WEATHERING UNCERTAIN MARKETS

LEARNING FROM THE PAST, POSITIONING FOR THE FUTURE

BLACKROCK®

Managing an investment portfolio has always been challenging, and the most recent market cycle has tested investors' commitments to their long-term investment plans. At BlackRock®, we believe investors should maintain their long-term view, using lessons from the past to help position their portfolios for the future.

Learning from the Past

› Understand Market Cycles and Position for Growth

Although markets have typically followed long-term, up-and-down patterns, historically, upturns tend to last longer than downturns and have had greater depth.

› Avoid Market Timing

When trying to jump in and out of the market, investors run the risk of missing some of the best days.

› Think Long-Term

Although markets tend to be highly volatile over the short-term, over time they historically have tended to produce strong long-term results.

Positioning for the Future

› Focus on Diversification

Investing in a broad range of asset classes and styles can help overall portfolio returns while reducing risk.

› Dollar-Cost Average

Employing regular investment programs like dollar-cost averaging can potentially smooth out some of the market's inherent volatility.

› Rebalance Your Portfolio

Periodic portfolio readjustments can help make sure long-term investment goals remain on track.

Recognising Opportunity Amid Market Cycles

Learning from the Past

Frequently, market sentiment is lowest when the opportunity is strongest, meaning that investors should not overreact to market downturns.

While most investors recognise that, over the long term, markets move up and down, there is also a relationship between overall market sentiment and market cycles. In rising markets, more people tend to invest as they chase returns (similar to what happened during the technology boom of the late 1990s), while in declining markets, many people tend to sell (as we saw in 2008 and early 2009).

By doing this, however, many investors are buying at market highs and selling at market lows. It is actually when market sentiment is at its worst that markets are usually set to rebound and, historically, extreme pessimism often coincides with market bottoms. In fact, bearishness is at its worst just before conditions usually begin to improve. This does not suggest investors should try to time market peaks and valleys, but rather they should understand there is often an inverse relationship between sentiment and opportunity. As such, we believe investors should avoid overreacting to market cycles or volatility.

Avoid Overreacting to Volatility

Growth of $100,000 in the S&P/ASX 200 Index over the last 20 years (1992-2012)

Source: BlackRock and MSCI, as at 31 August 2012. **Past performance is not a reliable indicator of future performance. Information is for illustrative purposes only.**

Upturns Have Been Stronger Than Downturns

Significant market downturns can be rapid and difficult to endure, but history suggests markets will eventually recover. Over the past 20 years, we have seen a number of significant stock market declines. As the chart below illustrates, however, historically, the upturns that follow have on average lasted longer and been of greater scale. This trend helps explain why stocks have historically exhibited relatively strong long-term performance.

Learning from the Past

When compared to downturns, market upturns historically have lasted longer and have been stronger.

Upturns have been Longer and Stronger

Downturns and upturns (1992–2012)

Dates of downturn	Duration of downturn (mths)	Dates of upturn	Duration of upturn (mths)	Loss during downturn (cumulative % return)	Gain during upturn (cumulative % return)
09/92 – 03/93	6	03/93 – 03/94	12	-17	80
03/94 – 12/95	21	12/95 – 10/97	22	-19	70
10/97 – 03/98	5	03/98 – 06/98	3	-17	28
06/98 – 12/98	6	12/98 – 10/99	10	-14	31
10/99 – 12/99	2	12/99 – 09/01	21	-10	33
09/01 – 01/02	4	01/02 – 07/02	6	-15	21
07/02 – 12/03	17	12/03 – 08/07	44	-20	180
08/07 – 09/07	1	09/07 – 01/08	4	-12	22
01/08 – 09/12*	56			-51	
Average – excluding GFC	7.8		15.3	-15.5	58.1
Average – including GFC	13.1		15.3	-19.4	58.1

*NB: Post GFC bear market is still in progress.
*Downturns are defined by a period when the stock market value declined by 10% or more from its peak, while the recovery period indicates the number of months from the trough of the downturn to the subsequent peak.
Source: Bloomberg. All Ordinaries Accumulation Index from May 1992 to March 2000. S&P/ASX 200 Accumulation Index from March 2000 to Present (Net Total Return since 30-Jun-2003).
Past performance is not a reliable indicator of future performance. Information is for illustrative purposes only.

Bull Markets are Often Stronger Than Bear Markets

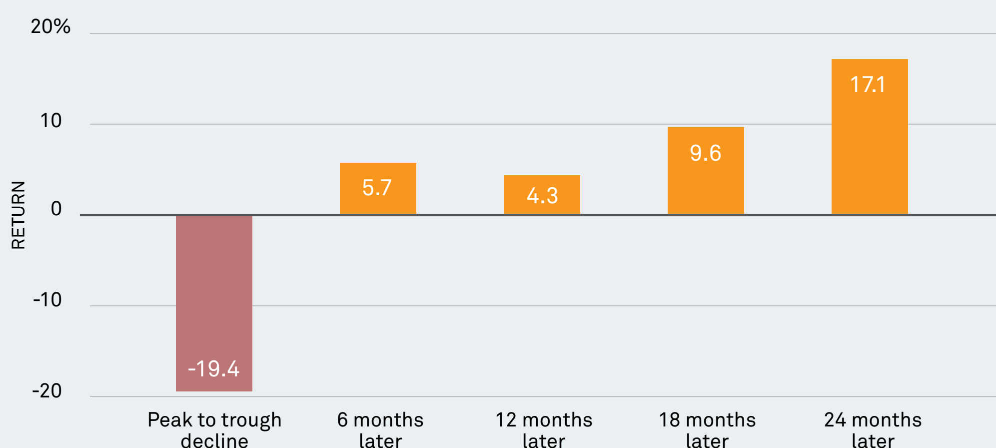
Learning from the Past

It is important to consider staying invested through difficult times and through periods of uneven growth since knowing in advance when a long-term market upturn might start is challenging, if not impossible.

Studying these market cycles also shows that market recoveries tend to be uneven in terms of when the best returns can be found and that bull markets tend to be longer lasting. Bull markets can start quickly and then shift into periods of slower, but sustainable, growth. Over the last 20 years, in the nine bull markets we identified, markets on average recovered strongly, and managed to post gains for at least two years.

Strength in Bull Markets

Average cumulative return of the S&P/ASX200



Dates of bear market	Peak to trough decline	6 months later	12 months later	18 months later	24 months later
	%	%	%	%	%
09/92 – 03/93	-17	14	36	54	51
03/94 – 12/95	-19	1	-3	10	18
10/97 – 03/98	-17	18	5	32	24
06/98 – 12/98	-14	10	20	29	32
10/99 – 12/99	-10	10	20	24	23
09/01 – 01/02	-15	13	5	-8	10
07/02 – 12/03	-20	0	2	11	22
08/07 – 09/07	-12	1	-9	-34	-15
01/08 – 09/12*	-51	-16	-37	-34	-12
Average – excluding GFC	-15.5	8.4	9.4	15.0	20.7
Average – including GFC	-19.4	5.7	4.3	9.6	17.1

*NB: Post GFC bear market is still in progress.
Downturns are defined by a period when the stock market value declined by 10% or more from its peak, while the recovery period indicates the number of months from the trough of the downturn to the subsequent peak.
Source: Bloomberg. All Ordinaries Accumulation Index from May 1992 to March 2000. S&P/ASX 200 Accumulation Index from March 2000 to Present (Net Total Return since 30-Jun-2003). **Past performance is not a reliable indicator of future performance. Information is for illustrative purposes only.**

Missed Opportunities can be Costly

Every market cycle has both up days and down days. Often, a few very good days account for a large part of the total return. Staying the course ensures investments will be 'in' the market on the good days. Some people try to time market movements by selling stocks when they think the market is about to decline and buying stocks when they think the market is about to rise. Consistently predicting which days will move in which direction, however, is virtually impossible and can be very costly.

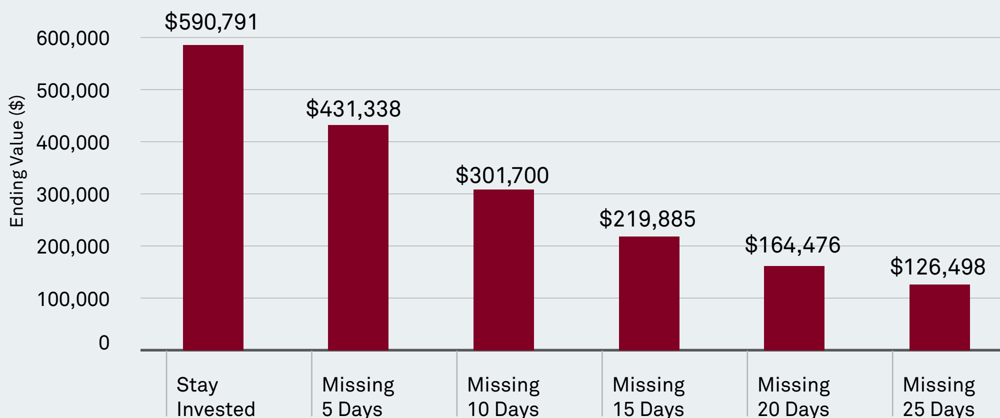
As the accompanying chart shows, missing only a few of the best days over the last 20 years would have had an adverse effect on an investor's return. A hypothetical $100,000 investment in the S&P/ASX 200 Index held over the entire period of 1992 through 2012, would have grown to $590,791. Missing just the five best days would have reduced the ending value to $431,338. Missing out on additional days would have affected returns even more significantly.

Learning from the Past

Trying to time markets runs the risk of missing out on some of the best-performing days.

Missing Top-Performing Days can Hurt Your Return

Hypothetical investment of $100,000 in the S&P/ASX 200 over the last 20 years (1992–2012)



Source: BlackRock and MSCI, as at 31 July 2012. **Past performance is not a reliable indicator of future performance. Information is for illustrative purposes only.**

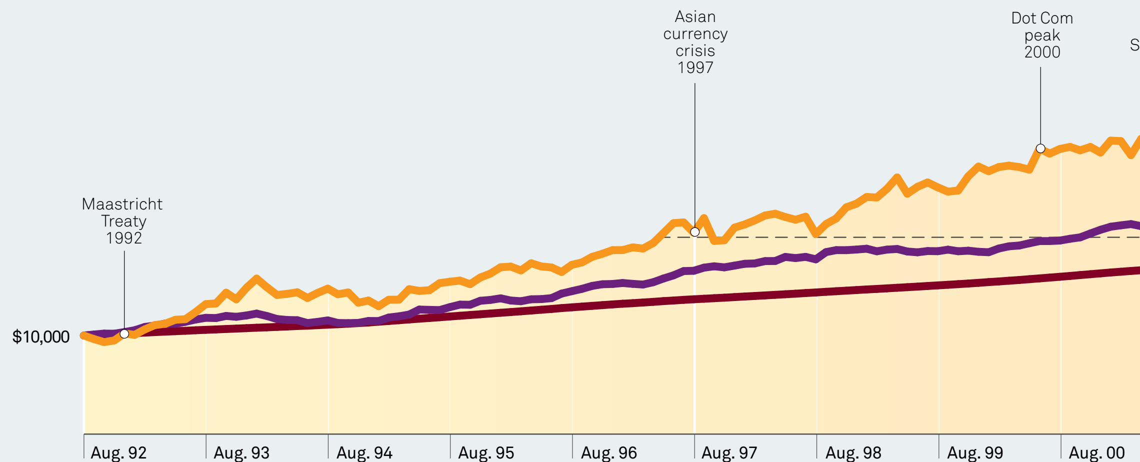
Despite Volatility, Markets Have Appreciated Over the Long-Term

Learning from the past

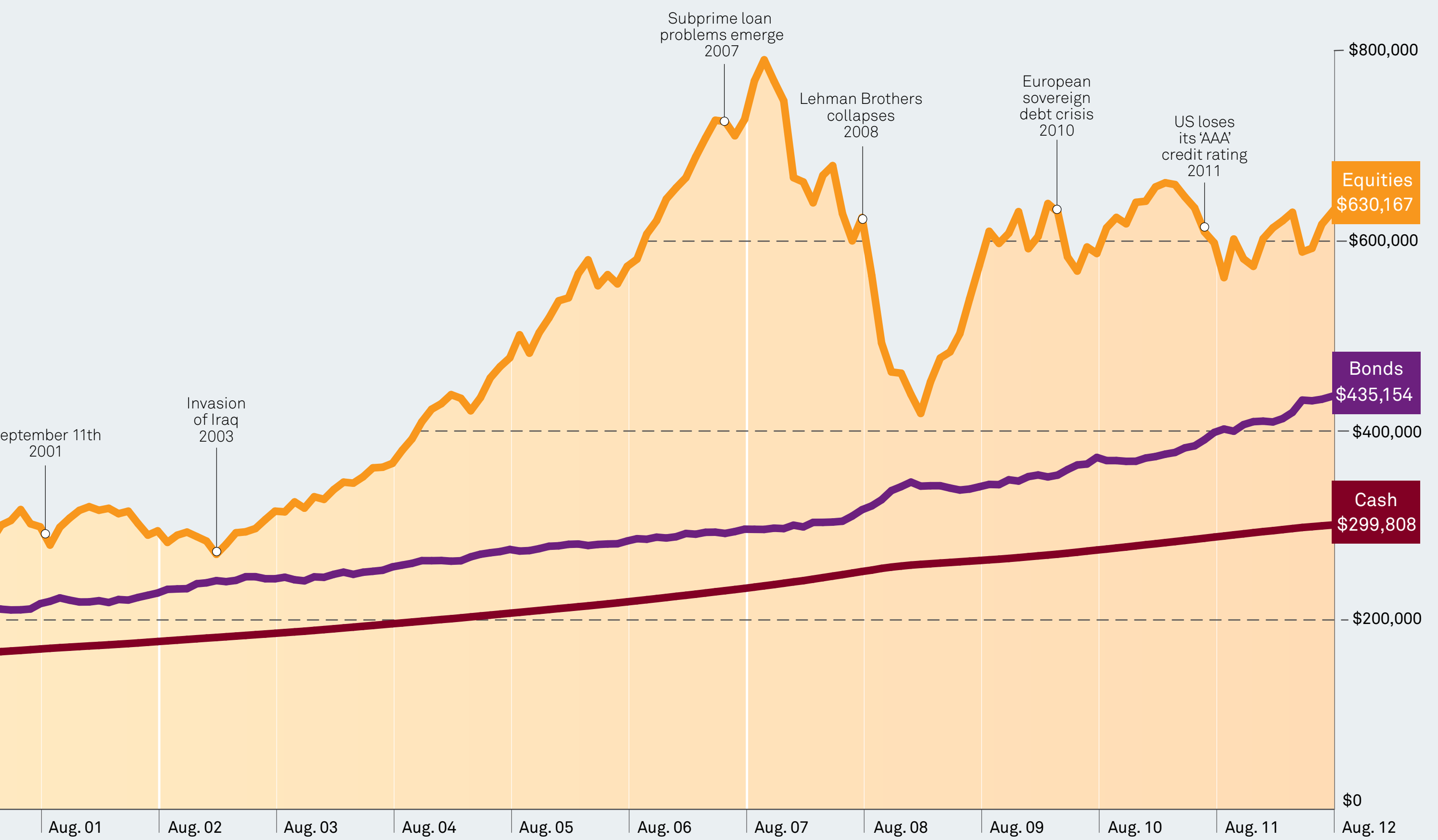
As those who have watched their stock portfolios through the past couple of years can attest, markets can move quickly in either direction, which can unnerve even the most stalwart of investors. Economic crises, recessions, geopolitical incidents or company-specific events can cause sharp market disruptions. But, over time, markets historically have tended to recover.

How Stocks, Bonds and Cash have Grown Over Time

$10,000 hypothetical investment (August 1992 – August 2012)



Source: BlackRock and MSCI, as at 31 August 2012. Equities: S&P/ASX 200 Index, Bonds: UBS Composite Bond All Maturities Index, Cash: UBS Bank Bill Index. **Past performance is not a reliable indicator of future performance. Information is for illustrative purposes only.**



Subprime loan problems emerge 2007
Lehman Brothers collapses 2008
European sovereign debt crisis 2010
US loses its 'AAA' credit rating 2011
eptember 11th 2001
Invasion of Iraq 2003
$800,000
$600,000
$400,000
$200,000
$0
Equities $630,167
Bonds $435,154
Cash $299,808
Aug. 01
Aug. 02
Aug. 03
Aug. 04
Aug. 05
Aug. 06
Aug. 07
Aug. 08
Aug. 09
Aug. 10
Aug. 11
Aug. 12

Diversification may Reduce Risk and Enhance Returns

Positioning for the Future

As investors look to position their portfolios for the future, we would encourage them to stick with one of the most basic tenets of investing: Work with a financial professional to develop a sound asset allocation and diversification strategy designed to correspond with their long-term goals.

Building a Diversified Portfolio can 'Smooth' the Ride

2003	2004	2005	2006
Government Bonds 9.93%	Emerging Markets 28.19%	Mid Cap 35.00%	Emerging Markets 38.99%
Corporate Bonds 9.78%	Small Cap 26.79%	Small Cap 27.40%	Mid Cap 27.27%
Mid Cap 8.10%	Mid Cap 25.55%	Large Cap 26.03%	Small Cap 25.48%
Cash 4.97%	Large Cap 21.73%	Emerging Markets 22.81%	Large Cap 24.02%
Small Cap 3.73%	International 19.38%	Diversified Portfolio 16.66%	International 19.97%
Diversified Portfolio 0.74%	Diversified Portfolio 16.40%	Government Bonds 8.05%	Diversified Portfolio 18.44%
Large Cap -1.61%	Cash 5.30%	Corporate Bonds 7.79%	Cash 5.76%
Emerging Markets -10.71%	Corporate Bonds 2.33%	Cash 5.64%	Corporate Bonds 3.41%
International -18.28%	Government Bonds 1.89%	International 0.57%	Government Bonds 2.63%

Past performance is not a reliable guide to future performance. Information is for illustrative purposes only.
Source: BlackRock, MSCI and FT Interactive. Data as at 30 June 2012.

Large Cap is represented by the S&P/ASX 300 Index

Small Cap is represented by the S&P/ASX Small Ordinaries Index

Mid Cap is represented by the S&P/ASX Midcap 50 Index

2007	2008	2009	2010	2011	2012
Small Cap 44.43%	Cash 7.34%	Government Bonds 10.96%	Emerging Markets 17.87%	Small Cap 16.41%	Government Bonds 14.33%
Mid Cap 33.46%	Government Bonds 5.49%	Corporate Bonds 10.82%	Large Cap 13.05%	Mid Cap 14.12%	Corporate Bonds 12.41%
Large Cap 29.21%	Corporate Bonds 4.42%	Cash 5.48%	Mid Cap 11.71%	Large Cap 11.90%	Cash 4.70%
Emerging Markets 26.97%	Emerging Markets -7.50%	Diversified Portfolio -9.96%	Small Cap 11.18%	Diversified Portfolio 7.66%	International -0.76%
Diversified Portfolio 19.53%	Diversified Portfolio -7.94%	Emerging Markets -14.61%	Diversified Portfolio 9.73%	Corporate Bonds 5.55%	Diversified Portfolio -1.97%
International 8.23%	Large Cap -13.67%	International -16.31%	Corporate Bonds 7.86%	Cash 4.98%	Large Cap -7.01%
Cash 6.42%	Mid Cap -18.16%	Large Cap -20.34%	Government Bonds 6.82%	Government Bonds 4.52%	Emerging Markets -12.22%
Corporate Bonds 3.99%	Small Cap -20.46%	Mid Cap -27.08%	International 5.48%	International 2.97%	Mid Cap -12.57%
Government Bonds 3.51%	International -21.03%	Small Cap -28.58%	Cash 3.89%	Emerging Markets 0.83%	Small Cap -14.61%

International is represented by the MSCI World Index

Government Bonds are represented by the UBS Treasury All Maturities Index

Emerging Markets investments are represented by the MSCI Emerging Markets Index

Cash is represented by the UBS Bank Bill Index

Corporate Bonds are represented by the UBS Composite Bond All Maturities Index

Diversified Portfolio is composed of equal weightings of all represented indices

Dollar-Cost Averaging can Improve Long-Term Returns

Positioning for the Future

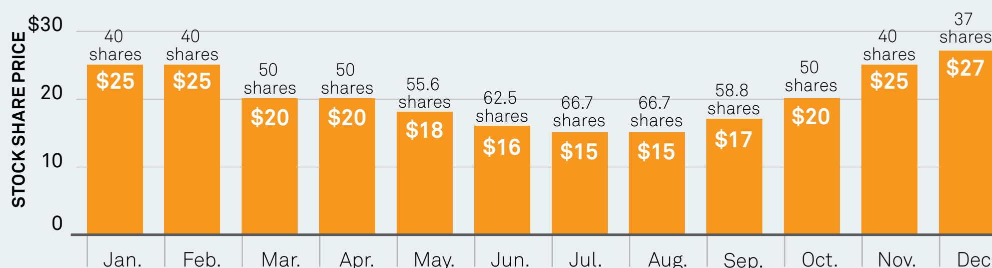
Dollar-cost averaging can help smooth out long-term returns and can potentially lower the average share price of investments.

As we have seen, choosing the exact best time to invest is very difficult or even impossible. Dollar-cost averaging, in which a fixed amount of money is invested at regular intervals, ensures purchasing more shares of an investment when prices are lower and fewer when they are higher. Ultimately, a lower average cost translates to a higher return when the market swings back up.

In Strategy 1 of the hypothetical example below, an investor used a dollar-cost averaging strategy, making regular investments of $1,000 per month. When the share prices were higher, the investor bought fewer shares and when the share prices were lower, the investor bought more shares. As a result, the investor's average cost per share ($19.44) was lower than the average market price over the same time period. Additionally, this same investor purchased more shares with the same amount of money than he or she would have made with a lump-sum investment at the beginning of the year (Strategy 2).

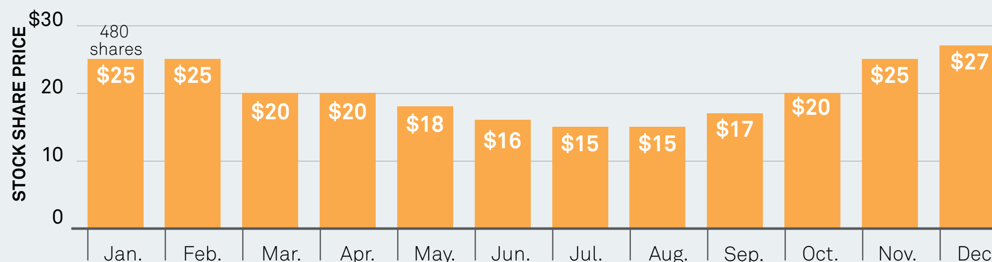
Reduce the Impact of Price Volatility by Dollar-Cost Averaging

Strategy 1: Systematically invest $1,000 per month every month for a year regardless of share price



Total Shares Purchased: 617.3 – Average Cost/Share: $19.44

Strategy 2: Invest $12,000 as a lump sum at the beginning of the year



Total Shares Purchased: 480 – Cost/Share: $25

The information provided is for illustrative purposes only and is not meant to represent the performance of any particular investment. Regular investing does not guarantee a profit and does not protect against loss in declining markets. Regular investing involves continuous investing so investors should consider their ability to make periodic payments in all market environments. **Investing involves risk including the loss of your entire principal.**

Portfolio Rebalancing can Keep Your Goals on Track

All of the work that goes into getting an asset allocation strategy right would be wasted if it were not maintained. Over time, some asset classes may outperform or underperform and alter a portfolio's overall allocation.

Rebalancing is a way to reset a portfolio to its original allocation to keep it consistent with the initial investment strategy. Using several hypothetical portfolios as examples, the graph below shows how annual rebalancing over 20 years would have changed each portfolio's risk and return characteristics.

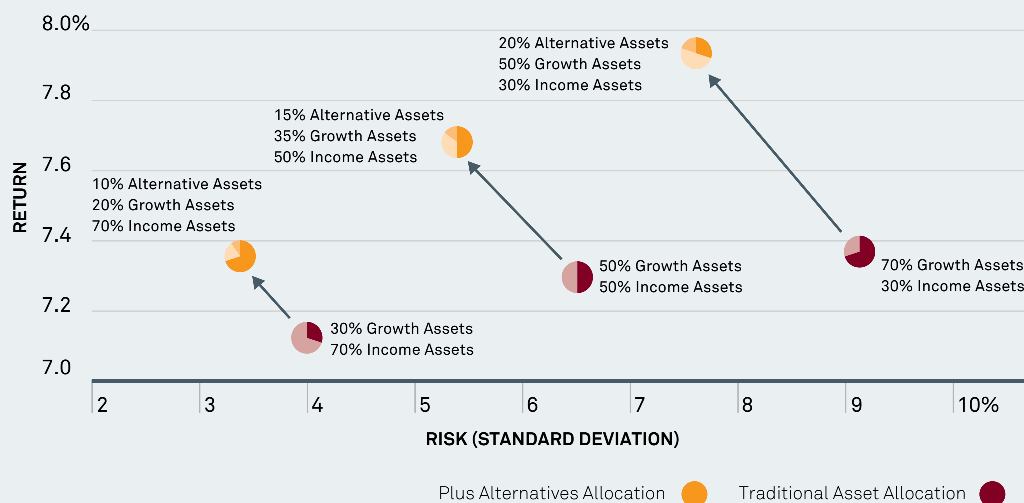
For example, annual rebalancing of Portfolio I (50% stocks, 50% bonds) improved average annual return while also reducing risk. Similar results can be seen for other portfolio allocations.

Positioning for the Future

Regular portfolio rebalancing can potentially help improve long-term returns and reduce volatility.

Rebalancing can Improve Portfolio Efficiency

Expanding the Efficient Frontier Over the Last 18 Years (1994-2011)



Sources: BlackRock; Datastream. **Past performance is not a reliable indicator of future performance. Investing involves risk including possible loss of principal.** Standard deviation is a measurement of risk depicting the dispersion of returns from the average return. The higher the degree of dispersion, the higher the standard deviation. The information provided is for illustrative purposes only and is not meant to represent the performance of any particular investment. The data assumes reinvestment of all income and does not account for taxes or transaction costs. It is not possible to invest directly in an index. Growth assets are represented by a 2/3rd investment in the S&P ASX200 index and a 1/3rd investment in the MSCI World Ex Australia Index Hedged to AUD. Income assets are represented by a 1/3rd investment in the UBS Composite Bond All Maturity Index, a 1/3 investment in the Barclays Capital Aggregate Bond Index Hedged to AUD and a 1/3rd investment in the UBS Bank Bill Index. Enhanced portfolios include an allocation to the Dow Jones/Credit Suisse Hedge Fund Composite Index Hedged into AUD (Portfolio 1: 10%, Portfolio 2: 15% & Portfolio 3: 20% of NAV) funded from Growth assets in each portfolio. The analysis uses monthly return data for the period January 1994 – December 2011.

Weathering Market Cycles

Investing over the long-term has always been challenging, and recent market cycles have again tested investors' fortitude. Getting – and staying – prepared for difficult times, however, is often a determining factor in long-term success.

History has shown that market cycles can be extreme, but you do not have to navigate these challenging times alone. BlackRock has the expertise, global market insight and risk management to help you stay the course and meet your financial goals. Through our strengths – as well as our partnership with financial professionals – you can feel confident that your assets are being managed by some of the most experienced and trusted investment professionals in the industry.

Investors Need to Turn the Lessons from the Past into Opportunities for the Future by:

- Establishing, and sticking with, a long-term investment plan.
- Staying in contact with their financial professional.
- Remaining prepared: be informed, invested, resolute, opportunistic and diversified.

Talk to Your Financial Professional Today

Uncertain markets reinforce the need to be prepared and the value a financial adviser can offer, including:

- review of your long-term investment plan and tolerance for risk;
- development of an individual asset allocation strategy;
- and periodic portfolio reviews to ensure that your expectations, as well as investments, align with long-term plans and goals.

Most importantly, a financial professional can provide individual guidance in all market conditions, which is essential during uncertain times. Contact your financial adviser today about BlackRock's investment solutions.

About BlackRock

In a world that is shifting and changing faster than ever before, investors who want answers that unlock opportunity and uncover risk entrust their assets to BlackRock. As a global investment manager, BlackRock has no greater responsibility than to its clients.

It's why many of the world's largest pension funds and insurance companies trust BlackRock to understand their unique objectives and why financial advisers and investors partner with BlackRock to help them build the more dynamic, diverse portfolios these times require.

BlackRock has built its offering around its clients' greatest needs: providing breadth of capabilities and depth of knowledge – across active and passive strategies, including iShares® ETFs. This is combined with a singular focus on delivering strong, consistent performance and an ability to look across asset classes, geographies and investment strategies to find the right solutions.

With deep roots in every region across the globe, some 100 investment teams in 27 countries share their best thinking to gain the insights that can change outcomes. And, with a passion to understand risk in all its forms, BlackRock's 1,000+ risk professionals dig deep to find the numbers behind the numbers and bring clarity to the most daunting financial challenges. That shapes and strengthens the investment decisions that BlackRock and its clients are making to deliver better, more consistent returns through time.

Further information

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