

Staying the
course has its
rewards



Looking forward, looking back

Lessons from history

The 2009 Vanguard Index Chart tracks the returns of the major asset classes from 1 July 1970 to 30 June 2009. During this time Australia has witnessed four recessions, eight prime ministers and numerous political and economic events.

The index chart illustrates the cyclical nature of investment markets with movements reflecting the economic situation, political events, market sentiment and many other factors. So what has history taught us?

Lesson 1 Long term investors reap the rewards

History proves that long term investors have been rewarded for their patience.* For example, \$10,000 invested in the US share market index (unhedged) in 1970 would have grown to \$601,747 by the end of June 2009. Over the same time, \$10,000 invested into the Australian sharemarket would be worth \$453,165.†

Lesson 2 Timing the markets is difficult and can be costly

Selling when markets retreat crystallises losses. Not only that, the opportunity costs of foregoing future growth can be high.

If you invested \$10,000 in the Australian sharemarket in June 1970 and missed the single best monthly return of 25.5 per cent in October 1974, it would have cost you a total of \$92,109 and reduced your investment to \$361,056 at 30 June 2009. Missing the two best months (October 1974 and January 1975) would have reduced your final balance by 33.8 per cent or \$153,215 to just \$299,950 over the same timeframe.‡

Interestingly, the two best months in the Australian sharemarket (October 1974 and January 1975) occurred after the worst decline experienced since 1900. Against the backdrop of the OPEC oil crisis, Australia like many western economies was struggling with stagflation, a recession combined with excessive inflation (above 15 per cent), rising interest rates and a falling Australian dollar. Investors might understandably have pulled their money out of the market, but had they done so they would have missed a 25.5 per cent rise in the market just two months later.

In contrast to the situation of the mid-1970s, the current financial crisis has not yet dragged the Australian economy into recession; interest rates are at historic lows; and inflation remains within the Reserve Bank's target band of 2 to 3 per cent.

Lesson 3 Investment markets trend upwards
Luckily for investors, positive returns have outweighed the negative across all major asset classes over the last 30 years.

Since 1979, Australian shares have delivered positive returns on 25 out of 31 occasions on a financial year end basis, returning an average annual return of 12.7 per cent to 30 June 2009. Over the same timeframe unhedged international shares have delivered positive returns on 23 occasions delivering an average annual return of 10.4 per cent.

Lesson 4 Investment markets take time to recover

It can take time for investment markets to recover to their previous levels after a fall. The value of \$10,000 invested in the Australian sharemarket in 1970, briefly rose above its initial value in July and August 1976, but did not permanently recover until July 1978.

If you had been out of the market during October 1974 it would have taken an additional twelve months to recover your initial investment, which did not permanently rise above \$10,000 again until July 1979.

Lesson 5 Future returns are impossible to predict

One of the certainties of investing is that markets will go up as well as down. While staying the course won't protect you from market downturns it does ensure that you are invested during the periods of market growth that invariably follow.

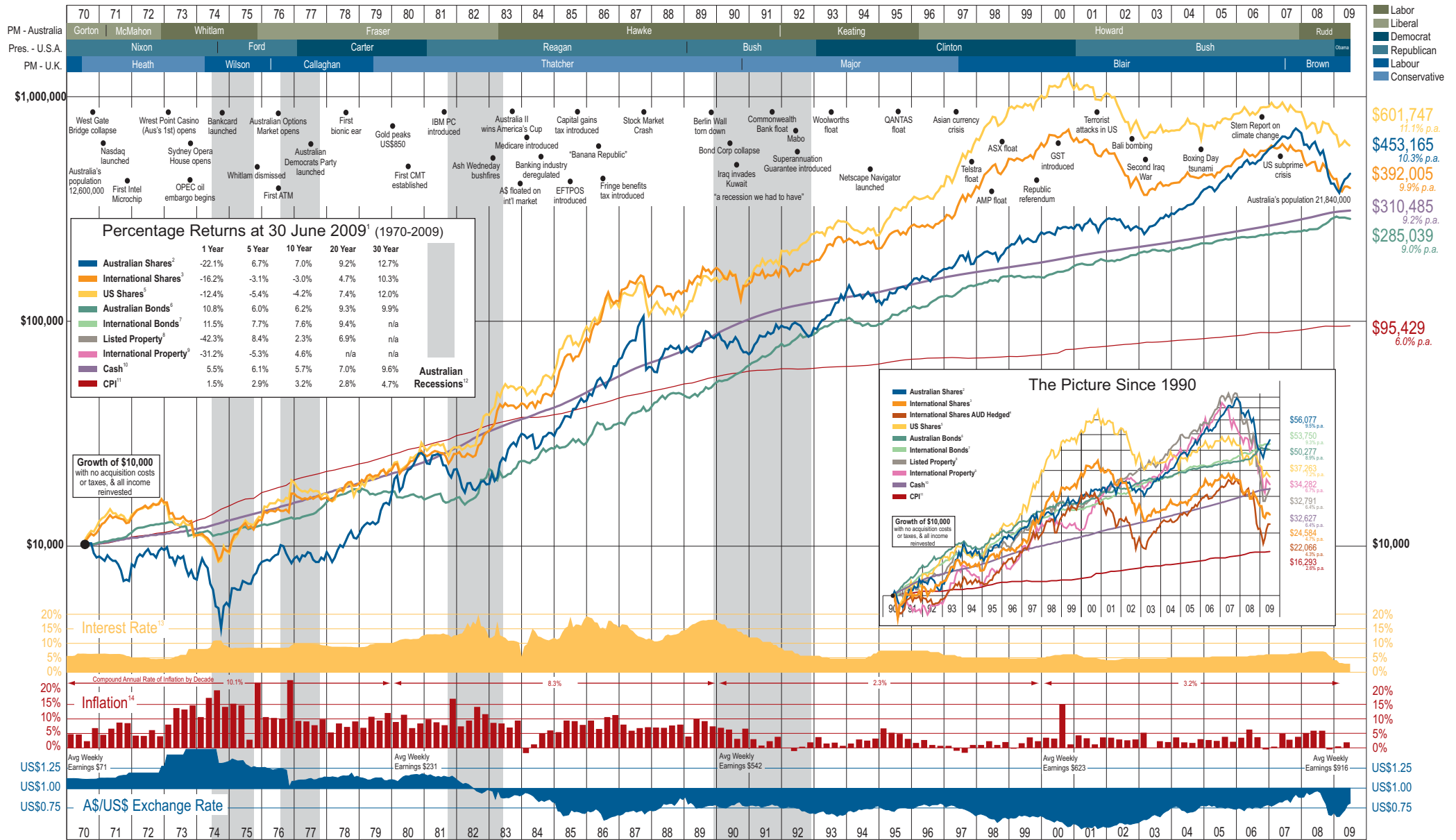
Just like British rock climber Jerry Moffat says: "If you don't let go, you can't fall off."

** Past performance is not an indication of future performance*

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Staying the course has its rewards

Market returns – 1 July 1970 to 30 June 2009



Source: Australian Bureau of Statistics, ASX Limited, Barclays Capital, Citigroup Global Markets, Commonwealth Bank of Australia, Global Financial Data, Melbourne Institute of Applied Economic & Social Research, MSCI Barra, Reserve Bank of Australia, Standard & Poor's, UBS AG Australia Branch. Notes: 1. One-year returns are total returns from 1 July 2008 to 30 June 2009. Five, ten, twenty and fifty-year returns are average annual compound returns to 30 June 2009. 2. Index prior to 1980 is the MSCI Australia Gross Total Return Index. From 1980 the index is the S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. Index prior to 1977 calculated by Global Financial Data. From February 1977 to December 1989 the index is the Commonwealth Bank All Series Greater Than 10 Years Bond Accumulation Index. From September 1989 the index is the US Composite Bond Accumulation Index. 7. From January 1980 to June 2008 the index is the Citigroup World Government Bond Index (AUD Hedged). Since June 2008 the index is the Barclays World Government Bond Index (AUD Hedged). 8. S&P/ASX Listed Property Trust Accumulation Index. 9. USDC Global Real Estate Investors Index ex-Australia. 10. Data prior to March 1987 supplied by Reserve Bank of Australia. From March 1987 the index is the USDC Bank Bill Accumulation Index. 11. Composites 22% cash 11% Aust. 11% bonds 24% Aust. shares 20% int. shares 3% Aust. property 3% int. property. 12. As defined by the Melbourne Institute of Applied Economic and Social Research. 13. Interest Rate prior to July 1981 is a short-term Government Bond rate. From July 1981 the interest rate is the Reserve Bank of Australia's Official Cash Rate. 14. Annualized Rate of Inflation. All figures are Australian dollars.

Balancing risk and return

Diversifying across asset classes helps to reduce volatility and smooth out returns over time. While this strategy cannot protect you against negative returns, it can reduce the impact of poorly performing asset classes.

Asset classes perform at different times and can have inverse relationships. Holding a diversified portfolio

reduces market volatility as returns from better performing investments help offset underperforming ones.

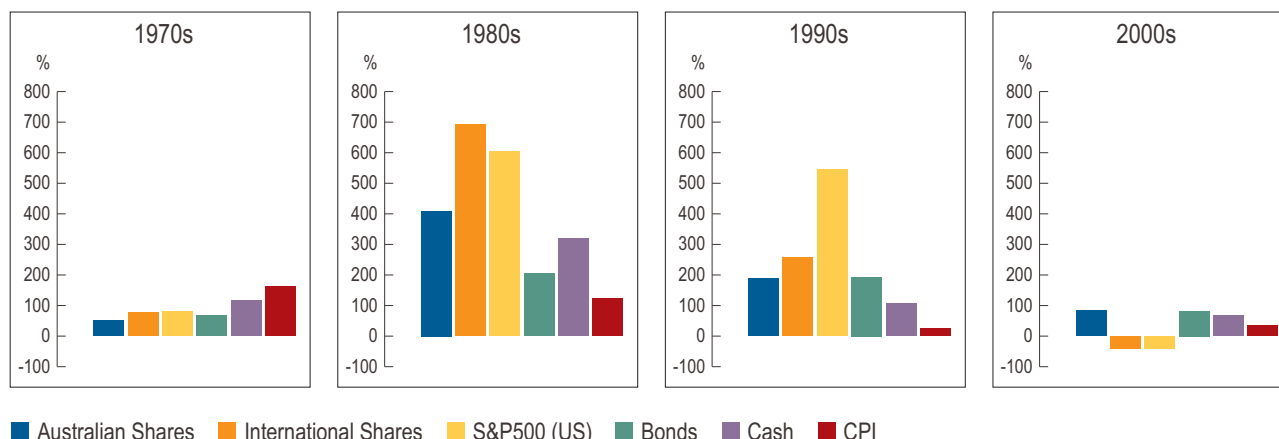
While investment market returns can be volatile over shorter time periods, long-term average returns have remained strong. This reinforces the importance of staying the course and sticking to your strategy despite short-term setbacks.

Financial Year Total Returns for the Major Asset Classes									
	Australian Shares	International Shares	International Shares (Hedged)	US Shares	Australian Bonds	International Bonds (Hedged)	Cash	Australian Listed Property	International Listed Property
1979	26.0%	17.2%	12.5%	16.3%	-0.5%		10.0%		
1980	74.3%	11.5%	13.3%	13.6%	-1.2%		11.5%		
1981	15.8%	13.0%	20.4%	21.6%	2.3%		14.1%	24.6%	
1982	-29.0%	-4.0%	-10.4%	-0.6%	-5.1%		18.1%	3.6%	
1983	34.7%	72.7%	49.6%	88.4%	25.6%		15.5%	23.7%	
1984	13.5%	2.3%	2.0%	-3.2%	21.4%		12.6%	35.3%	
1985	36.5%	61.6%	29.9%	69.5%	17.0%		14.0%	11.8%	
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%	8.7%	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%
Best	74.3% (7)	72.7% (3)	49.6% (2)	88.4% (6)	25.6% (3)	29.2% (3)	18.5% (2)	41.3% (3)	38.2% (2)
Worst	-29.0% (2)	-23.5% (2)	-26.6% (3)	-26.3% (5)	-5.1% (5)	1.2% (3)	4.7% (4)	-42.3% (4)	-31.2% (4)
Average	15.0%	12.7%	10.0%	14.6%	9.8%	11.1%	9.7%	11.5%	8.6%

(x) denotes the number of times each asset class was the best/worst performer during a financial year between 1979 and 2009.
 Note: For the sources used in the table above, please refer to source notes on previous pages. Assumes 100% reinvestment of distributions. Returns shown are before fees and taxes.

Ten year graph commentary

Be prepared for better times ahead



A decade can make a world of difference. As these charts show asset class returns can vary widely over each decade. Nobody knows what the future holds, which is why investing based on past performance can be a dangerous strategy.

Take investors who decided in the 1970s and 1980s that cash was a steady long-term investment. Interest rates fell markedly over the following two decades, substantially reducing returns. If investors moved from equities into the better performing cash market in the 1970's they would have not only received diminished returns, but also forgone the significant growth periods of the 1980's and 1990's.

Diversification broadens your growth prospects

Investing in a single asset class not only increases risk but restricts your exposure to market growth. Investing in a broad range of asset classes, sectors and securities exposes

you to growth sectors in the economy and ensures you are positioned to capitalise on upside growth when it occurs. If you need some inspiration, take a look at the growth of the different asset classes over the last 40 years.

There is no right or wrong time to invest but as history shows being out of the market can be costly.

Charting history

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* Assumptions: No account has been taken for acquisition costs or taxes. All dividends have been reinvested.

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