Zurich Investments

Don’t panic – in volatile times, quality prevails.

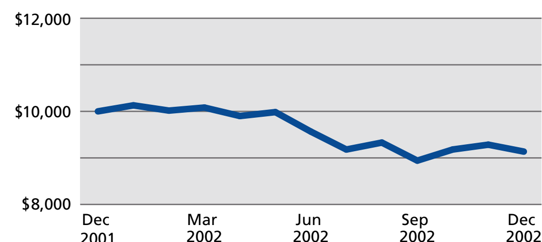
We have experienced volatile markets in the past and will, no doubt, see them again in the future. One of the trends we’ve witnessed time and again under these conditions is a panic-and-run reaction. This is where investors with sound long-term financial plans abandon their investment strategies. Often their first reaction is to consider selling – when, in fact, a more appropriate course of action is often to buy more quality shares.

This is because quality shares usually recover after a general market fall, leading to very good profits for those investors who had the nerve to buy at a time when most other investors were selling.

Consider Chart 1 which shows the performance of the Australian Sharemarket over a twelve month period between December 2001 and December 2002, just after the collapse of the World Trade Centre.

If you considered this chart in isolation – it appears to be a significant downward trend. Generally investors take one of two directions:

Chart 1:

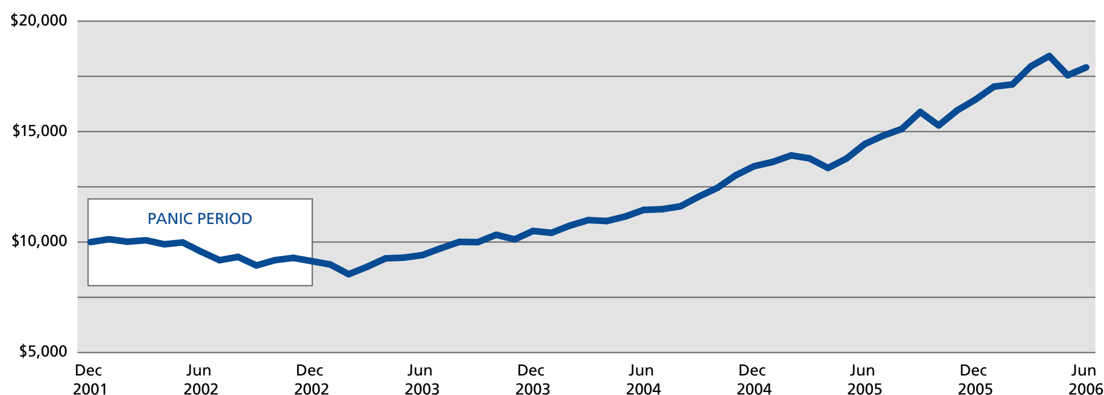


1. Panic

Some investors may panic and withdraw their investment at a loss. In the above chart, an investment valued at $10,000 at the beginning of the period, December 2001, has reduced in value to $9,136 the following year.

2. Head Down and Hold On Tight

For those investors that remained invested, as at June 2006 their investment was valued at $17,906. Despite the difficulties of experiencing constant fluctuations and periods of negative performance, these investors weathered the storm, took comfort in their long term investment strategy and were happy with the result.

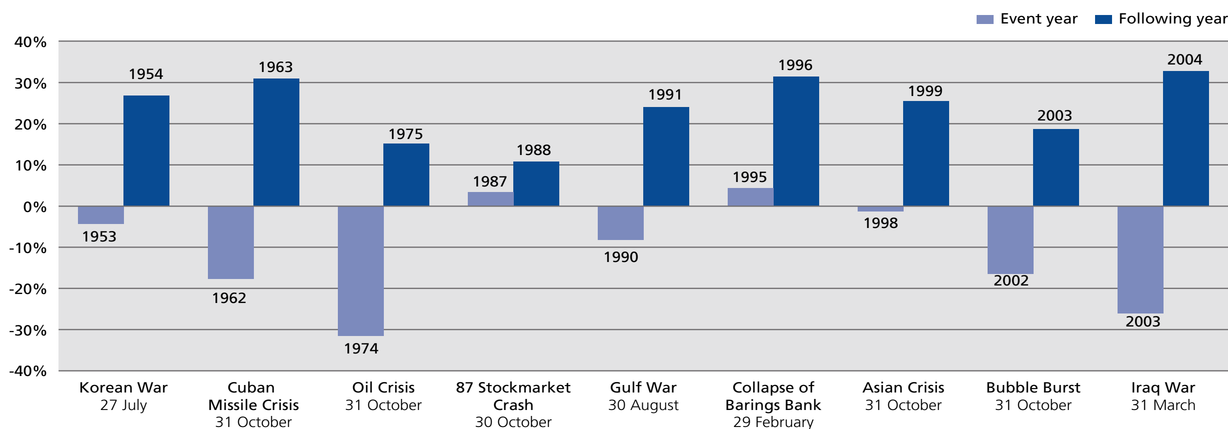


Source: WM Mercer S&P/ASX300 Accumulation index December 2001 – June 2006

Zurich Investment
Management Limited
5 Blue Street North Sydney
NSW 2060

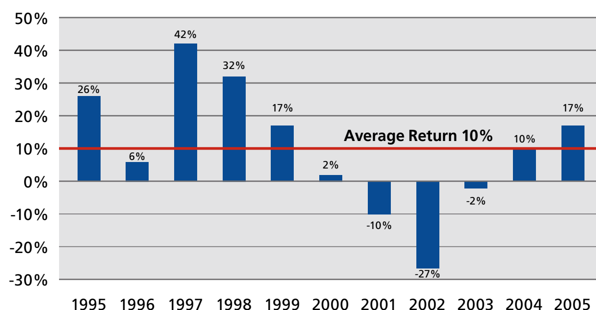
Client Enquiries
Telephone: 131 551
Facsimile: 02 9995 3797

As an example, consider the chart below which shows the performance of the American S&P 500 Index in the year of and the one year period following a major crisis. As you can see, those investors who bought more quality shares after a market fall were rewarded.



It's a long-term investment

Sharemarkets by their nature are volatile which means they go through ups and downs. This is the reason financial advisers recommend that only investors with a long-term investment horizon (ie 5 years plus) invest in shares. Volatility, however, is generally a short-term problem. Long-term investors who stay focussed 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.



Performance for the twelve month period ended 31 December each year for the MSCI World Index ex Australia. Source: Zurich Investments.

As such, you need to focus on the big picture, rather than a short period of market volatility. One way to illustrate this is to look at the one-year returns from a particular benchmark and compare it against the smooth trend line achieved over the long-term. In this example, we have used the MSCI World Index (ex Australia).

You can see from the graph above that the one-year performance figures are quite volatile. If you were an investor in the index over the full ten-year period, your annualised return would have been 10% pa.

For more information, please contact your financial adviser, or call Zurich Investments on 131 551 or visit our website at www.zurich.com.au

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