WHY WORK WITH A FINANCIAL ADVISER?

Russell Investments

BECAUSE THAT RELATIONSHIP MAY BE ONE OF YOUR BEST INVESTMENTS.

A IS FOR INVESTING ACCORDING TO YOUR NEEDS

A master at balancing risk and return, an adviser ensures you're invested in the appropriate asset types based on your goals and circumstances.

B IS FOR AVOIDING BEHAVIOURAL MISTAKES

Investors can fall into the trap of buying when markets are bullish and selling when they turn bearish. An adviser can help you to maintain your long-term strategy in the face of volatility.

C IS FOR CHOICES AND TRADE-OFFS

Advisers are financial coaches whose work extends beyond the selection of investments to holistic wealth management. As you go through various life stages, your advice needs change. An adviser can help explain choices and trade-offs, including supporting adult children's mortgage deposits, funding grandchildren's education, addressing estate planning complexities and more.

E IS FOR EXPERTISE

Your adviser is more than a financial technician. They can act in many different roles through your life's best and worst times.

Guide

Help manage the practical and emotional burden of decision-making with your finances, or they can act as a sounding board.

Guru

Serve as a trusted expert and source of practical guidance to help you make informed decisions.

Gladiator

Act as your advocate, ensuring your interests are protected in situations such as an insurance claim being denied.

T IS FOR TAX-EFFECTIVE INVESTING

Your adviser's role goes beyond markets and estate planning; it involves crucial tax knowledge. The value of tax savvy advice is the ability to:

Optimise assets across superannuation, investment bonds and other tax structures.

Deliver tax-effective investment strategies and maximise tax benefits.

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TO LEARN MORE, SPEAK WITH YOUR FINANCIAL ADVISER

IMPORTANT INFORMATION AND DISCLOSURES

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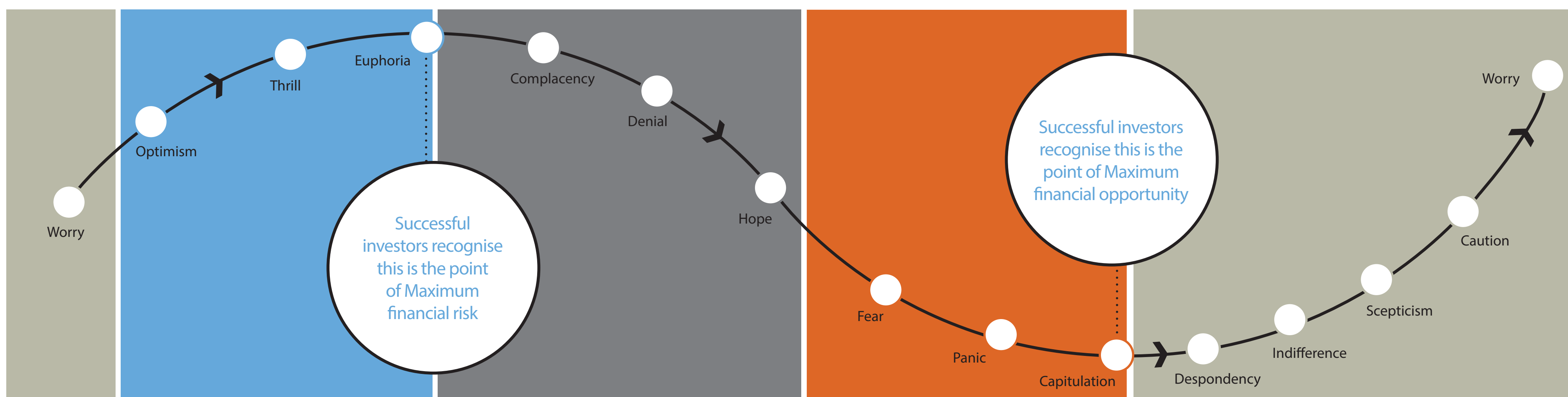
Russell Investments

The Cycle of Market Emotions

2023 Edition



	OPTIMISM – THRILL – EUPHORIA	COMPLACENCY – DENIAL – HOPE	PANIC – CAPITULATION – DESPONDENCY	SCEPTICISM – CAUTION – WORRY
Market Cycle 1	25% Nov 1971 – Dec 1972 • Inflationary pressures Productivity improvements • Rapid corporate earnings growth • Introduction of paperless technology	-19% Jan 1973 – Jan 1973 • OPEC Oil crisis – crude oil prices tripled • Inflation • Credit squeeze • Property company failures	-24% Mar 1974 – Nov 1974 • Global recession • Extended bear market	36% Dec 1974 – Jun 1975 • Share market recovery despite recession
Market Cycle 2	119% Aug 1984 – Aug 1987 • Credit boom • Strong world economic growth	-2% Sep 1987 • Irrational shareholder sentiment • Peak of overinflated stock values vs historical PEs	-28% Oct 1987 – Nov 1987 • 1987 Global stock market crash	53% Dec 1987 – Dec 1989 • Share market recovery as value hunters sought to buy quality stocks cheaply
Market Cycle 3	90% April 1997 – Sep 2000 • Tech boom. Investor exuberance • Emergence of 'new economy' sectors	-28% Oct 2000 – Sep 2001 • Tech bubble burst • September 11 terrorist attack	-22% Mar 2002 – Feb 2003 • Reduced global economic growth forecasts • Extended bear market • Corporate accounting scandals	42% Mar 2003 – May 2005 • Geopolitical uncertainty • Refocus on world economic fundamentals • Boom in resources in response to industrialisation of China
Market Cycle 4	22% Jun 2005 – Jul 2007 • US home prices hit highs • Credit boom • Higher interest rates	-20% Aug 2007 – Sep 2008 • Credit crunch. Sub-prime mortgage crisis. CDO failures • Lehman Brothers declares bankruptcy	-37% Oct 2008 – Feb 2009 • Global financial crisis • European and U.S. recessions. Negative real GDP reported for major developed countries in Q4 2008	174% Mar 2009 – Oct 2014 • Global stock market recovery • Deleveraging, slow economic growth
Market Cycle 5	60% Nov 2014 – Dec 2018 • Unemployment rates falling • Economy normalises • Profit margins elevated	-8% Feb 2020 • COVID-19 crisis	-24% Feb 2020 – Mar2020 • COVID-19 pandemic • -24% to 23rd March	46% Mar 2020 – Oct 2020 • COVID-19 pandemic • Global stock market recovery • 23rd March market rebound
Market Cycle 6	46% Oct 2020 – Dec 2021 • Early stage of economic recovery • COVID vaccine roll out • Continued policy support	-19% Jan 2022 - Dec 2022* • Stubbornly high inflation • Very rapid interest rate increases lead to recession worries		

*Latest month-end data available at the time of publishing as at 31 December 2022.

Market cycle returns calculated using S&P500 Price Index (in USD). Indexes are unmanaged, cannot be invested in directly, and do not take into account any fees and costs associated with an actual investment.

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VALUE OF DIVERSIFICATION
2023 EDITION

Best annual performance

Weakest performance

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
INT. SHARES HGD 29.3	AREITs 32.2	AUS. SHARES 22.5	AREITs 34.1	AUS. SHARES 16.2	AUS. BONDS 15.0	AUS. SHARES 37.6	INT. SHARES HGD 13.5	AUS. BONDS 11.4	AREITs 32.8
AUS. SHARES 15.0	AUS. SHARES 27.9	INT. SHARES HGD 18.5	AUS. SHARES 24.5	CASH 6.7	INT. BONDS HGD 9.2	INT. SHARES HGD 28.4	INT. BONDS HGD 9.3	INT. BONDS HGD 10.5	AUS. SHARES 19.7
MULTI-ASSET 9.8	MULTI-ASSET 17.4	INT. SHARES 17.1	INT. SHARES HGD 17.6	INT. BONDS HGD 6.6	CASH 7.6	MULTI-ASSET 17.3	AUS. BONDS 6.0	CASH 5.0	INT. SHARES HGD 19.1
AREITs 8.8	INT. SHARES HGD 15.8	MULTI-ASSET 15.3	MULTI-ASSET 15.9	INT. SHARES HGD 6.4	MULTI-ASSET -22.5	AREITs 9.6	CASH 4.7	AREITs -1.6	MULTI-ASSET 16.1
INT. BONDS HGD 6.6	INT. SHARES 10.6	AREITs 12.7	INT. SHARES 11.8	MULTI-ASSET 6.3	INT. SHARES -25.9	INT. BONDS HGD 8.0	MULTI-ASSET 3.7	MULTI-ASSET -2.0	INT. SHARES 14.7
CASH 4.9	INT. BONDS HGD 8.9	INT. BONDS HGD 6.6	CASH 6.0	AUS. BONDS 3.5	AUS. SHARES -38.9	CASH 3.5	AUS. SHARES 1.9	INT. SHARES HGD -2.4	INT. BONDS HGD 9.7
AUS. BONDS 3.0	AUS. BONDS 7.0	AUS. BONDS 5.8	INT. BONDS HGD 4.4	INT. SHARES -1.9	INT. SHARES HGD -39.4	INT. SHARES 2.0	AREITs -0.7	INT. SHARES -5.7	AUS. BONDS 7.7
INT. SHARES 0.0	CASH 5.6	CASH 5.7	AUS. BONDS 3.1	AREITs -8.4	AREITs -55.3	AUS. BONDS 1.7	INT. SHARES -1.4	AUS. SHARES -11.0	CASH 4.0

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
INT. SHARES 47.8	AREITs 26.8	AREITs 14.4	AREITs 13.2	INT. SHARES HGD 19.9	AUS. BONDS 4.5	INT. SHARES 27.9	INT. SHARES HGD 10.3	INT. SHARES 29.3	CASH 1.3
INT. SHARES HGD 32.3	INT. SHARES 15.0	INT. SHARES 11.5	AUS. SHARES 11.8	INT. SHARES 13.4	AREITs 3.3	INT. SHARES HGD 26.7	INT. SHARES 5.6	AREITs 27.0	AUS. SHARES -1.8
AUS. SHARES 19.7	INT. SHARES HGD 12.4	MULTI-ASSET 4.3	INT. SHARES HGD 10.5	AUS. SHARES 11.8	CASH 1.9	AUS. SHARES 23.8	INT. BONDS HGD 5.1	INT. SHARES HGD 23.7	MULTI-ASSET -9.0
MULTI-ASSET 19.1	INT. BONDS HGD 10.4	INT. SHARES HGD 3.7	MULTI-ASSET 9.0	MULTI-ASSET 10.3	INT. BONDS HGD 1.7	AREITs 19.5	AUS. BONDS 4.5	AUS. SHARES 17.6	AUS. BONDS -9.7
AREITs 7.3	MULTI-ASSET 9.9	INT. BONDS HGD 3.3	INT. SHARES 8.2	AREITs 6.4	INT. SHARES 1.3	MULTI-ASSET 18.6	MULTI-ASSET 3.1	MULTI-ASSET 13.9	INT. SHARES -12.2
CASH 2.9	AUS. BONDS 9.8	AUS. SHARES 2.8	INT. BONDS HGD 5.2	INT. BONDS HGD 3.7	MULTI-ASSET -1.0	AUS. BONDS 7.3	AUS. SHARES 1.7	CASH 0.0	INT. BONDS HGD -12.3
INT. BONDS HGD 2.3	AUS. SHARES 5.3	AUS. BONDS 2.6	AUS. BONDS 2.9	AUS. BONDS 3.7	AUS. SHARES -3.1	INT. BONDS HGD 7.2	CASH 0.4	INT. BONDS HGD -1.5	INT. SHARES HGD -17.7
AUS. BONDS 2.0	CASH 2.7	CASH 2.3	CASH 2.1	CASH 1.7	INT. SHARES HGD -7.5	CASH 1.5	AREITs -4.0	AUS. BONDS -2.9	AREITs -20.1

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 (with an average exposure of 70% growth assets).

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 2003 to the end of 2022, his $10,000 investment would have grown to $20,850 an average annual return of 4.8%.

However, Sam remained invested in a multi-asset portfolio over the same period. By contrast, the balance at the end of December last year would have been $40,462; an annual average return of 7.8%. That's a difference of more than $19,612 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 studies are for illustrative purposes only and are not indicative of actual performance over the quoted period. Sources for the asset classes and sample diversified portfolios are as follows: (1) Australian Shares : S&P/ASX 300 Accum Index, ASX All Ordinaries Accum Index prior to 31 March 2000. (2) Australian Bonds: Bloomberg AusBond Composite 0+ Yr Index, 1980-1989 Commonwealth Bank All Series All Maturities. (3) Cash: Bloomberg AusBond Bank Bill Index (Australian 91 Day Treasury Notes prior to 1988). (4) International Shares: MSCI World Index – Net; Russell Developed Large Cap index prior to 1 October 2018; 1980-1996: MSCI World Net Div Reinvested Accumulation Index (in AUD). (5) International Bonds: Barclays Global Aggregate Index $A Hedged. Saloman Smith Barney World Government Bond Index $A Hedged (Note: Pre-1985 returns unavailable, Domestic Bond returns used). (6) A-REITs: S&P/ASX 300 A-REIT Index (ASX Property Trust Accumulation Index prior to 31 March 2000). (7) International Shares Hedged: MSCI World Index – 100% Hedged to AUD - Net; Russell Developed Large Cap index - AUD Hedged prior to 1 October 2018; 1988-1999: MSCI World Net Div Reinvested Accumulation Index $A Hedged, MSCI World Local Currency Index prior to 1988. The multi-asset portfolio is hypothetical only and is calculated by a weighted average of the asset class index returns For more information on the composition of the sample portfolio, please contact Russell Investments on +612 9229 5111. Case study performance calculations are based on geometric averages. Issued by Russell Investment Management Ltd ABN 53 068 338 974, AFS Licence 247185 (RIM). This document provides general information only and has not been prepared having regard to your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation or needs. This information has been compiled from sources considered to be reliable, but is not guaranteed. This document is not intended to be a complete statement or summary. This work is copyright 2023. Apart from any use permitted under the Copyright Act 1968, no part may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of Russell Investment Management Ltd.

BEHAVIOUR

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HOW TO AVOID COMMON BEHAVIOURAL BIASES

EMBRACE THE POSSIBLE™

Why do investors react differently to the same market event?

It depends on a number of factors, such as what the investor's objectives are, including their risk tolerance and return target, what their beliefs are about where they are in the market cycle and what markets will do next within the investor's time horizon.

For example, if markets fall 10% and news headlines about an increased probability of near-term recession fuel anxiety in investors' minds, the following may happen:

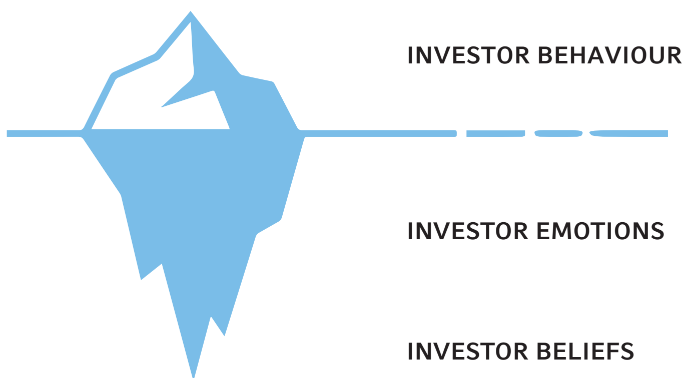
- A common response may be to stop investing until markets stopped falling;
- Some worried investors may even start selling in case it's the start of a bear market;
- Contrarian investors may see the market correction as an opportunity to buy stocks 'on sale' at lower prices.

Same event. Three different types of behaviors.

Conversely, if markets or particular asset classes, sectors or stocks rally, the following may happen:

- A common response may be to follow the herd and join in the buying activity, bidding up prices;
- Some cautious investors may wait to see if the rally will be sustained before investing;
- Contrarian investors may sell because they believe the prices are too high.

Some beliefs may lead to successful investment strategies and behaviors. However, other beliefs may lead to behavioral biases that are counterproductive and jeopardise the likelihood of achieving an investor's objectives. This could ultimately have a long-term negative impact on their wealth.



Examples of behavioral biases & portfolio implications

To understand what these biases are and why investors exhibit them, we need to remember that our human brains are hardwired for a world of limited and poor information.

Historically, survival depended on quick pattern recognition and decisive action. As a result, stereotyping and generalising have proved helpful in survival.

However, when it comes to investing in a world of uncertainty, these traits can push investors to find patterns that may not actually exist, especially for short-term horizons.

*In "**Thinking Fast and Slow**", behavioural scientist Daniel Kahneman categorized the human thought process in two different ways: System 1, or "Blink" and System 2, or "Think". System 1 is our intuition – fast, automatic and emotional. System 2 is our reasoning – slow, deliberate and systematic.*

"BLINK": SYSTEM 1	"THINK": SYSTEM 2
Fast: Freeze, flight or fight	Slow: Considered
Intuitive/Autopilot/uncontrolled	Rational/Intentional/controlled
Ignores some information due to speed	Includes all relevant information
Developed over many years	More recently developed
Prone to predictable, systematic errors	Can be trained, rule-following
Unconscious/effortless	Self-aware/deliberate
Associative	Deductive

Source: "System 1" and "System 2" terminology taken from Daniel Kahneman, *Thinking Fast and Slow*. Random House, 2011.

Buy high, sell low

Contrary to the key to successful investing – buying low and selling high – many investors end up doing the opposite. This can inadvertently result because of:

Herdingbiases

Humans tend to mimic actions of a larger group and follow the crowd, e.g. if everyone is selling, you sell too and vice versa. Herding comes from our evolutionary need to fit in with the majority because exclusion from the pack can be dangerous as there would be less protection from predators.

Fear and loss aversion

Humans tend to prefer avoiding losses than acquiring equivalent gains: If someone is confronted with equal amounts of loss and gain, the pain they experience from loss is nearly twice as strong as the pleasure of the gain.[1] Some investors may sell at low prices as the market is falling to avoid more losses despite

1 Source: Advances in Prospect Theory – Cumulative Representation of Uncertainty, Tversky and Kahneman, 1992.

the investment being a sound one and helpful to achieve their long-term objectives. They may also miss out on true buying opportunities for fear that negative market sentiment will continue the downward trend.[2]

Trade too often

In addition investors may trade too often because of an overconfidence bias: humans tend to overestimate or exaggerate their ability to successfully perform tasks.

Humans tend to overestimate their knowledge and skills, underestimate the risks and exaggerate their ability to control those risks.

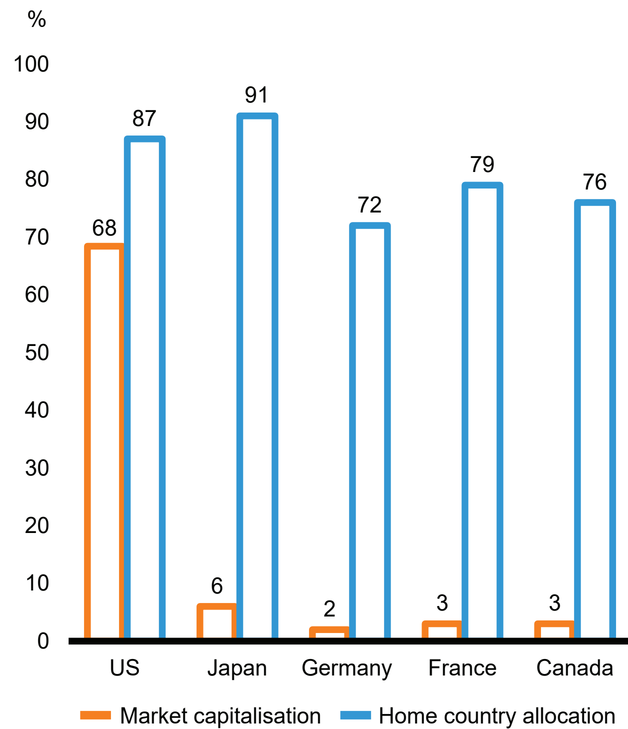
An overconfidence bias often translates into high portfolio turnover. Overconfident investors tend to believe they know more than the average person about investing and tend to be more thrill-seeking according to research by two professors at the University of California.[3]

Home bias & country specific risk

Humans tend to prefer what is familiar or well-known. One of the common results of this in portfolios around the world is the home country bias: the tendency to allocate a greater portion of one's portfolio to assets domiciled in your home country.

The home country bias limits the amount of diversification in investor portfolios and exposes investors to significant country-specific risk.

Home Country Bias



Source: MSCI, as of Dec 31 2022. Market capitalization of MSCI country index divided by MSCI All Country World Index. Home country equity allocation—John R. Nofsinger, The Psychology of Investing, Fifth Edition, Pearson, 2014, p. 89.

2 Also related to regret aversion bias: fear of bad outcomes and desire to avoid blame for poor result, e.g. fear of missing out on fads or stay out of market to avoid downturn.
3 Source: Brad Barber, Terrance Odean, "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investments," Quarterly Journal of Economics 116(2001):
261-292.

Common behavioural biases

Herding

Humans tend to mimic the actions of the larger group

Overconfidence

Humans tend to over estimate or exaggerate our ability to successfully perform tasks

Familiarity

Humans tend to prefer what is familiar or well-known

Can lead to

Buy high, sell low

Trade too often

Overweight home country

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How to avoid behavioural bias

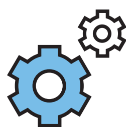
As humans, we all suffer from some biases. But many of these can be offset by a robust, objective and disciplined process.

As more and more investors prepare to retire and financial markets remain unpredictable, it will be increasingly important to keep behavioural biases in check.

A trusted financial adviser can help:

1 Provide education on potential biases and how to recognise whether they are affecting investment decisions

2 Take an objective view of how any decision can have a long-term impact on a portfolio



3 Create a process that considers an investor's goals, circumstances and preferences to keep them focused on their long-term outcomes

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