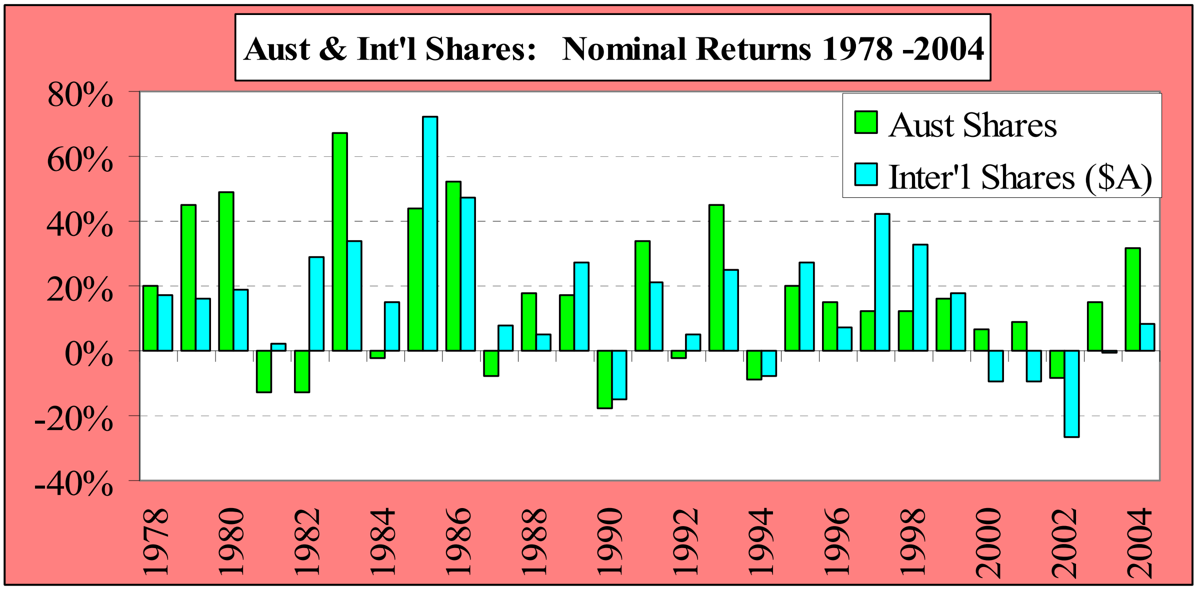
Australian vs International Equities

Nominal Annual Returns[1] (includes inflation) 1978 -2004



Both Australian and international shares have produced volatile returns of a similar magnitude.

During the 1980s, Australian returns were dominated by highly volatile resources sector.

Since the mid 1990s, Australian returns dominated by the less volatile financials sector (eg banks).

In the late 1990s, international shares dominate by the tech boom. Since the year 2000 tech wreck, international shares have been in the doldrums.

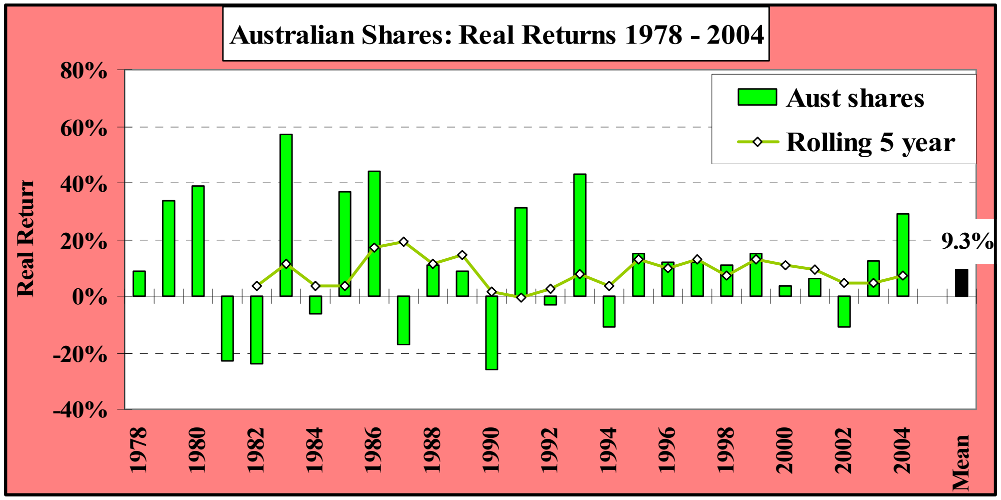
Observe the frequency of a negative return is similar for both Australian and international shares.

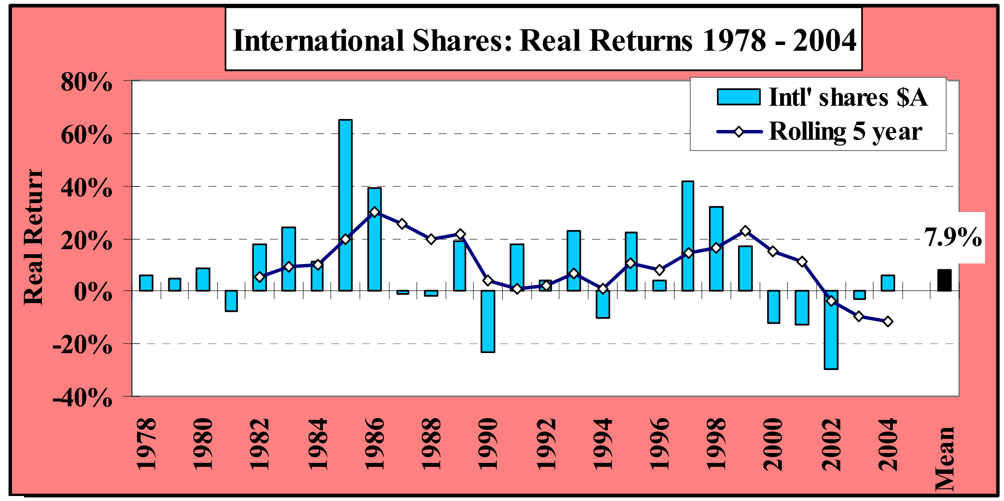
The returns include high inflation until early 1990s. Next charts remove inflation so are looking at the real returns.

[1] Source: Financial Planning Association and Macquarie Bank

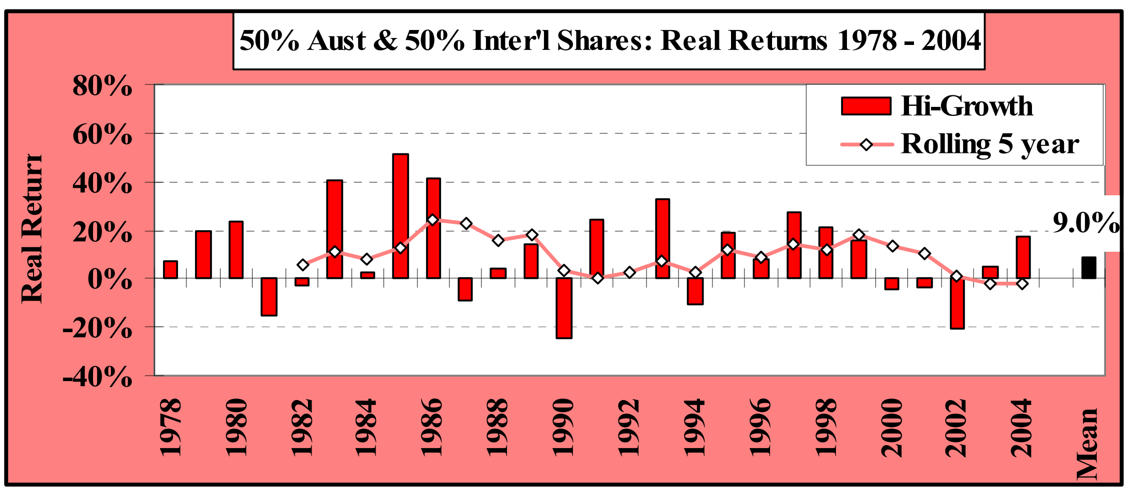
Real Annual Returns 1978 -2004

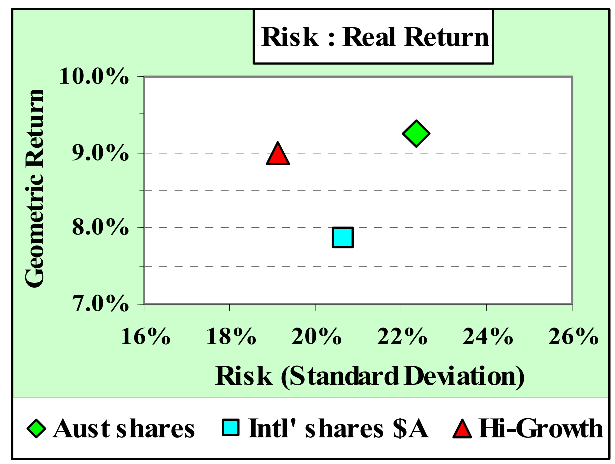
Observe average returns are quite similar (9.3% pa Australian; 7.9% pa international).





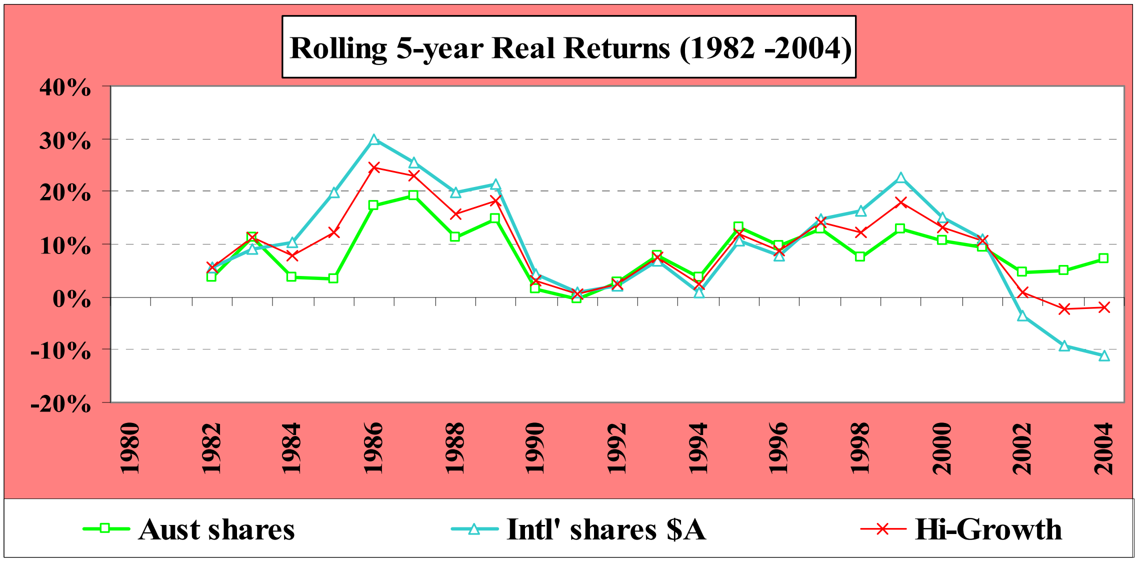
For reference, chart below shows result of nominal "High-Growth" blended portfolio of 50%:50% Australian and international shares:





The High-Growth blend has a lower volatility than 100% Australian shares yet achieves similar return.

To smooth out annual variability, lets look at rolling 5-year returns:



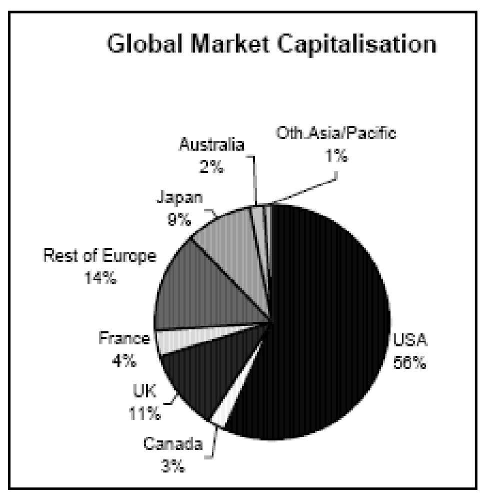
Observe rolling returns of international shares have been of equal magnitude, or better, than Australian shares for most years (only exception during 2002-04 when international shares were suffering from tech boom hangover. Such hangovers don't last forever…)

Why Invest Internationally?

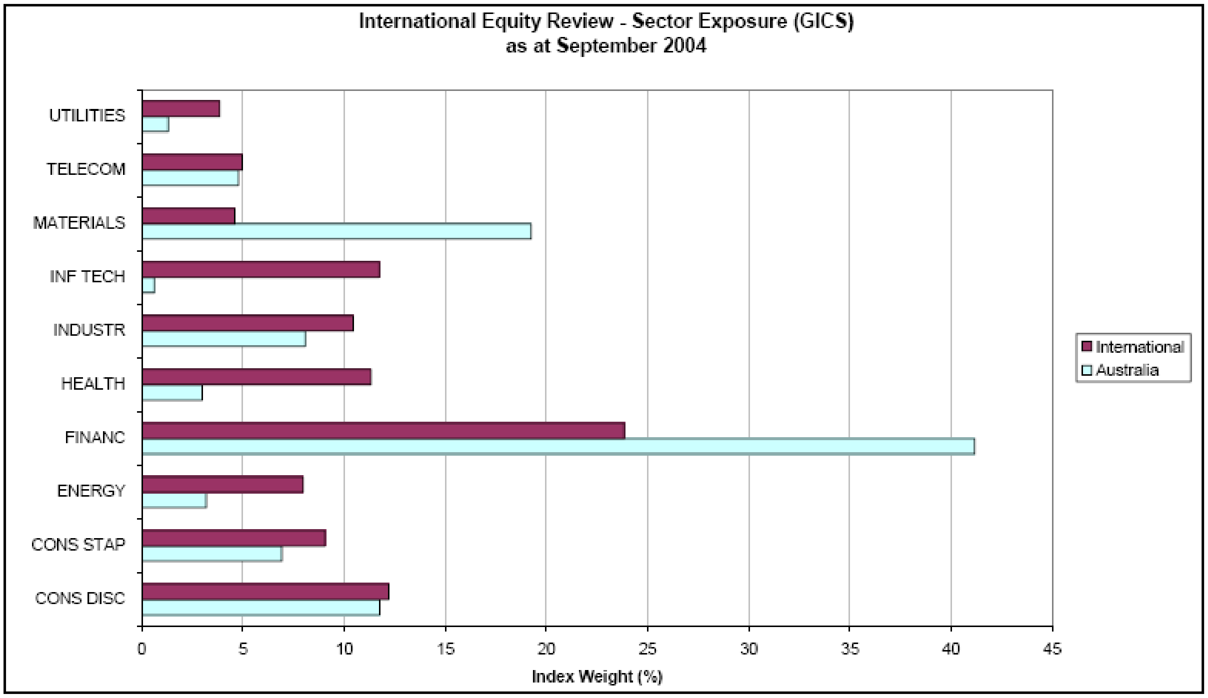
Investing in overseas shares can help you increase your returns and reduce your risk by:
• providing a greater range of investment opportunities,
• providing greater growth potential,
• reducing short-term volatility of portfolio returns,
• reducing the overall level of risk for any given level of return, and
• reducing exposure to the Australian economy and currency.

The Australian market represents 2% of total share market capitalisation around the world.

If invest only in Australia, are missing out on 98% of the opportunities to profit.



There are many industry sectors in which Australia does not have a competitive advantage and are under-represented here. Investing in overseas shares is the only way to access high growth opportunities such as the world's leading pharmaceutical, aerospace and electronics companies.



Investing in only the Australian market is over-exposed to financials and materials companies.

Investing internationally obtains exposure to industry sectors including telecommunication services, IT and utilities. The diversification opportunities of international investment are very attractive.

What about currency?
Studies show that over the long term, a well-diversified portfolio of Australian and overseas shares has a lower risk of being adversely affected by currency movements than a portfolio of Australian shares alone and a better chance of benefiting from such movements.

Currency fears are not a reason to avoid investing overseas.