

The dangers of investment switching

When you look at your superannuation account statement and find that your investments have gone backwards due to the global financial crisis, it's extremely tempting to consider switching out of the more volatile balanced or growth investment options and putting your money in a much more stable cash option.

But is this actually a wise move, particularly for members who are some way off retirement?

The fact is that all investments, including super, go up and down with changes in financial market conditions. But while your money is sitting in your super fund's portfolio, any losses you incur are just "on paper". They only become real losses when you "crystallise" them by cashing in and switching to another option. Because when you do that, it's irreversible. You've settled for the low price and suffered the loss. It's real money you'll never get back.

On the other hand, if you leave your money where it is, you're likely to benefit when the market recovers and your investments start to grow again. History shows us that's exactly what happens. Markets generally recover after a fall, and with them so too do investment returns. And that is precisely what we have experienced this time.

Everyone wants to buy at a low price and sell at a high price, but it is impossible to predict with any accuracy the highs and lows of financial markets. To illustrate this, we've tracked the switching activities of Accumulation and Executive Scheme members to see what actually happened during the very volatile conditions of the last two financial years.

6.4% of members made a switch to their investments from one option to another and of these almost a third (1.9%) switched to Cash. 25% of the switches to Cash

occurred in March 2009 and 51% between November 2008 and April 2009. The reason for mentioning this is that March 2009 marks the point at which markets began their sustained recovery. A few scenarios will demonstrate the effect of this. A member who sat tight in the Diversified option from November 2007 to October 2009, for example, would have suffered a loss of 14.9%. On the other hand, a member who switched to Cash on, say, 2 March 2009 would have lost 28.3%, while a member who switched prior to the start of the global financial crisis in November 2007 would have made a positive return of 10.3%.

In other words, the best return was achieved by those who switched to Cash before the crisis hit but very few members did this which is not surprising as even the most astute investment analysts failed to foresee the financial crisis. The point is that most of those who did make the switch to Cash did so at the very worst time to do so, just as the market began to recover, and this crystallised their losses and meant they missed out on the market upturn. That is why those who stuck with their original strategy did better than those who switched.

Remember, superannuation is a long-term investment and markets rise and fall over time. Picking the timing of those peaks and troughs simply can't be done with any accuracy. In any event, everyone's individual circumstances are different and you would be wise to seek financial advice before you make substantial alterations to your investment allocations.

If you would like to discuss switching your investment option, please call 1300 369 901.



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