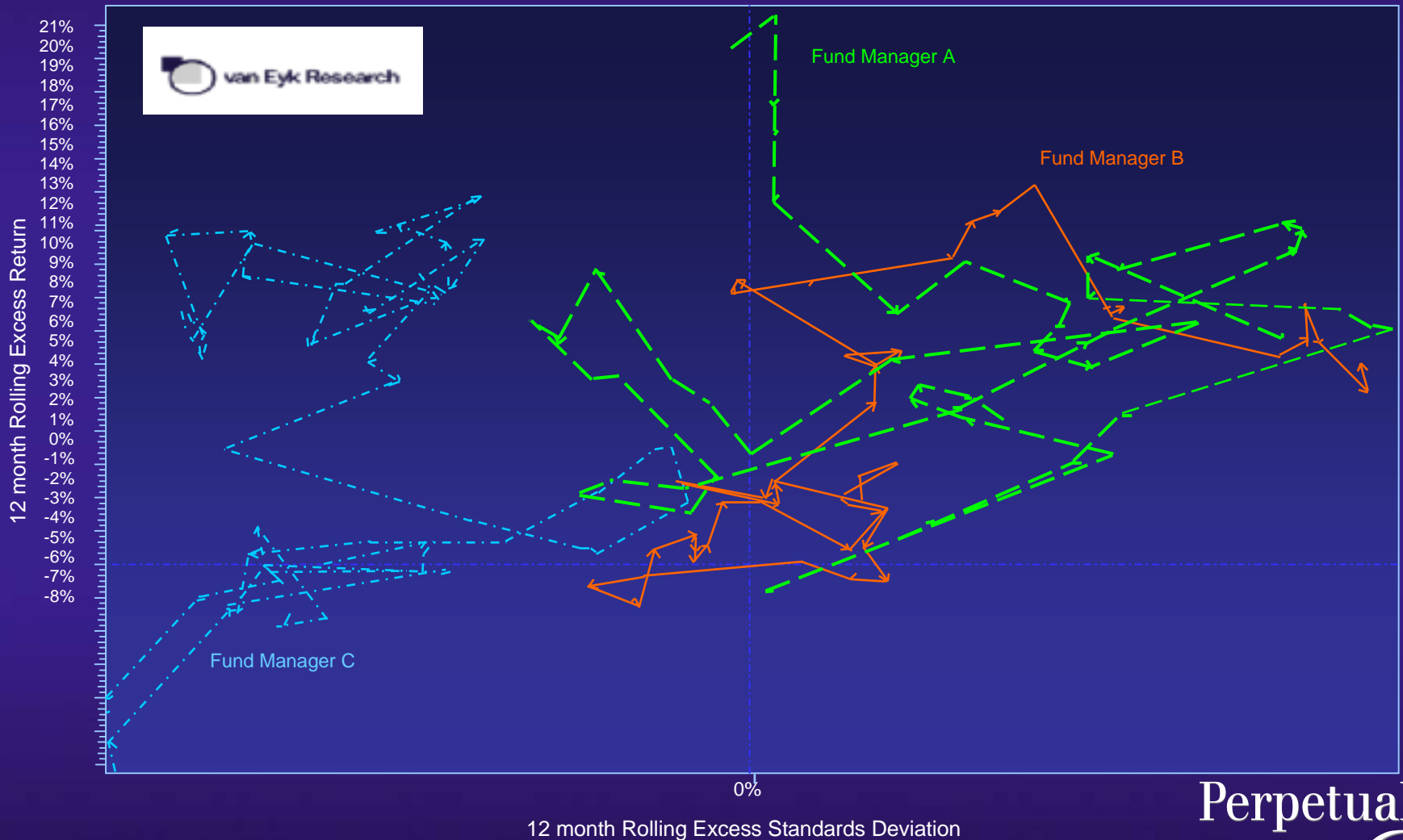
- Choosing 3 or 4 fund managers might not give you extra diversification benefits
- You need to use fund managers with contrasting styles
- Result: consistent, sustainable outperformance

The dangers of using like-style managers



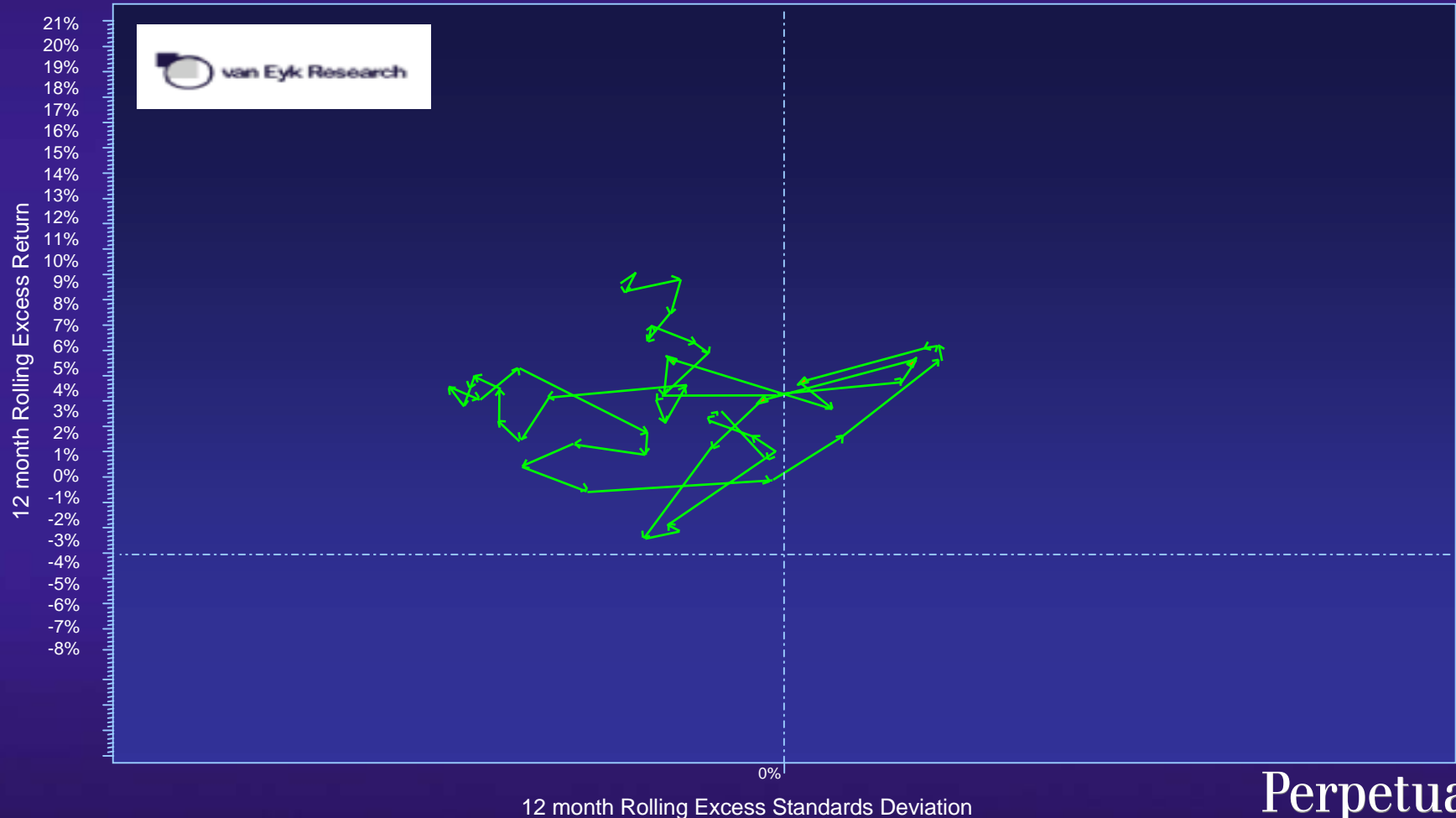
Different styles deliver different results

Individual Fund Managers vs All Ordinaries Accumulation Index
Rolling 12 month (from 30/09/1995 to 30/09/2000)



Combining different styles for superior performance

Combination of Fund Manager A, B and C vs ASX All Ordinaries
Accumulation Index Rolling 12 month (from 30/09/1995 to 30/09/2000)



Section Six:

How to protect your wealth in volatile markets

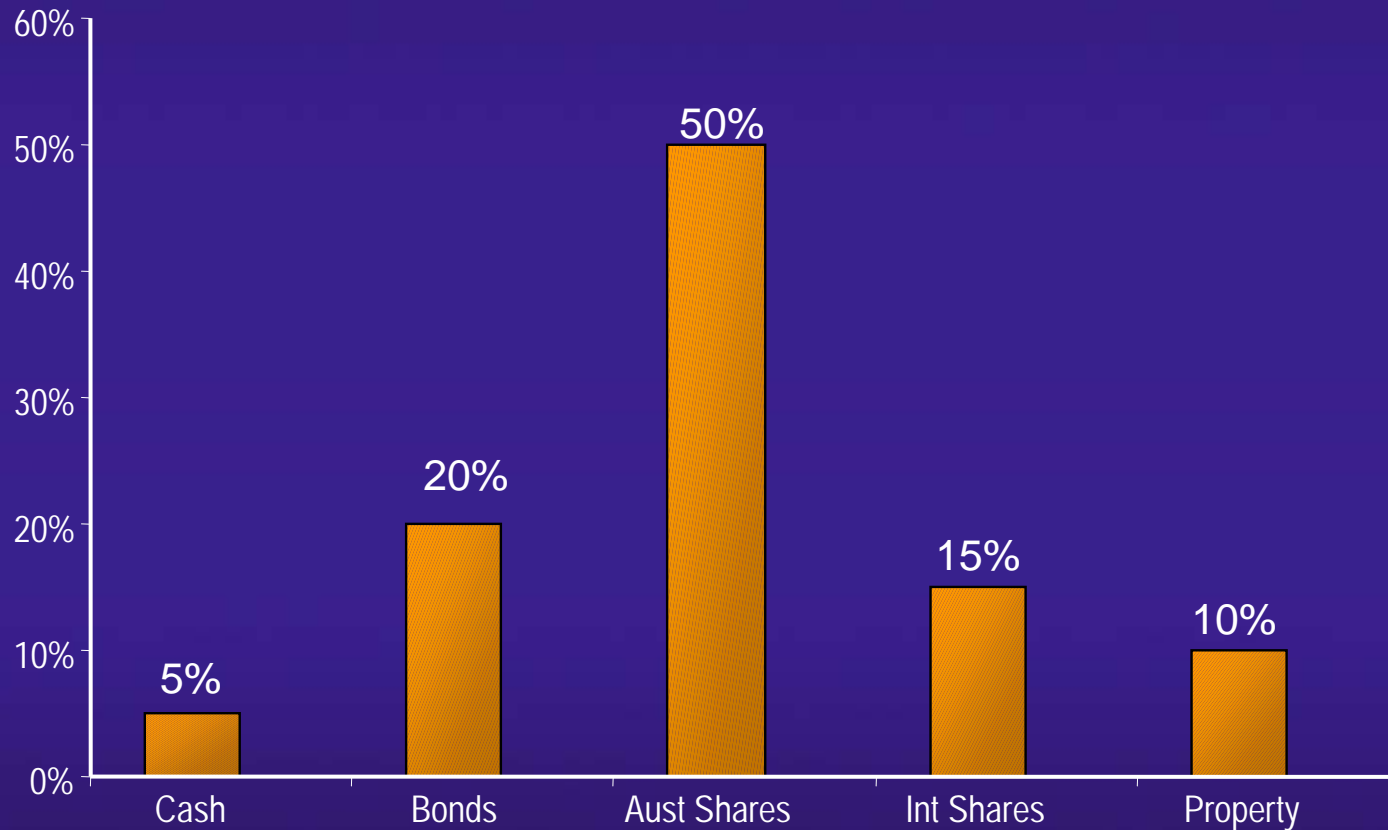


Solution: Sell at peak. Buy back when markets are stable.

Problem: Difficult to correctly time twice

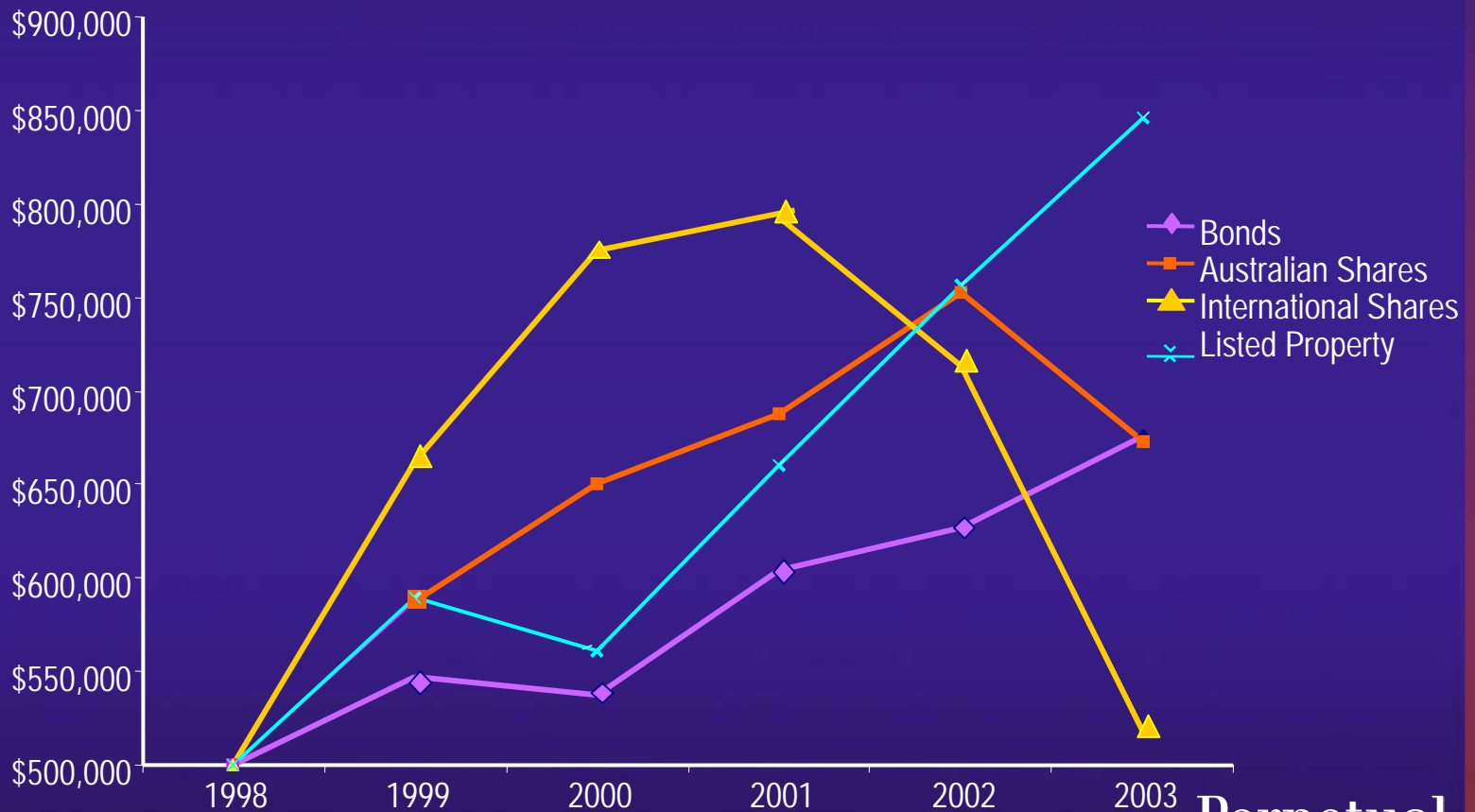
- Solution:** → Invest in a diversified portfolio.
- Use a disciplined process to sell high... and buy low.

Benchmark asset allocation - Growth Portfolio



Case Study

(January 1998 - January 2003)



Re-balancing - Jan 2000

(Growth Portfolio)



Re-balancing - Jan 2001

(Growth Portfolio)



Re-balancing - Jan 2003

(Growth Portfolio)

