



Do bulls always follow bears?

2008 was a year of unprecedented falls, banking collapses, margin calls and general economic malaise. Whilst the term volatility, which refers to market rises and falls, may understate what we have just experienced, we have seen volatile markets in the past and, no doubt, will see them again in the future.

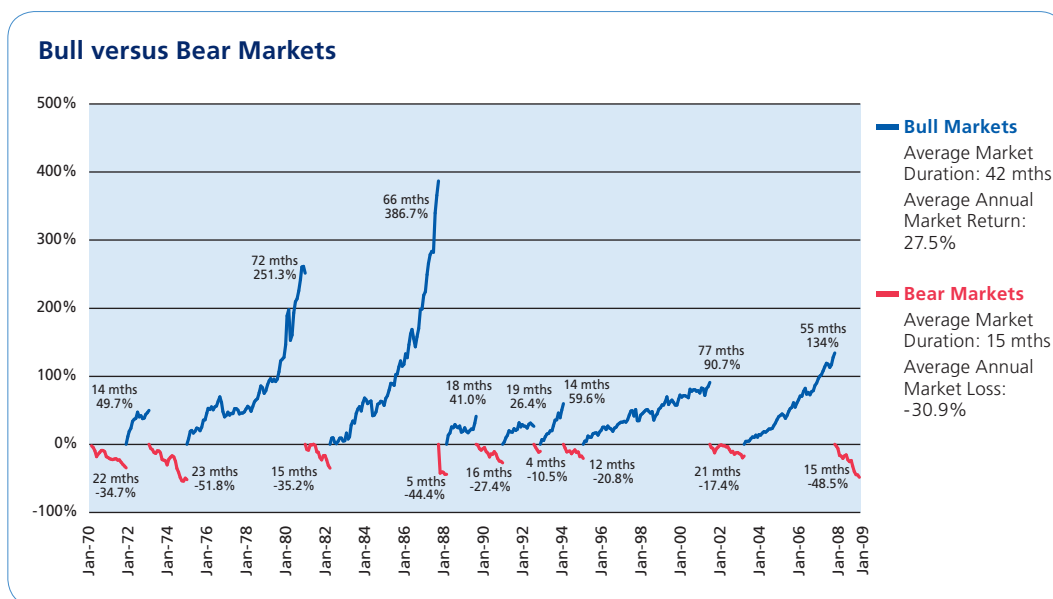
Economists around the world have never been busier and have started speculating that we may be at the bottom of the current cycle. It seems that basic historical trend market data has provided hope that a market turnaround is imminent. But does history always repeat itself?

What does history tell us?

History can provide some insights to provide comfort during periods of prolonged downturn. Most comfort can be gained by the fact that for every market fall there has been an ensuing market rise that elevates the market to a new high.

Take the following chart. This highlights market trends since 1970. The blue line illustrates the period during which the market kept moving in a positive direction – otherwise referred to as a bull market. The red line indicates a bear market – a term used to describe when the market has had repeated periods of negative performance.

The average bull market (length of period of successive market growth) has been 42 months since 1970 and the average bear market (length of period of successive market falls) has been 15 months. We have been enduring this current period of negative growth (bear market) since November 2007 – 15 months. As such, this 38-year historical view may provide an insight that the market is poised for a turning point. We don't know when this turning point will occur, but most early phases of the new bull market incorporate a period of sharp recovery.



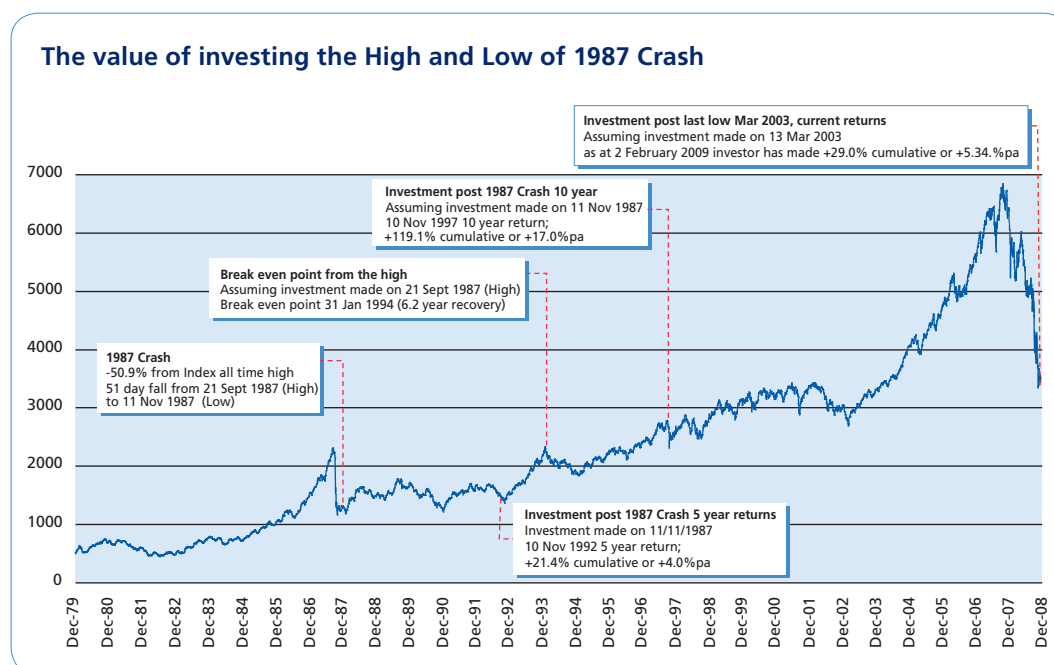
Source: Bloomberg and Zurich Investments.

If the market is poised to grow, when should I invest?

History also teaches us trying to time the market is fraught with danger, despite many investors trying to pick when the best time to invest will be. They aim to invest when the market is low, hoping to get more for their investment dollar. They wait until the market falls, and then wait some more just in case it falls further. Unfortunately, markets are unpredictable and waiting to invest may mean you miss out on periods of strong returns.

As discussed previously, history has shown that for every market downturn, the market has eventually gone on to grow to all-new highs. Even if you experienced large losses, those investors who maintained their long-term investment plan were eventually rewarded.

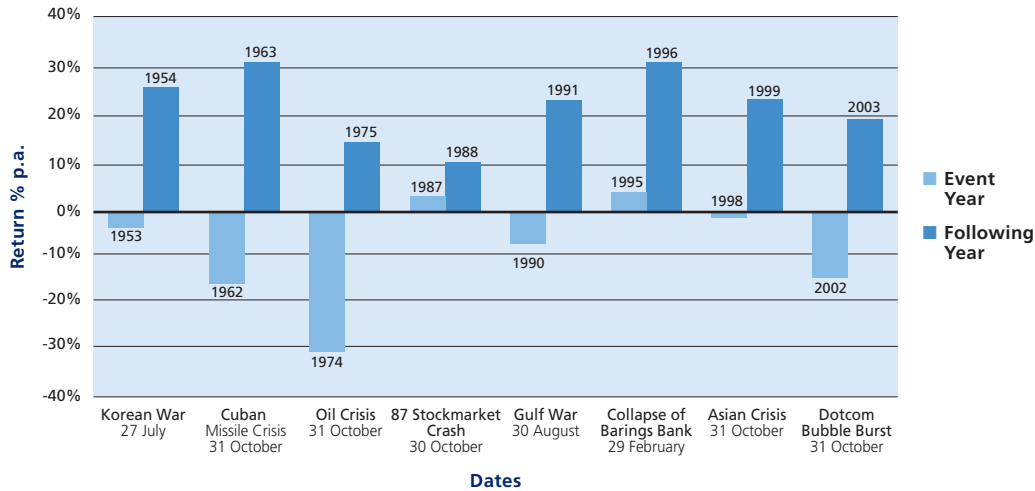
Take the 1987 share market crash for example. If you had invested just before the crash on 21 September 1987, you would have soon lost more than half of your investment value. However, if you remained invested, you would have regained your investment worth over the next six years and then gone on to experience further capital growth. If you had invested on the low point, post the 1987 crash, you would have made a total return of 21.4 per cent (four per cent per annum equivalent) over a five-year period. If you continued to hold this investment for a further five years the investment would have made an impressive total return of 17 per cent per annum.



Data – ASX All Ordinaries 31 December 1980 - 3 February 2009; Bloomberg, Zurich Investments

In another example, consider the chart on the following page which shows the performance of the American S&P 500 Index in the year of a major crisis and the one-year period following it. As you can see those investors who continued to buy quality shares after a market fall were generally rewarded.

Don't panic when markets fall



Source: Yahoo finance and Zurich Investments.

Where to now?

All market commentators agree that 2008 was unprecedented, and certainly the impacts are being felt right across the world. The impacts of the credit crunch are not limited to financial services as we now enter a period of rising unemployment and many economies are in recession. Despite this turmoil, the basic rules with regards to investing have not changed.

Basic rules for investing centre on staying true to your original investment plan. Sharemarkets by their nature are volatile. This is the reason financial advisers recommend that only investors with a long-term investment horizon (i.e five-years plus) invest in shares. Long-term investors, who stay focused on their investment approach, have a greater chance of achieving their goals. While volatility may make the ride a bit bumpy, experience shows that those who stay invested tend to come out ahead.

Basic Rules

- Stay focussed on your original investment plan
- Don't panic or over react to market downturns
- Take comfort from history – market has always risen to new highs
- Speak to your financial adviser

For more information please contact your financial adviser or call Zurich Investments client service centre on 131 551. More investor information is also available at www.zurich.com.au.

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