

VALUE OF DIVERSIFICATION

2018 edition with Australian residential property



BEST ANNUAL PERFORMANCE	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	GLOBAL SHARES 29.7	GLOBAL SHARES HGD 26.2	AREITs 17.9	RESIDENT. PTY 20.3	RESIDENT. PTY 20.1	GLOBAL SHARES HGD 29.3	AREITs 32.2	AUS. SHARES 21.1	AREITs 34.1	AUS. SHARES 18.0	AUS. BONDS 15.0	AUS. SHARES 39.6	GLOBAL SHARES HGD 13.7	AUS. BONDS 11.4	AREITs 32.8	GLOBAL SHARES 43.5	AREITs 26.8	AREITs 14.4	AREITs 13.2	GLOBAL SHARES HGD 20.7
	GLOBAL SHARES HGD 19.5	AUS. SHARES 19.3	AUS. BONDS 12.1	AREITs 15.0	AREITs 11.9	RESIDENT. PTY 20.0	AUS. SHARES 27.6	GLOBAL SHARES HGD 18.5	AUS. SHARES 25.0	RESIDENT. PTY 14.7	INT. BONDS 9.2	GLOBAL SHARES HGD 31.3	INT. BONDS 9.3	INT. BONDS 10.5	AUS. SHARES 18.8	GLOBAL SHARES HGD 28.6	GLOBAL SHARES 14.1	RESIDENT. PTY 11.6	AUS. SHARES 11.6	GLOBAL SHARES 14.7
	AREITs 18.0	GLOBAL SHARES 17.1	RESIDENT. PTY 11.9	AUS. SHARES 10.1	INT. BONDS 11.6	AUS. SHARES 15.9	MULTI-ASSET 17.4	GLOBAL SHARES 18.4	GLOBAL SHARES HGD 17.6	GLOBAL SHARES HGD 8.5	AUS. CASH 7.6	RESIDENT. PTY 19.4	RESIDENT. PTY 8.5	AUS. CASH 5.0	GLOBAL SHARES HGD 18.7	AUS. SHARES 19.7	GLOBAL SHARES HGD 11.6	GLOBAL SHARES 10.0	GLOBAL SHARES HGD 10.2	AUS. SHARES 12.5
	MULTI-ASSET 14.8	RESIDENT. PTY 16.0	INT. BONDS 10.1	INT. BONDS 7.4	AUS. BONDS 8.8	MULTI-ASSET 10.2	GLOBAL SHARES HGD 15.8	MULTI-ASSET 15.1	MULTI-ASSET 16.2	MULTI-ASSET 7.5	RESIDENT. PTY -3.7	MULTI-ASSET 18.9	AUS. BONDS 6.0	RESIDENT. PTY -1.4	MULTI-ASSET 15.8	MULTI-ASSET 18.0	RESIDENT. PTY 10.9	MULTI-ASSET 4.3	RESIDENT. PTY 9.5	MULTI-ASSET 10.8
	INT. BONDS 10.4	MULTI-ASSET 12.0	MULTI-ASSET 6.4	AUS. BONDS 5.5	AUS. CASH 4.8	AREITs 8.8	GLOBAL SHARES 11.0	AREITs 12.7	GLOBAL SHARES 12.7	AUS. CASH 6.7	MULTI-ASSET -23.4	AREITs 9.6	AUS. CASH 4.7	AREITs -1.6	GLOBAL SHARES 14.9	RESIDENT. PTY 15.6	INT. BONDS 10.4	AUS. SHARES 3.8	MULTI-ASSET 9.0	AREITs 6.4
	RESIDENT. PTY 10.0	AUS. CASH 5.0	AUS. CASH 6.3	AUS. CASH 5.2	MULTI-ASSET -6.6	INT. BONDS 6.6	INT. BONDS 8.9	INT. BONDS 6.6	RESIDENT. PTY 9.0	INT. BONDS 6.6	GLOBAL SHARES -27.8	INT. BONDS 8.0	MULTI-ASSET 4.3	MULTI-ASSET -2.6	INT. BONDS 9.7	AREITs 7.3	AUS. BONDS 9.8	INT. BONDS 3.3	GLOBAL SHARES 8.6	RESIDENT. PTY 6.0
	AUS. BONDS 9.5	INT. BONDS 0.8	GLOBAL SHARES 5.2	MULTI-ASSET 3.0	AUS. SHARES -8.1	AUS. CASH 4.9	AUS. BONDS 7.0	AUS. BONDS 5.8	AUS. CASH 6.0	AUS. BONDS 3.5	AUS. SHARES -40.4	GLOBAL SHARES 5.4	AUS. SHARES 3.3	GLOBAL SHARES HGD -3.7	AUS. BONDS 7.7	AUS. CASH 2.9	MULTI-ASSET 9.5	GLOBAL SHARES HGD 2.7	INT. BONDS 5.2	AUS. BONDS 3.7
	AUS. SHARES 8.5	AUS. BONDS -1.2	AUS. SHARES 5.0	GLOBAL SHARES -8.9	GLOBAL SHARES HGD -22.7	AUS. BONDS 3.0	AUS. CASH 5.6	AUS. CASH 5.7	INT. BONDS 4.4	GLOBAL SHARES 0.3	GLOBAL SHARES HGD -40.5	AUS. CASH 3.5	GLOBAL SHARES -0.5	GLOBAL SHARES -7.5	RESIDENT. PTY 5.4	INT. BONDS 2.3	AUS. SHARES 5.0	AUS. BONDS 2.6	AUS. BONDS 2.9	INT. BONDS 3.7
WEAKEST PERFORMANCE	AUS. CASH 5.1	AREITs -5.0	GLOBAL SHARES HGD -7.9	GLOBAL SHARES HGD -14.8	GLOBAL SHARES -27.0	GLOBAL SHARES 0.5	RESIDENT. PTY 2.5	RESIDENT. PTY 1.4	AUS. BONDS 3.1	AREITs -8.4	AREITs -55.3	AUS. BONDS 1.7	AREITs -0.7	AUS. SHARES -11.4	AUS. CASH 4.0	AUS. BONDS 2.0	AUS. CASH 2.7	AUS. CASH 2.3	AUS. CASH 2.1	AUS. CASH 1.7

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

This table illustrates how different asset classes have performed relative to a multi-asset portfolio diversified across multiple assets, strategies & managers (70% growth / 30% income).

It also helps to demonstrate the cyclical nature of the markets, showing that one year's best performing assets 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 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 1998 to the end of 2017, his \$10,000 investment would have grown to \$32,064 an average annual return of 6.0%.

However, Sam remained invested in a multi-asset portfolio over the same period. By contrast, the balance at the end of December 2017 would have been \$542,661; an annual average return of 7.5%. That's a difference of more than \$10,000 over the 20-year period.

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

For more on how diversification works, please speak to your adviser.

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

Case study is for illustrative purposes only and is not indicative of actual performance over the quoted period. Sources for the asset classes and sample balanced portfolio are as follows: Australian shares: ASX All Ordinaries Accumulation Index. Australian bonds: Bloomberg Australian Bond Composite 0+ Yr Index. International shares: Russell Investments Global Large Cap index (MSCI World Net Dividend Reinvested Accumulation Index (in AUD) prior to 1997) and International shares hedged: Russell Investments Global Large Cap index – AUD Hedged (MSCI World ex Australia Net Dividend Index (hedged) from Jan-98 to Feb-99, Russell Developed Large Cap AUD-Hedged (Net) from Mar-99 to Dec-06). International bonds hedged: Barclays Capital Global Aggregate \$A Hedged (formerly Lehmann Bros Global Aggregate Index \$A Hedged). Prior to 2002, Saloman Smith Barney World Government Bond Index \$A Hedged. A-REITs: S&P/ASX 300 A-REIT Index (ASX Property Trust Accumulation Index prior to 31 March 2000). The sample balanced portfolio is hypothetical only and is calculated by a weighted average of the asset class index returns. Case study performance calculations are based on geometric averages and considers listed assets only. The residential property measure is a population-weighted average return calculated across major capital cities. Increases in value are based on median house prices obtained from the Real Estate Institute of Australia. Data from the Australian Bureau of Statistics is used to make adjustments for capital improvements. Net rental income allows for vacancy rates, maintenance expenses, management fees, government charges, land tax and insurance. Acquisition and disposal costs include conveyancing, stamp duty and agents' fees.