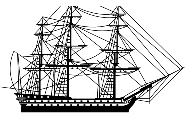

Vanguard®

Vanguard 2015 Index Chart

Time is on your side

Time is on your side

Investment market movements can evoke strong emotions. Even for the most seasoned investors, market volatility and the noise that surrounds it can provoke short-term decision making that may not align with long-term plans.

But when we look at market performance over longer time periods one thing becomes clear. Investors who appreciate that time is on their side and have the patience and discipline to stay the course are well rewarded over the long term.

The Vanguard 2015 index chart tracks the 30-year investment performance of major asset classes and highlights key economic, social, political and demographic changes. Looking at markets over this longer time period supports some key philosophies that can help investors keep long-term investment success clearly in sight.

Focus on strategic asset allocation

Building an investment strategy framework, one that aligns an investor's risk profile with their investments, provides a solid platform for investors to achieve their goals and expectations.

Research shows that the key to long-term investment performance is effective asset allocation. The chart below is from a study Vanguard conducted which looks at the returns of more than 300 fund managers across 20 years. It found that asset allocation was responsible for 90% of a diversified portfolio's return patterns over time. This leaves only 10% for factors such as market timing or securities selection.

Investment outcomes determined by asset allocation

Percentage of a portfolio's movements over time explained by:

Note: Calculations are based on the monthly returns for 336 Australian balanced funds from January 1990 through December 2011. For details of the methodology, see the Vanguard white paper *The Global Case for Strategic Asset Allocation* (Wallick et al. 2012).
Source: Vanguard calculations using data from Morningstar.

That's why it is important for investors to dedicate time to asset allocation decisions before they start investing – it can mean the difference between achieving their goals or simply aspiring to them.

Having a clear understanding of investment objectives, timeframe and attitude to risk provides a firm foundation on which to build an investment portfolio. The more specific investors are, the better their chances of success.

Invest for the long term

Market cycles play out against a backdrop of economic, social and political events and many investors can't resist trying to assign causes to every hiccup in the markets. But it's often impossible to explain market activities until long after the dust has settled.

Markets are unpredictable and trying to time them means investors must get two important decisions right: when to get out and when to get back in. This means there is a risk of having to pay a higher price to get back into the market, as well as missing out on the growth from any market recovery.

Allowing emotions to drive investment decisions, be it overconfidence in rising markets or fear in falling markets, rarely serves investors well.

Historical market returns show that investors who ignore the emotional swirl of short-term market conditions and focus on the long term are rewarded for their patience and discipline.

Diversify

The index chart illustrates the benefit of diversifying investments across asset classes to help reduce volatility and smooth out returns over time.

Diversification often starts by investing across different asset classes but it also includes holding a spread of investments within an asset class across a range of companies, industries and even countries.

While this strategy doesn't protect a portfolio against negative returns, it does reduce the impact of poorly performing asset classes.

Keep costs low

All else being equal, investments with consistently low management fees and transaction costs can provide a head start in achieving competitive returns.

Management fees create a drag on returns that can make it more difficult for a fund manager to add value. Factors such as high portfolio turnover within a fund can also lower its tax efficiency and drive up transaction costs.

The bottom line is – lower fees mean investors get to keep more of their returns, which can help them earn more over time.

Percentage returns as at 30 June 2015[1]

	1 Year	5 Years	10 Years	20 Ye
Australian Shares[2]	5.7%	9.4%	7.0%	9.
International Shares[3]	25.2%	15.4%	6.3%	6.
US Shares[4]	31.8%	19.8%	7.8%	8.
Australian Bonds[5]	5.6%	6.4%	6.3%	7.
Listed Property[6]	20.3%	14.3%	2.5%	7.
Cash[7]	2.6%	3.6%	4.7%	5.
CPI (to March 2015)[8]	1.3%	2.3%	2.7%	2.

The power of diversification

The table below shows the performance of various asset classes over the past 30 years.

When deciding where to invest their money, it is important investors understand that the best and worst performing asset classes will often vary from one year to the next. Having a diversified mix of investments across multiple asset classes can help smooth out returns over time.

The table also reinforces the importance of sticking to an investment strategy and focusing on the long term.

For example, the low returns from international shares in 2011 and 2012 may have swayed investors to move out of this asset class in search of better returns elsewhere. In taking this option, investors would then have missed out on the 33.1%, 20.4% and 25.2% returns in the subsequent 2013, 2014 and 2015 financial years.

Financial year total returns (%) for the major asset classes

Year	Australian Shares	International Shares	International Shares (Hedged)[1]	US Shares	Australian Bonds	International Bonds (Hedged)[2]	Cash	Australian Listed Property	International Listed Property[3]
1986	42.5	55.2	34.5	33.5	20.5	29.2	18.3	23.8	
1987	54.0	32.6	33.2	17.7	12.1	17.6	17.3	41.3	
1988	–8.6	–10.0	–5.3	–15.5	19.4	12.5	12.5	–2.8	
1989	3.5	18.1	18.3	26.7	3.0	16.3	15.7	–1.1	
1990	4.1	1.9	5.3	11.5	17.8	13.1	18.5	15.2	
1991	5.9	–2.0	–5.8	10.3	22.4	15.3	13.5	7.7	–15.9
1992	13.3	7.1	–3.0	16.3	22.0	15.8	9.0	14.7	6.9
1993	9.9	31.8	17.3	26.6	13.9	14.7	5.9	17.1	28.3
1994	18.5	0.0	6.7	–6.5	–1.1	2.1	4.9	9.8	8.4
1995	5.7	14.2	3.7	30.0	11.9	13.1	7.1	7.9	7.5
1996	15.8	6.7	27.7	12.9	9.5	11.2	7.8	3.6	2.4
1997	26.6	28.6	26.0	42.6	16.8	12.1	6.8	28.5	35.7
1998	1.6	42.2	22.1	58.2	10.9	11.0	5.1	10.0	25.0
1999	15.3	8.2	15.9	14.2	3.3	5.5	5.0	4.3	–6.8
2000	13.7	23.8	12.6	18.2	6.2	5.0	5.6	12.1	14.1
2001	8.8	–6.0	–16.0	0.5	7.4	9.0	6.1	14.1	38.2
2002	–4.5	–23.5	–19.3	–26.3	6.2	8.0	4.7	15.5	7.5
2003	–1.1	–18.5	–6.2	–15.2	9.8	12.2	5.0	12.1	–5.2
2004	22.4	19.4	20.2	15.4	2.3	3.5	5.3	17.2	28.7
2005	24.7	0.1	9.8	–4.1	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.6	3.4	1.2	5.8	18.0	24.2
2007	30.3	7.8	21.4	5.6	4.0	5.2	6.4	25.9	3.0
2008	–12.1	–21.3	–15.7	–23.4	4.4	8.6	7.4	–36.3	–28.6
2009	–22.1	–16.3	–26.6	–12.5	10.8	11.5	5.5	–42.3	–31.2
2010	13.8	5.2	11.5	8.9	7.9	9.3	3.9	20.4	31.3
2011	12.2	2.7	22.3	3.7	5.5	5.7	5.0	5.8	9.2
2012	–7.0	–0.5	–2.1	11.1	12.4	11.9	4.7	11.0	7.5
2013	20.7	33.1	21.3	32.5	2.8	4.4	3.3	24.2	24.3
2014	17.6	20.4	21.9	22.7	6.1	7.2	2.7	11.1	11.8
2015	5.7	25.2	8.5	31.8	5.6	6.3	2.6	20.3	23.1
Average	11.8	10.2	9.2	12.0	9.5	10.4	7.6	10.9	10.8
Best	54.0(4)	55.2(4)	34.5(3)	58.2(6)	22.4(4)	29.2(3)	18.5(1)	41.3(1)	38.2(4)
Worst	–22.1(2)	–23.5(3)	–26.6(3)	–26.3(4)	–1.1(3)	1.2(2)	2.6(6)	–42.3(3)	–31.2(4)

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1986 and 2015.

Source: Andex Charts Pty Ltd.

Notes: 1. MSCI World ex-Australia Net Total Return Index (Local Currency) - represents a continuously hedged portfolio without any impact from foreign exchange fluctuations. 2. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD hedged, from 30 June 2008 the index is the Barclays Global Treasury Index AUD hedged (previously: Lehman Global Treasury Index AUD hedged). 3. Prior to 1 May 2013, index is the UBS Global Real Estate Investors Index ex Australia with net dividends reinvested. From May 2013 the index is the FTSE EPRA/NAREIT Developed ex AUS Rental Index with net dividends reinvested. Past performance is not an indicator of future performance.

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What sets Vanguard apart – and lets Vanguard put investors first around the world – is the ownership structure of The Vanguard Group, Inc., in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's US-domiciled funds. Those funds, in turn, are owned by their investors.

This mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, Australian investors benefit from Vanguard's stability and experience, low costs and client focus.

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