



Start with a plan

Client note

A carefully conceived financial plan is a must-have for every investor. It contains a wealth of information, including your short- and long-term objectives, risk aversion and anticipated savings rate. It's the blueprint that spells out the details of your short- and long-term financial well-being.

A financial plan can also help you stay disciplined through up and down markets. It can help reduce your anxiety during tough market conditions, confirm your progress and help you stay on track.

Figure 1 illustrates a common pitfall of investor behaviour. The chart shows that, historically, investors have bought more stocks when performance has been favourable and sold them when the market was declining, a classic illustration of chasing returns. Sticking with your financial plan can help you avoid decisions that run counter to your best interests.

Chasing performance with cash flow as we often see is challenging due to the almost random year-to-year performance we see on Figure 2.

Figure 1. Managed fund cash flows often follow performance



Notes: Net flows represent net cash moving in or out of equity funds for Australian funds excluding ETFs and platforms.

Index returns are based on the S&P/ASX 300 from 2001 to 2015.

Sources: Morningstar for cash-flow data; Factset for market returns

Figure 2. Market segments display seemingly random patterns of performance

Annual returns for various investment categories ranked by performance, best to worst: 2000-2015



Notes: Benchmarks reflect the following asset classes – for Australian equities, the S&P, ASX 300 Total Return Index; for Australian small cap equities, S&P ASX Small Ordinaries; for developed global equity markets, the MSCI World ex Australia Index (hedged, AUD and hedged, AUD); for emerging markets the MSCI Emerging Markets Index (AUD); for Australian real estate, the S&P, ASX 300/A-REITS Total Return Index; for Australian, investment-grade bonds, the Bloomberg AusBond Composite Total Return (AUD); for short term interest rates, the Bloomberg AusBond Bank Total Return Index (AUD); for Australian government bonds, the Bloomberg AusBond Treasury Total Return Index (AUD); for Australian semi-government bonds, the Bloomberg AusBond Semi-Government Total Return Index (AUD); and for global bonds, the Barclays Global Aggregate Ex Australia Index (Hedged, AUD). Past performance is not an indication of future performance.

Sources: Vanguard Group, Morningstar and ViFi data.

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