

Value of diversification

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BEST ANNUAL PERFORMANCE	AUS. SHARES 34.2	INT. BONDS HGD 11.1	AUS. SHARES 45.4	INT. SHARES HGD -0.1	INT. SHARES 25.9	INT. SHARES HGD 19.7	INT. SHARES 47.8	INT. SHARES 30.9	INT. SHARES HGD 23.9	AREITs 17.9	AREITs 15.0	AREITs 11.9	INT. SHARES HGD 33.8	AREITs 32.2	AUS. SHARES 22.5	AREITs 34.1	AUS. SHARES 16.2	AUS. BONDS 15.0	AUS. SHARES 37.6	INT. SHARES HGD 12.4
	AUS. BONDS 24.7	AUS. BONDS 10.4	AREITs 30.1	INT. BONDS HGD -2.7	INT. SHARES HGD 22.3	AUS. SHARES 14.6	INT. SHARES HGD 21.2	INT. SHARES HGD 23.3	INT. SHARES 16.1	AUS. BONDS 12.1	AUS. SHARES 10.5	INT. BONDS HGD 11.6	AUS. SHARES 15.0	INT. SHARES 0.0	INT. SHARES HGD 17.1	AUS. SHARES 24.5	INT. SHARES HGD 9.2	INT. BONDS HGD 9.2	INT. SHARES HGD 31.5	INT. BONDS HGD 9.3
	70/30 BALANCED 24.6	AREITs 7.0	70/30 BALANCED 28.1	AUS. BONDS -4.7	AUS. SHARES 20.2	AREITs 14.5	AREITs 20.3	AREITs 18.0	AUS. SHARES 16.1	INT. BONDS HGD 10.1	INT. BONDS HGD 7.4	AUS. BONDS 8.8	70/30 BALANCED 13.6	70/30 BALANCED 17.8	70/30 BALANCED 13.7	INT. SHARES HGD 20.1	70/30 BALANCED 7.7	70/30 BALANCED -24.2	70/30 BALANCED 20.5	AUS. BONDS 6.0
	INT. SHARES 20.2	INT. SHARES 4.5	INT. SHARES 24.4	70/30 BALANCED -5.6	70/30 BALANCED 20.1	70/30 BALANCED 12.3	70/30 BALANCED 17.7	70/30 BALANCED 15.6	70/30 BALANCED 11.3	INT. SHARES 5.9	AUS. BONDS 5.5	70/30 BALANCED -5.8	AREITs 8.8	INT. SHARES HGD 15.1	AREITs 12.7	70/30 BALANCED 17.0	INT. BONDS HGD 6.6	INT. SHARES -25.9	AREITs 9.6	70/30 BALANCED 5.0
	AREITs 20.1	70/30 BALANCED 3.7	INT. SHARES HGD 21.4	AREITs -5.6	INT. BONDS HGD 20.1	AUS. BONDS 11.9	AUS. BONDS 12.2	AUS. SHARES 11.6	INT. BONDS HGD 0.8	AUS. SHARES 4.8	70/30 BALANCED 2.2	AUS. SHARES -8.6	INT. BONDS HGD 6.6	INT. SHARES 10.6	INT. SHARES HGD 9.6	INT. SHARES 11.8	AUS. BONDS 3.5	AUS. SHARES -38.9	INT. BONDS HGD 8.0	AUS. SHARES 1.9
	INT. SHARES HGD 19.2	INT. SHARES HGD -0.8	AUS. BONDS 16.3	INT. SHARES -8.1	AUS. BONDS 18.6	INT. BONDS HGD 10.7	AUS. SHARES 12.2	INT. BONDS HGD 10.4	AUS. BONDS -1.2	70/30 BALANCED 4.7	INT. SHARES -9.1	INT. SHARES HGD 20.0	AUS. BONDS 3.0	INT. BONDS HGD 8.9	AUS. BONDS 5.8	INT. BONDS HGD 4.4	INT. SHARES -1.9	INT. SHARES HGD -41.2	INT. SHARES 2.0	AREITs -0.7
WEAKEST PERFORMANCE	INT. BONDS HGD 18.4	AUS. SHARES -2.3	INT. BONDS HGD 14.8	AUS. SHARES -8.7	AREITs 12.7	INT. SHARES 6.3	INT. BONDS HGD 10.5	AUS. BONDS 9.5	AREITs -5.0	INT. SHARES HGD -10.0	INT. SHARES HGD -16.2	INT. SHARES -27.2	INT. SHARES 0.0	AUS. BONDS 7.0	INT. BONDS HGD 6.6	AUS. BONDS 3.1	AREITs -8.4	AREITs -55.3	AUS. BONDS 1.7	INT. SHARES -1.4

Whether you're a new or experienced investor, the temptation to chase short-term returns can be hard to resist.

Take a look at the table above. Each asset class is shaded in a different colour, showing its annual performance against the other asset classes. It helps to demonstrate the cyclical nature of the markets, and shows that one year's best performing asset class can just as easily end up the next year's worst.

The trouble with chasing past performance – a case study

History shows us that no one asset class has continually outperformed over a sustainable period. So it's unwise trying to time the market by chasing short-term performance.

Let's look at the case of two investors, Sam and Alex.

Alex's strategy is to switch asset investments at the start of each year into the previous year's best performing asset class, i.e. 'chasing past performance'. Over the 20-year period starting at the beginning of 1991 to the end of 2010, his \$10,000 investment would have grown to \$38,884, an average annual return of 8.6%.

However, Sam remained invested in a 70/30 balanced over the same period. By contrast, the balance at the end of December last year would have been \$59,214; an annual average return of 10%. That's a difference of almost 34 percent!

Choosing a diversified portfolio can help smooth volatility and provide more stable returns over the long term.

For more on how diversification works, please call our Helpline on 1800 555 667 or speak to your adviser.

You can also visit us at www.russell.com.au for a range of material that aims to keep you informed about investing.

Sources for the asset classes and sample diversified portfolios are as follows: Australian shares: S&P/ASX 300 Accum Index, ASX All Ordinaries Accum Index prior to 31 March 2000. Australian bonds: UBS Warburg Aust Comp Bond Index, 1980-1989 Commonwealth Bank All Series All Maturities. International shares: Russell Developed Large Cap Index (MSCI World Net Div Reinvested Accumulation Index (SA) prior to 1997) and International shares hedged: Russell Developed Large Cap Index - Hedged (MSCI World Net Div Reinvested Accumulation Index SA Hedged prior to 1997; MSCI World Local Currency Index prior to 1988). International bonds hedged: Barclays Capital Global Aggregate SA Hedged (formerly Lehmann Bros Global Aggregate Index SA Hedged). Saloman Smith Barney World Government Bond Index SA Hedged (Note: Pre-1985 returns unavailable, Domestic Bond returns used). A-REITs: S&P/ASX 300 A-REIT Index (ASX Property Trust Accumulation Index prior to 31 March 2000). The diversified portfolio is hypothetical only and is calculated by a weighted average of the asset class index returns shown in accordance to the following asset allocations: 70/30 Balanced portfolio consists of: 32% Australian Shares, 15% Australian Bonds, 5% Cash, 20% International Shares, 10% International Shares SA Hedged, 10% international bonds, 8% AREITs. Issued by Russell Investment Management Ltd ABN 53 068 338 974, AFS Licence 247185 ("RIM"). This document provides general information only and has not been prepared having regard to your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation and needs. This information has been compiled from sources considered to be reliable, but is not guaranteed. Past performance is not a reliable indicator of future performance. Any potential investor should consider the latest Product Disclosure Statement ("PDS") in deciding whether to acquire, or to continue to hold, an investment in any Russell product. The PDS can be obtained by visiting www.russell.com.au or by phoning (02) 9229 5111. RIM is part of Russell Investments ("Russell"). Russell or its associates, officers or employees may have interests in the financial products referred to in this information by acting in various roles including broker or adviser, and may receive fees, brokerage or commissions for acting in these capacities. In addition, Russell or its associates, officers or employees may buy or sell the financial products as principal or agent. Copyright 2011 Russell Investments. All rights reserved. R_POS_Divers_VTF_1101 MKT/2804/0110