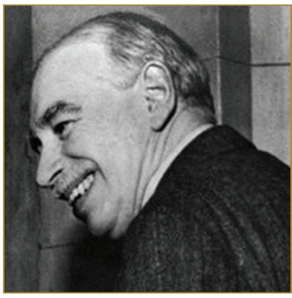
Recognise that short-term underperformance is inevitable



"The social object of skilled investment should be to defeat the dark forces of time and ignorance which envelope our future."

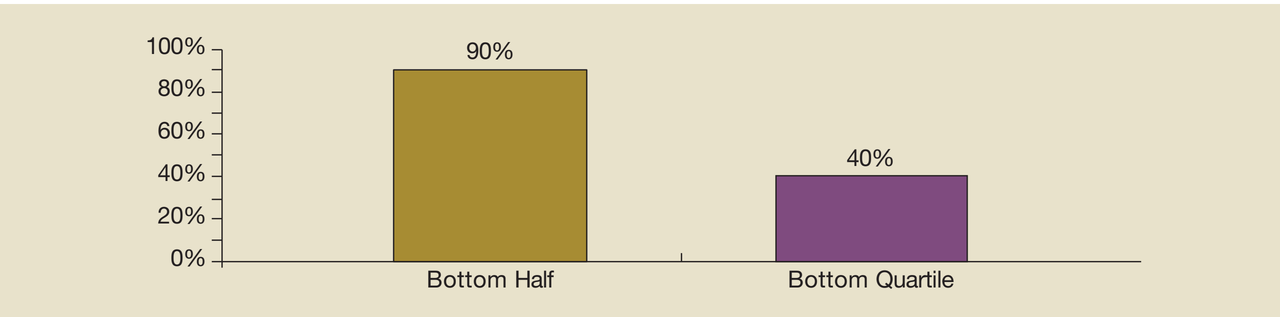
John Maynard Keynes,[5] economist

IT CAN BE hard to take a long-term view when there is so much up to the second data available with regard to your investments. Paying too much attention to daily or weekly performance charts can not only be bad for your health, but also bad for your wealth. When faced with short-term underperformance from a fund manager, some investors lose conviction and switch to another manager.

When evaluating fund managers, short-term performance is generally not a strong indicator of long-term success. Comparing a fund manager against its peers over different periods, encompassing different stages of the investment cycle, should stand investors in good stead when evaluating performance.

An Australian study surveyed[6] the 112 best performing large-cap equity funds with a 10 year track record. The study looked at which funds were most consistently in the first or second quartile in the period 1998–2007. The study then went on to look at how many of these top fund managers had suffered a period of sustained underperformance over the same period. The results were staggering. Of the top 10 managers: **90% of these top managers' rankings fell to the bottom half over this period for at least one year, whilst 40% of these top rated mangers rankings fell into the bottom quartile over this period for at least one year.**

Chart 6: Percentage of large cap equity managers whose performance fell into the bottom half or quartile for at least a one-year period.



Why is this the case? Investment managers who achieve good long-term results typically follow a rigorous and consistent process. There will invariably be times when their particular approach (or investment style) will not produce the best results in the short-term. Due to this, many investors try to combine managers with different approaches (e.g. value and growth styles), in order to maximise the consistency of their returns during different stages of the investment cycle.

In summary, even though the managers in the study delivered the best overall long-term returns, almost all suffered at least one difficult period. Investors who recognise this possibility and prepare for the fact that short-term underperformance is inevitable, even from the best managers, may be less likely to make unnecessary and often harmful changes to their investment plans.

[5] John Maynard Keynes (1883–1946) was an economist whose ideas called, Keynsian Economics, still influence Keynes advocated interventionist government policies and is considered one of the most influential economists of all time.

[6] Morningstar "The Most Consistent Large-Cap Share Funds" by Phillip Gray 21/05/2008.