BANKS GROUP

SHARE MARKET VOLATILITY

Bouts of volatility may cause uncertainty if investors aren't sure what action, if any, should be taken.

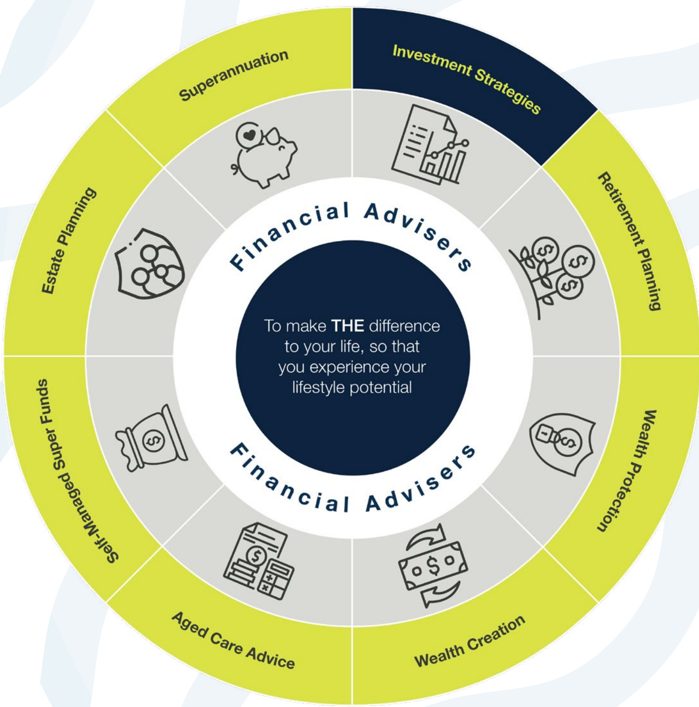
The share market has two primary functions:

1. To provide companies with a means of efficiently raising capital; and
2. To provide the public with a means to buy and sell ownership (shares) of these companies.

If the share market goes about its two primary functions, then why does its value move up and down so often? Sometimes ever so slightly and sometimes vigorously.

Large short-term movements in a share price are often the result of the emotional decision making of human beings who speculate in shares (regularly buy and sell), as opposed to a significant change in the value of the company the shares represent.

When many choose to sell and few choose to purchase, the oversupply causes the share price to reduce. When there is a more equal number of buyers and sellers, the share price becomes more stable. The drastic ups and downs in the share prices are often a result of supply and demand issues.



Bouts of volatility may cause uncertainty and concern amongst investors who aren't sure of what action, if any, should be taken during times of share price volatility.

Here are nine key insights to consider:

1. Volatility is a normal part of long-term investing

From time to time, there'll inevitably be volatility in share markets as investors react to changes in economic, political, and corporate conditions.

As an investor, your mindset is critical. When you're prepared at the outset for episodes of volatility, you're less likely to be surprised when they happen, and more likely to react rationally.

By having a mindset that accepts that volatility is a part of investing, you'll be more inclined to take a strategic view and remain focused on your long-term investment goals.

2. Over the long-term, equity risk is usually rewarded

Equity investors may be rewarded for the extra risk that they face by potentially achieving higher average returns over the longer term compared with, say, bond investors. It is important to remember that risk is not the same as volatility. Asset prices fluctuate more than their intrinsic value, so investors can expect price movements to drive opportunity.

3. Diversification of investments helps to smooth returns

Spreading the risk associated with a specific share or market by investing in a wide variety of companies across several types of markets, reduces the likelihood of concentrated losses.

As the old saying goes, don't put all of your eggs in one basket.

4. Quality, income-paying stocks are generally reliable

Sustainable dividends paid by high-quality, cash-generating companies are attractive during volatile market conditions. These tend to be leading brands that can perform robustly throughout different business cycles thanks to their established market share, strong pricing power and resilient earnings.

They typically operate in multiple regions, smoothing out the effects of patchy regional performance.

5. Total returns can be increased by reinvesting dividends

Reinvesting your dividends can supercharge your long-term returns, thanks to the power of compounding.

Your dividends buy more shares, which increases your dividend next time, which lets you buy even more shares, and so on.

Discipline and patience, combined with time in the market, is perhaps the most critical yet underestimated ingredient in the winning formula.

6. The benefits of regular investing stack up

Irrespective of an investor's time horizon, it makes sense to regularly invest a certain amount of money — each month or quarter, for example (known as dollar-cost averaging).

Regular investing does help you avoid investing at a single point in time where prices may be high, low or somewhere in between.

Although investing during a falling market may seem counter-intuitive to investors looking to limit their losses, this is precisely the time when some of the best investments can be made, because asset prices are lower and will generally benefit from a market rebound.

7. Market corrections can create attractive opportunities

In investing, a correction is a decline of 10% or more in the price of a share from its most recent peak.

A correction can often be a good time to invest in equities. This is when valuations generally become more attractive, giving investors the potential to generate above-average returns when the market rebounds.

Some of the worst short-term stock market losses in history were followed by rebounds to new highs.

8. Stopping and starting investments can be costly

Investors who remain invested can benefit from a long-term upward trend.

When you try to time the market and stop and start your investments, you run the risk of denting future returns by missing the best recovery days.

Not to mention the tax you'd have to pay on any capital gains from selling your shares (a big price to pay for the small chance of getting the timing right).

Experience shows most people are better off riding the share market wave.

9. Get expert advice

Although market volatility can be a difficult experience for many investors, it also provides excellent opportunities for building wealth.

Thriving during a tumultuous market environment is easier with an experienced financial adviser by your side.

To find out how our advisers can help you make the most of your investments, request a complimentary consultation at +61 3 9810 0700.

After all, you don't need to be wealthy to invest, you need to invest to be wealthy.

Complete financial care is a phone call away.

| +61 3 9810 0700 | info@banksgroup.com.au | www.banksgroup.com.au