

LESSONS FROM A THEME PARK

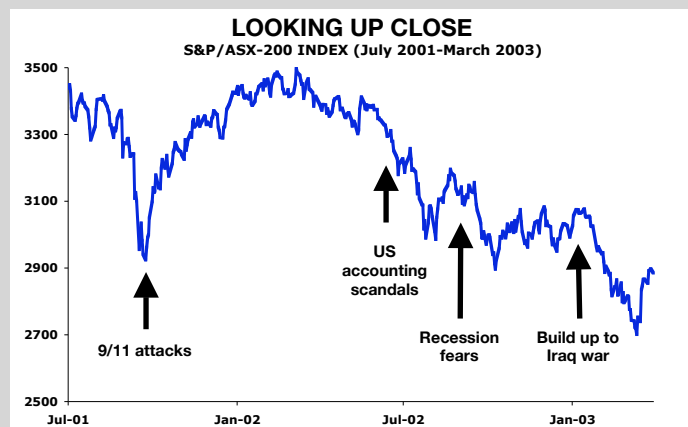
Have you ever watched people exiting those nausea-inducing rollercoaster rides at theme parks? Some stumble down the steps as they try to regather their balance, others look deathly pale, the worst are physically sick.

Yet other rollercoaster riders seem to retain their sense of equilibrium amid the unpredictable twists and turns. Some avoid motion sickness by focusing on a distant point on the horizon and reminding themselves that even the scariest ride, however terrifying, is finite.

This is an approach that investors would be well advised to take at a time of extreme volatility in the financial markets, as we have seen in the past year.

To be sure, the daily churn of the indices can feel destabilising if you focus on it too closely. But if you keep in mind that these extreme ups and downs will pass, if you stay focused on your long-term investment goals and if you keep your emotions in check, the volatility can be a lot easier to stomach.

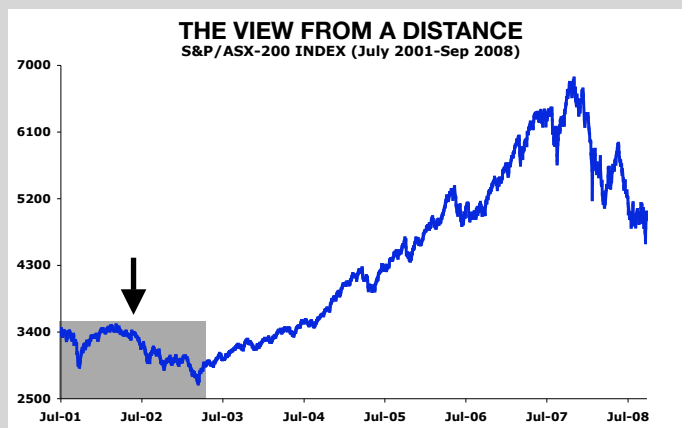
These two charts of the S&P/ASX 200 index, Australia's equity benchmark, might help. The first looks back on a particularly rocky period - from around the middle of 2001 to the end of the first quarter of 2003. If you cast your mind back, this was a period when investors were buffeted by the tech wreck, US recession fears, the 9/11 attacks, the Enron and WorldCom accounting scandals and the build-up to the Iraq war.



This was a volatile, stomach-churning time and you could have been forgiven for calling out 'stop the ride, I want to get off'!

Now take a look at the second chart, which shows the same index over a seven-year period from mid-2001 until the present day. The shaded area represents the 21-month period shown in the previous chart.

You see what a difference a bit of distance makes? (I've used the Australian benchmark index here, but if you charted the S&P-500 or the FTSE-100 or the S&P/TSX Composite, you would see something similar.)



This is not to downplay the momentous nature of the geopolitical, economic and corporate events of that time or the real suffering they caused. But this example does serve to show that if you want to secure the returns of capital markets, you need to keep your nerve through volatile times like these.

The fact is that markets, like economies, go through up and down cycles. We have been in a downward cycle since late 2007. We do not know when this rough ride will end. We *do* know that it will not last forever.