Vanguard®

Where will your goals take you?

Vanguard 2018 Index Chart

Where will your goals take you?

Buying your first home. Travelling the world. Enjoying a full and rewarding retirement.

When you invest, it's important to have a plan in place to give yourself the best chance of achieving your goals.

Without a plan, it's easy to get distracted. You can end up trying to time the market, chasing performance and missing out on potential long-term returns.

With a detailed and measurable plan, you know where you're heading. Along the way, you don't know exactly what each day will bring. As the 2018 Vanguard Index Chart shows, investment markets fluctuate from year to year.

While you can't control investment markets, there are things you can control when it comes to investing, such as focusing on the long term, diversifying your portfolio across asset classes, and making sure you don't pay more than you need to invest.

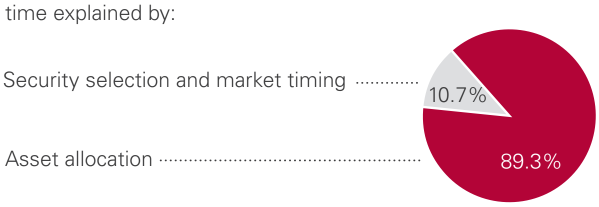
Focus on strategic asset allocation

Building an investment strategy framework, one that aligns your risk profile with your investments, provides a solid platform for you to achieve your goals and expectations.

Research shows that the key to long-term investment performance is effective asset allocation. The chart below is from a study Vanguard conducted which looks at the returns of 600 Australian balanced funds across more than 25 years. It found that asset allocation was responsible for 89.3% of a diversified portfolio's return patterns over time. This leaves only 10.7% for factors such as market timing or securities selection.

Investment outcomes determined by asset allocation

Percentage of a portfolio's movements over time explained by:



Note: Calculations are based on the monthly net returns for 600 Australian balanced funds from January 1990 to June 2016. For details of the methodology, see the Vanguard white paper *Vanguard's approach to constructing Australian Diversified Funds* (Geysen et al. 2017).
Source: Vanguard calculations using data from Morningstar.

That's why it is important to dedicate time to asset allocation decisions before you start investing—it can mean the difference between achieving your goals or simply aspiring to them.

Invest for the long term

Market cycles play out against a backdrop of economic, social and political events and many investors can't resist trying to assign causes to every hiccup in the markets. But it's often impossible to explain market activities until long after the dust has settled.

Markets are unpredictable and trying to time them means you must get two important decisions right: when to get out and when to get back in. This means there is a risk of having to pay a higher price to get back into the market, as well as missing out on the growth from any market recovery.

Allowing emotions to drive investment decisions, be it overconfidence in rising markets or fear in falling markets, rarely serves investors well.

Historical market returns show that those who ignore the emotional swirl of short-term market conditions and focus on the long term are rewarded for their patience and discipline.

Diversify

The index chart illustrates the benefit of diversifying investments across asset classes to help reduce volatility and smooth out returns over time.

Diversification often starts by investing across different asset classes but it also includes holding a spread of investments within an asset class across a range of companies, industries and even countries.

While this strategy doesn't protect a portfolio against negative returns, it does reduce the impact of poorly performing asset classes.

Keep costs low

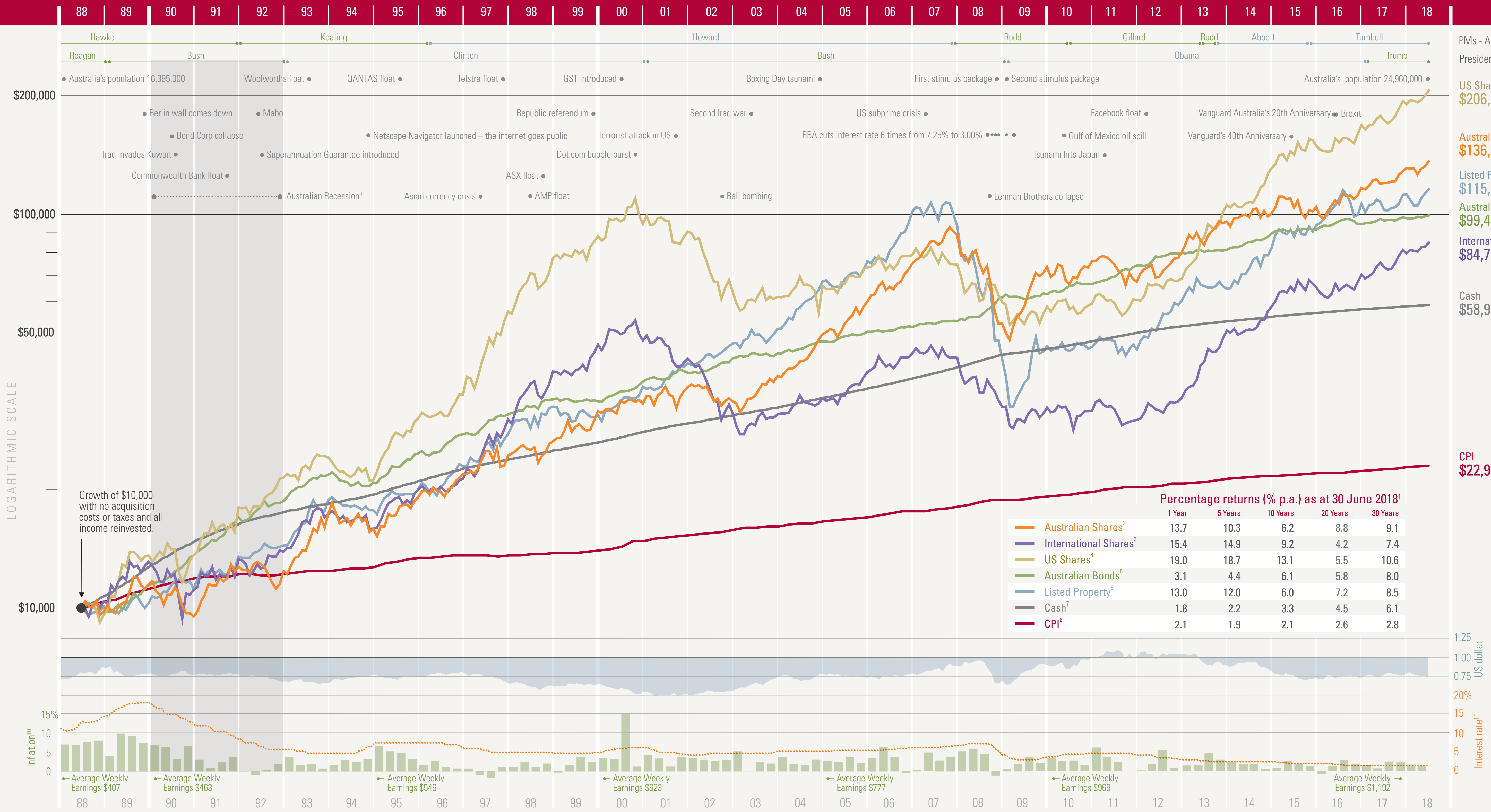
All else being equal, investments with consistently low management fees and transaction costs can provide a head start in achieving competitive returns.

Management fees create a drag on returns that can make it more difficult for a fund manager to add value. Factors such as high portfolio turnover within a fund can also lower its tax efficiency and drive up transaction costs.

The bottom line is—lower fees mean you get to keep more of your returns, which can help you earn more over time.

Vanguard 2018 Index Chart

Market returns - 1 July 1988 to 30 June 2018



Percentage returns (% p.a.) as at 30 June 2018[1]

	1 Year	5 Years	10 Years	20 Years	30 Years
Australian Shares[2]	13.7	10.3	6.2	8.8	9.1
International Shares[3]	15.4	14.9	9.2	4.2	7.4
US Shares[4]	19.0	18.7	13.1	5.5	10.6
Australian Bonds[5]	3.1	4.4	6.1	5.8	8.0
Listed Property[6]	13.0	12.0	6.0	7.2	8.5
Cash[7]	1.8	2.2	3.3	4.5	6.1
CPI[8]	2.1	1.9	2.1	2.6	2.8

Sources: Australian Bureau of Statistics, ASX Limited, Bloomberg Finance L.P., Commonwealth Bank of Australia, Melbourne Institute of Applied Economic & Social Research, MSCI Inc., Reserve Bank of Australia, Standard & Poor's, Thompson Reuters. **Notes**: 1. Per annum total returns to 30 June 2018. 2. S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. S&P500 Total Return Index. 5. Prior to December 1989 the index is the Commonwealth Bank All Series Greater Than 10 years Bond Accumulation Index. From September 1989 the index is the Bloomberg AusBond Composite 0+ Yr Index. 6. S&P/ASX 200 A-REIT Accumulation Index. 7. Bloomberg AusBond Bank Bill Index. 8. ABS Consumer Price Index. 9. Recessions as defined by the Melbourne Institute of Applied Economic and Social Research. 10. Annualised Rate of Inflation. 11. Interest Rate is the Reserve Bank of Australia's Official Cash Rate. All figures are in Australian dollars. All marks are the exclusive property of their respective owners. Disclaimer: The information contained herein is intended for informational purposes only. It is not intended as investment advice, and must not be relied upon as such. No responsibility is accepted for inaccuracies. Past performance does not guarantee future returns.

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Andex Charts Pty Ltd.

Our perspective on diversification

The table below shows the performance of various asset classes over the past 30 years.

When deciding where to invest their money, it is important investors understand that the best and worst performing asset classes will often vary from one year to the next. Having a diversified mix of investments across multiple asset classes can help smooth out returns over time.

The table also reinforces the importance of sticking to an investment strategy and focusing on the long term.

For example, the declining returns from international shares (hedged) in the 2016 financial year may have swayed investors to move out of this asset class in search of better returns elsewhere. In taking this option, investors would then have missed out on the 18.9% return in the 2017 financial year.

Financial year total returns (%) for the major asset classes

Year	Australian Shares	International Shares	International Shares (Hedged)[1]	US Shares	Australian Bonds	International Bonds (Hedged)[2]	Cash	Australian Listed Property	International Listed Property[3]
1989	3.5	18.1	18.3	26.7	3.0	16.3	15.7	–1.1	
1990	4.1	1.9	5.3	11.5	17.8	13.1	18.5	15.2	
1991	5.9	–2.0	–5.8	10.3	22.4	15.3	13.5	7.7	–15.9
1992	13.0	7.1	–3.0	16.3	22.0	15.8	9.0	14.7	6.9
1993	8.7	31.8	17.3	26.6	13.9	14.7	5.9	17.1	28.3
1994	15.5	0.0	6.7	–6.5	–1.1	2.1	4.9	9.8	8.4
1995	6.4	14.2	3.7	30.0	11.9	13.1	7.1	7.9	7.5
1996	14.3	6.7	27.7	12.9	9.5	11.2	7.8	3.6	2.4
1997	26.8	28.6	26.0	42.6	16.8	12.1	6.8	28.5	35.7
1998	1.0	42.2	22.1	58.2	10.9	11.0	5.1	10.0	25.0
1999	14.1	8.2	15.9	14.2	3.3	5.5	5.0	4.3	–6.8
2000	16.8	23.8	12.6	18.2	6.2	5.0	5.6	12.1	14.1
2001	8.8	–6.0	–16.0	0.5	7.4	9.0	6.1	14.1	38.2
2002	–4.5	–23.5	–19.3	–26.3	6.2	8.0	4.7	15.5	7.5
2003	–1.1	–18.5	–6.2	–15.2	9.8	12.2	5.0	12.1	–5.2
2004	22.4	19.4	20.2	15.4	2.3	3.5	5.3	17.2	28.7
2005	24.7	0.1	9.8	–4.1	7.8	12.3	5.6	18.1	21.2
2006	24.2	19.9	15.0	11.6	3.4	1.2	5.8	18.0	24.2
2007	30.3	7.8	21.4	5.6	4.0	5.2	6.4	25.9	3.0
2008	–12.1	–21.3	–15.7	–23.4	4.4	8.6	7.3	–36.3	–28.6
2009	–22.1	–16.3	–26.6	–12.5	10.8	11.5	5.5	–42.3	–31.2
2010	13.8	5.2	11.5	8.9	7.9	9.3	3.9	20.4	31.3
2011	12.2	2.7	22.3	3.7	5.5	5.7	5.0	5.8	9.2
2012	–7.0	–0.5	–2.1	11.1	12.4	11.9	4.7	11.0	7.5
2013	20.7	33.1	21.3	32.5	2.8	4.4	3.3	24.2	24.3
2014	17.6	20.4	21.9	22.7	6.1	7.2	2.7	11.1	11.8
2015	5.7	25.2	8.5	31.8	5.6	6.3	2.6	20.3	23.1
2016	2.0	0.4	–2.7	7.5	7.0	10.8	2.2	24.6	20.4
2017	13.1	14.7	18.9	13.8	0.2	–1.0	1.8	–6.3	–4.8
2018	13.7	15.4	10.8	19.0	3.1	2.5	1.8	13.0	9.0
Average	9.8	8.6	8.0	12.1	8.1	8.8	6.2	9.9	10.5
Best	30.3 (3)	42.2 (3)	27.7 (4)	58.2 (7)	22.4 (3)	16.3 (3)	18.5 (1)	28.5 (2)	38.2 (4)
Worst	–22.1 (2)	–23.5 (3)	–26.6 (4)	–26.3 (3)	–1.1 (2)	–1.0 (2)	1.8 (6)	–42.3 (4)	–31.2 (4)

(X) denotes the number of times each asset class was the best/worst performer during a financial year ending between 1989 and 2018.

Source: Andex Charts Pty Ltd.

Notes: 1. MSCI World ex-Australia Net Total Return Index (Local Currency) – represents a continuously hedged portfolio without any impact from foreign exchange fluctuations. 2. Index prior to 30 June 2008 is the Citigroup World Government Bond Index AUD hedged, from 30 June 2008 the index is the Bloomberg Barclays Global Treasury Index in $A (Hedged). 3. Prior to 1 May 2013, index is the UBS Global Real Estate Investors Index ex-Australia with net dividends reinvested. From May 2013 the index is the FTSE EPRA/NAREIT Developed ex AUS Rental Index with net dividends reinvested. Past performance is not an indicator of future performance.

What makes us different

What sets Vanguard apart — and lets Vanguard put investors first around the world — is the ownership structure of The Vanguard Group, Inc., in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's US-domiciled funds. Those funds, in turn, are owned by their investors.

This mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, Australian investors benefit from Vanguard's stability and experience, low costs and client focus.

Vanguard's interactive index chart—tell the story your way

Build your own customised version of the index chart with 45-years of investment performance of major asset classes as well as key economic, social, political and demographic changes at vanguard.com.au/indexchart.

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