Super is a long-term investment!

Market volatility

The market's taken a hit, shares are down, and unit prices aren't looking great. Worried?

Market volatility is part of investing

If super is your nest egg for the future, so it's perfectly natural to worry when markets are volatile and your super balance isn't growing as fast as you'd like.

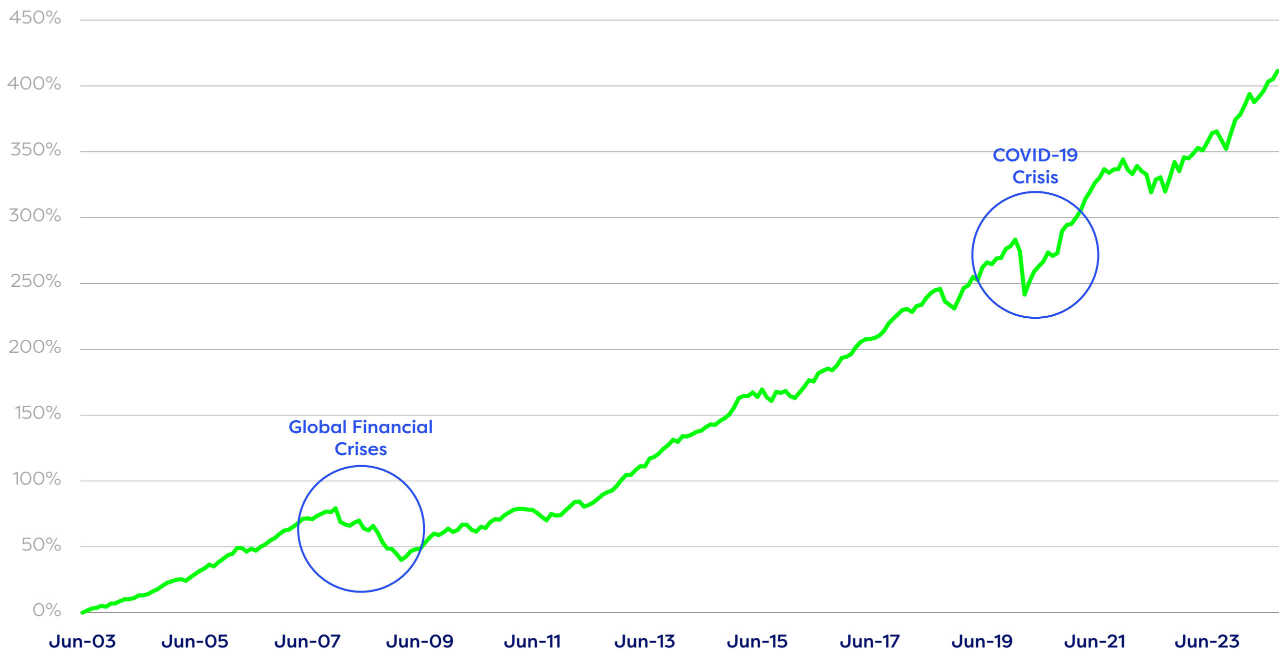
The truth is market volatility is a normal part of investing. There will always be ups and downs, and there will always be periods of heightened uncertainty— especially for an investment as long-term as super.

Unfortunately, no one can predict the future of markets, but how you react to market volatility can make a big difference to your super in the long run.

Thinking long term

For most, super is a long-term investment — sometimes up to 30 or 40 years or even more — so we need to think about super with a long-term view.

The chart below shows how our Balanced option performed before, during and after both the Global Financial Crisis in 2008 and the COVID-19 crisis in 2020.



In isolation, both events resulted in significant short-term plunges. However, when measured over a 20-year period, it's clear that the portfolio has grown steadily over most years.

So, when making decisions about your super investment goals and strategy, it's important to think about how long it will be invested and how much investment risk you're willing to accept.

What's risk?

When it comes to super, the ultimate goal is to have enough at retirement. The main risk you face is not having enough. This could happen if you:

- experience an investment loss that can't be recovered before retirement
- don't achieve sufficient investment returns
- didn't save enough during your working life

Which investment option you choose for your super will impact whether you achieve your retirement goals or not.

Risk vs return

To choose the right investment option for your situation and goals, it helps to understand investment risk and how it relates to investment returns.

Investment risk is the volatility or fluctuation of investment returns from one time period to the next.

Generally, low-risk investments offer lower returns but greater security.

This means you'll usually only see small changes in the value of your investment and have little chance of experiencing a negative return in a given year. However, the returns are typically lower over the longer term compared to higher-risk options.

High-risk investments generally offer the potential for higher returns over the longer term, but less security.

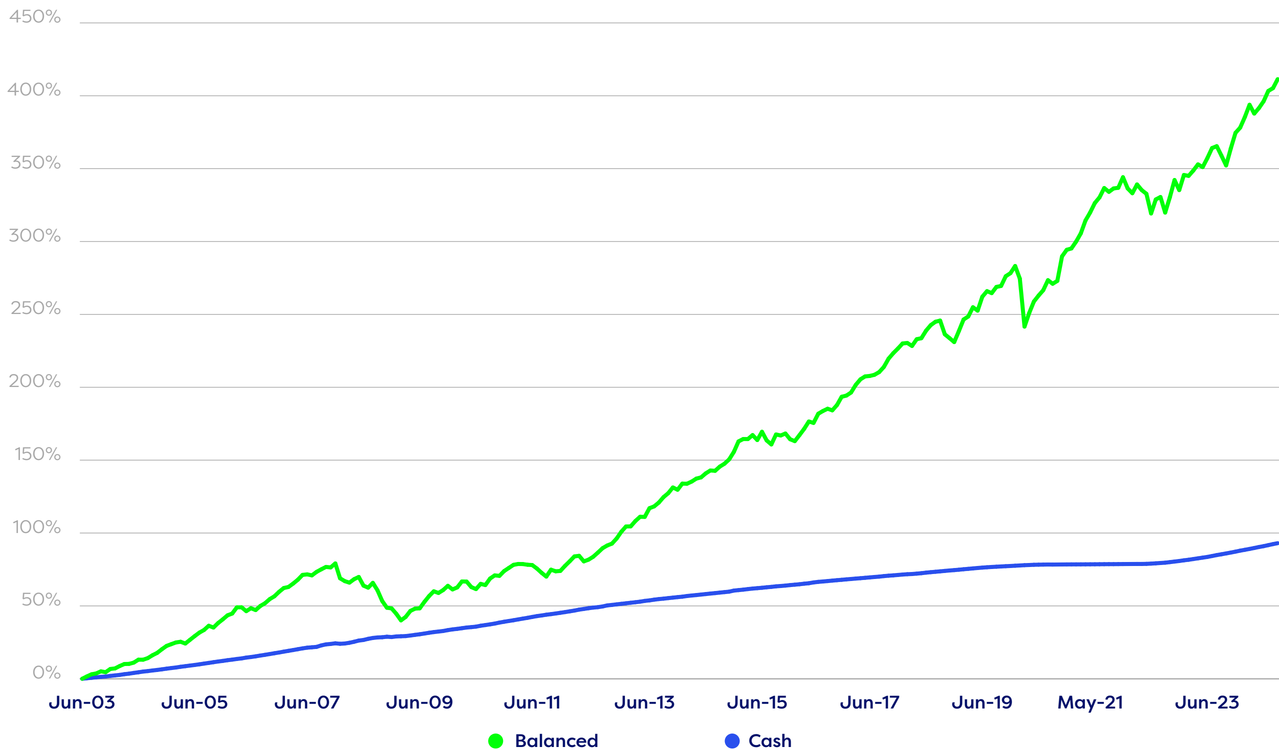
This means you may experience larger changes in the value of your investment, including a negative annual return every few years or more frequently.

Negative returns are possible with any investment, even low-risk assets. Naturally, they're more likely to occur with higher-risk assets.

High-risk vs low-risk options

Shares and property are examples of higher-risk investments that are expected to provide higher returns over time. Cash generally carries the lowest risk and provides the lowest return over time.

The chart below compares the long-term performance of our Cash and Balanced investment options.



If you choose a lower-risk investment option like our Cash option:

- you're likely to experience stable but low investment returns that don't change much from one year to the next
- you're unlikely to experience large investment losses
- you run a greater risk of not having enough savings at retirement because of low investment returns, so you might need to save more to achieve your retirement goals

If you choose a higher-risk investment option, like our Balanced option:

- you're likely to experience higher investment returns over time
- you're likely to experience more volatile investment returns, meaning that they could vary significantly from one year to the next, including negative returns in some years
- as long as you aren't close to retirement, you might be able to recover from any investment losses you may experience

It's important to make sure you're comfortable with how your super is invested and the level of risk you're taking.

We have several investment options with different levels of risk. This allows you to choose the appropriate level of risk for your personal situation and goals.

How do we protect your super?

Our pre-mixed investment options aim to protect and grow your investments through diversification. This means we invest your super across different types of assets and markets to reduce investment risk.

This would typically mean a lower weighting to equities and a higher allocation to additional asset classes including credit, absolute return, private equity and infrastructure. This diversification across and within asset classes, provides a return profile that is not dependent on one asset class performing well all of the time. This is one of the investment pillars of CareSuper's 'smooth ride' investment approach and outcomes.

Basically, we don't put all our eggs in one basket.

For example, if the Australian stock market falls, there's a chance bond prices or global infrastructure will hold their value or might even be on the rise.

Diversification means returns are generally smoother, and any falls in your super balance won't be the same as the stock market you just read about.

What should I do when markets are volatile?

Volatility can be unsettling, especially when your super balance is impacted. However, reacting rashly to short-term market falls and switching to a 'safe' investment option such as Cash isn't always the best move. This could 'lock in' your losses and leave you unable to take advantage of any market recovery in the future.

The best thing you can do is stop and breathe.

Generally, for younger members with time on your side, there's more chance of market reversals. And because you're consistently contributing to super, you'll also be investing at lower prices right after a market fall.

For those closer to retirement, there's less chance that a large downturn will be reversed, so it's important to consider reviewing the level of risk in your super option. You may wish to consider choosing a lower-risk option if a major fall could hurt your standard of living when you retire and this risk makes you uncomfortable.

Finally, remember that super is a long-term investment. If you're invested in a high-return/high-risk investment option, you'll likely experience negative investment returns every few years. There's no need to panic. This strategy might not suit everyone, so it's important to consider your goals and circumstances before deciding.

Need advice?

Worried about your super? Not sure you're in the right investment option? Chat with a Superannuation Adviser.

Call us on **1800 005 166** or email **info@caresuper.com.au**.

All our forms and publications are available at caresuper.com.au/forms-publications or call us, and we'll send you a copy.

Here to help

1800 005 166 (+61 3 7042 2723 if overseas)
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