RVNEWS

Retirement VICTORIA

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MESSAGE FROM RV

Welcome to our April RV News. As you will all know by now, all staff at Retirement Victoria commenced working from home in late March to help 'flatten the curve'. Earlier in the month, we transitioned all client meetings to phone or video, and this has been received very well by our clients, particularly many of you that do not live close to Melbourne. We are pleased to have supported our 17 staff and nearly 4,000 clients in this new world and are proud of the attitudes and behaviours of our team, who have had to adjust very quickly. Out of today's uncertainty we are finding new ways of working that may well last beyond this current period of isolation.

We are encouraging all clients to visit the Retirement Victoria website for the latest updates as documents in the post can have slight time delays. The full version of April's RV News is already up on the website and can be viewed here: retirevic.com.au/rv-news/2020-04/. Our CSOs will also be following up with you to obtain your email address. However, please also feel free to email us directly at hello@retirevic.com.au, with the subject header 'Subscribe to RV News'.

Please take care and as always, we welcome feedback and comments on areas of interest for future newsletters.

Zoe Brinsden
Chief Operating Officer

Small Change

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Super ideas for managing volatility

By Colin Lewis, Head of Technical Services

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It's been a wild ride on global share markets in the last few weeks after some significant falls. We're living in turbulent times again, and when investment markets are volatile, logic can go out the window.

For many Australians, superannuation is their largest asset after the family home.

However, it must be remembered that super is an investment vehicle, not an asset class. Regardless of whether you invest via a super fund or outside super, it's what you invest in – cash, shares, property etc. – that determines whether your wealth goes up or down. Super does not lose you money!

During periods of market instability, investors may feel that super is no longer their best option and stop or reduce their voluntary contributions. However, we know it's an investment for the long-term and short-term volatility can be a good time to top up your super. After all, you're buying assets that are now cheaper and unless you're just about to retire, you have years – maybe decades – for the market to move back in your favour.

Volatility leads to anxiety and it's easy for investors to rationalise the need to 'wait and see'. Some wait for the bottom of the market. Others wait until 'confidence' returns before investing. Ironically, even when markets recover, many investors wait for the market to fall again in the hope of picking up 'bargains'.

Unfortunately, these investment approaches are flawed as they often create 'investor paralysis' and the delay in investing may mean investors don't participate in the benefits of markets that inevitably recover.

Albert Einstein is purported to have said that compound interest is man's greatest invention. Whether or not he said it, there is no doubting the incredible growth potential of an investment when you earn 'interest on your interest' over a long period of time.

We must find ways to manage our emotions to achieve our long-term goals. One powerful way to do that is 'dollar cost averaging' – making regular deposits into an investment at regular intervals over a period of time.

Importantly, this way of investing can reduce the risk of investing during times of market volatility. It also helps avoid the pitfalls of attempting to 'time' entry into markets. Dollar cost averaging overcomes 'investor paralysis' by giving you the opportunity to build your exposure to growth assets in a disciplined way.

Take Joan who invests $200,000 in a managed fund. This involves purchasing 'units' which represent the value of the fund's underlying assets, often comprising Australian and international shares.

If Joan invests all at once when the unit price is $1.00, she'll get 200,000 units. The unit price then dives to $0.70 and her investment is only worth $140,000. The unit price then gradually recovers to $0.80 then $0.90 and in period 5 is $1.10. Joan's patience has been rewarded as her investment is now worth $220,000.

Compare this with Ron who is reluctant to invest because of market volatility but is prepared to gradually invest $200,000 equally over the same five periods.

Ron's initial $40,000 investment acquires 40,000 units. His second $40,000 investment gets him 57,143 units at $0.70. His third $40,000 gets him 50,000 units. Fourth, 44,444 units and final $40,000 investment gets him 36,363 units at $1.10. Ron ends up with 227,950 units in the managed fund and has a better outcome because his investment is then worth $250,745.

By committing to regular investment amounts, Ron overcame 'investor paralysis' and purchased the managed investment units at a lower average unit price of $0.88.

That's the essence of dollar cost averaging. When you commit to investing a fixed amount into an investment that varies in price, such as shares or managed fund units, you purchase more when the price is low and less when the price is higher. It should not be viewed as a guarantee of maximising returns, nor does it mean you should never invest a lump sum as part of a long-term financial strategy. Rather, it's a way to potentially lower the costs of investing and a powerful risk reduction strategy for investors who would otherwise be reluctant to stick to a long-term investment plan in the face of volatility.

The good news is that dollar cost averaging is how most wage earners invest in super anyway – via their employer's regular compulsory super contributions. Similarly, most salary sacrifice contributions are made via regular contributions.

That's why it's important investors don't lose faith in this approach and reduce their contributions when markets are weak because in many ways, that's when dollar cost averaging works best for you.

Investing for your retirement via a super fund is an effective way to invest because there are significant tax benefits. When markets fall, you are better off in than out of super as it actually protects you from market losses because these tax benefits have already insulated you from 'loss'.

Visit www.retirevic.com.au to read the full article.