



Principles of investment

The Genesys approach to investing your money







When it comes to personal financial wellbeing, taking advice from others requires faith in their skills and trust in their judgement. We want you to be comfortable with us as your adviser and part of this involves helping you understand our approach to investing. To us, client relationships are about being open and transparent with everything we do.

While investing can be complex, we want to simplify the process for you. Our approach is based on the nine common sense principles outlined in this brochure. These principles, built from years of experience and successful application, will be the foundation of your investment strategy. If there is anything you don't understand, don't hesitate to contact us.

Principle 1

Successful wealth creators know the difference between a saver and an investor.

Saving versus investing

Most successful wealth creators know how to save – and that’s important. In order to be in a position to invest, you must first be in control of your cash flow, otherwise you have nothing to invest.

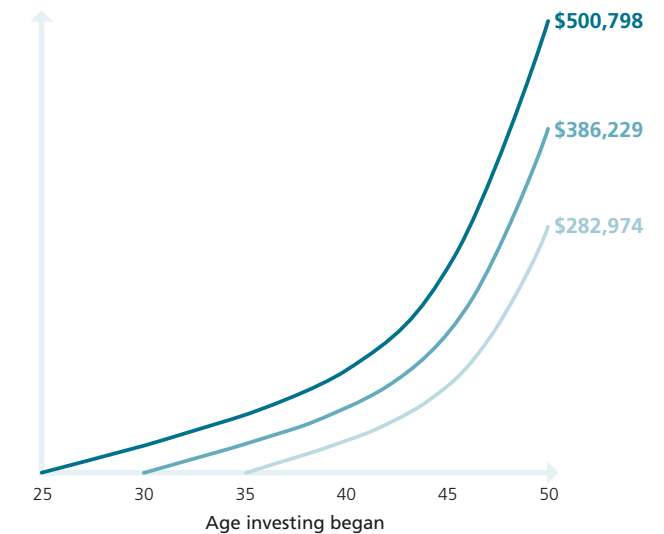
However if you want to create real wealth, you need to be more than just a good saver. You must make the transition from ‘saver’ to ‘investor’. Why? Because if all you do is save money, you are not building wealth. The returns you earn are eroded by inflation.

Investing is different to saving because it involves putting your savings to work and accepting an element of risk in exchange for growth potential. Investing is all about being active with your money now so as to build something in the future.

Many people believe that to create real wealth you need a lot of money to begin with. Not true. What you really need is the discipline to put your money to work on a regular basis. And, the sooner you start the better.

The tale of three investors

Consider three investors who each start with \$20,000 and add \$1,000 every month reinvesting their returns. Assuming they are all ‘balanced’ investors, look at the benefit of starting early (balanced investors are explained in principle 5):



— Starts at 25 — Starts at 30 — Starts at 35

Assumptions: Projected balances and contributions indexed to inflation of 3% p.a. Assumes a total return of 8.3% p.a. Fees not considered. Non-superannuation investment. Assumes no other taxable income.

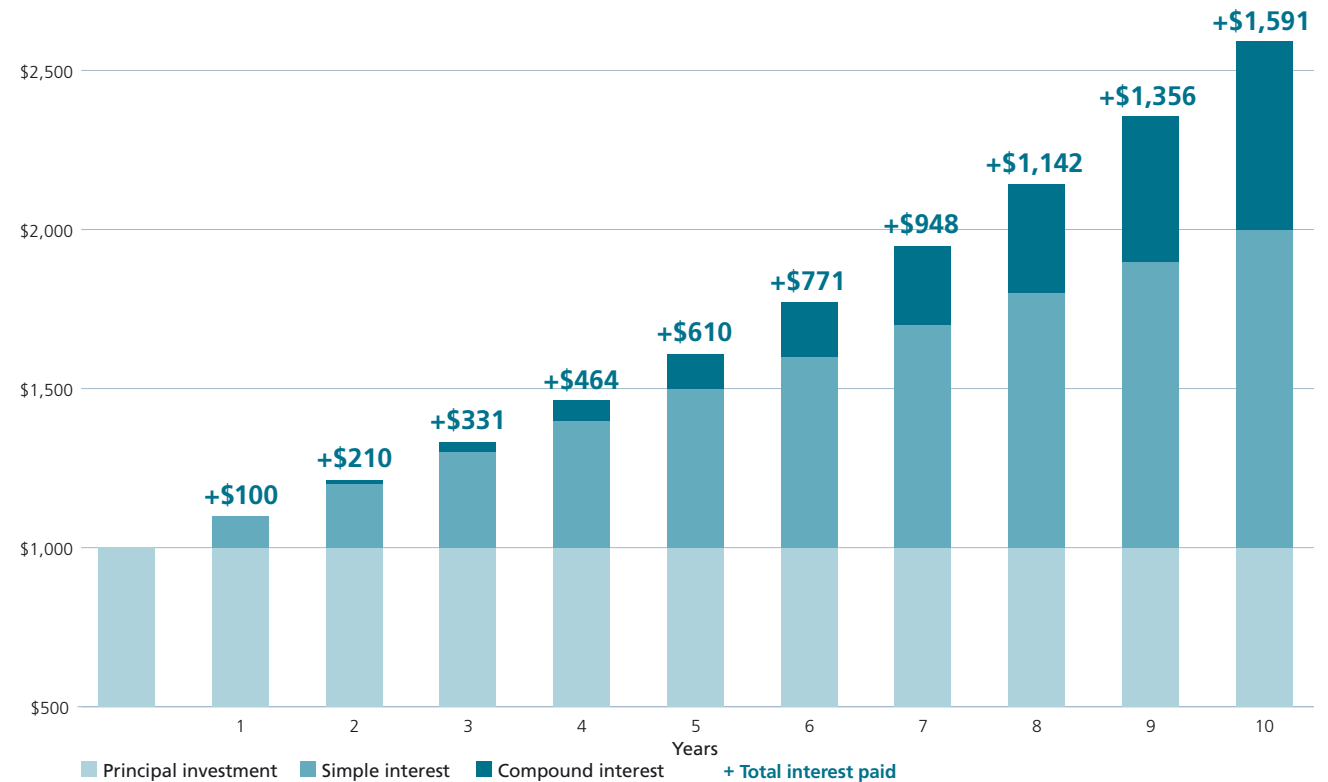
Investing works because of the principle of compound interest

Each dollar you invest has the potential to earn a return and if you reinvest that return, it earns a return and if you reinvest that return, it earns a return and if you ... and so on.

This principle, known as compound interest, is why investing creates wealth. It turns your savings into earnings and those earnings into wealth.

Creating wealth doesn't necessarily require a lot of money. It just takes discipline, consistency, time and the power of compound interest.

Compound interest at work



Assumptions: Taxation, fees and inflation not considered. The interest rate is 10% and is for illustrative purposes only.

Principle 2

Risk and return.
You can't have one
without the other.

The trade-off

Risk and return are directly linked; you won't receive an adequate return without taking on some risk.

The concept of return is straightforward – it's the measurement of gain or loss. Risk on the other hand is something that is not so easily understood.

When talking about risk, most investors immediately think of the risk of losing their money. While that is true, it's what all investors fear, it is important to separate risk from volatility because they're quite different.

Risk = the chance you will lose money permanently and not achieve your financial goals.

Volatility = prices going up and down.

Don't confuse risk with volatility

When talking about risk, many investors are actually talking about volatility – the usual ups and downs of investment markets. When the actual return from an investment is lower than expected, investors believe that they have lost money in a physical sense. But in fact they have only lost money 'on paper'. It is only when they actually sell the investment at the wrong time (when returns are at their lowest) that they permanently lose money.

You will learn more about volatility and the cyclical nature of investment returns in later principles.

The key is to not put yourself in a position where you sell your investments at the wrong time. This will generally occur when you don't let your investments run their course or when you can no longer tolerate the degree of volatility and sell assets in a panic.

Does this mean that all investments are fundamentally sound and will recover in time?

No, sometimes people lose real money. It's not always because they sell out at the wrong time. It doesn't happen often, but sometimes financial products simply fail and there have been several examples of this. This is the definition of risk in its purest form.

Why do investments fail?

There can be many reasons, but here are a few common ones:

1 Investors don't understand the investment's true nature.

As investments become more sophisticated they can also become very complex. Sometimes investors think they are investing in one thing but they are actually investing in something completely different. Why? Because the terminology is confusing and the risk of the investment isn't communicated.

Another reason is that sometimes investments are classed as one thing, but behave like another. Take fixed interest investments for example. When hearing this term, most people think 'safe' e.g. term deposits and the like. While this is true with many fixed interest options, you can still lose money, so it's important to understand the true nature of what you are investing in.

2 There is an irresponsible use of debt.

Some investments use borrowed money in addition to investor's funds. Borrowing can be risky because it can magnify losses as well as gains.

3 There are many parties involved and they are all dependent upon one another.

The domino effect – if one falls down they all fall down.

4 Fraud and dishonesty. It happens.

No-one can guarantee that an investment won't lose money, but we are committed to only putting forward quality investment options for our clients. To achieve this, we have some guiding principles:

- Diversification is the best way to minimise the damage caused by an investment going bad. Spread the risk.
- If we don't understand a product, we won't use it.
- Good advisers don't recommend products that their clients don't understand.
- We match the complexity of the product, to the knowledge, experience and appetite of our client.
- While there are no guarantees, our multi layered investment research process exists to protect you from bad investments.



There are risks you can see and risks you can't

When we talk about risk, the main thing we are talking about is permanently losing money, not necessarily volatility. However the risk of an investment failing is not the only risk that you will face as an investor. Here are some other risks you should be aware of:

1 Liquidity risk

The risk of a delay in receiving your money when you need it. This can occur with certain types of investments where there is a lack of buyers (e.g. some unlisted investments – those not listed on the stock exchange). Liquidity risk can also occur with investments whose underlying assets aren't easily converted to cash.

Liquidity risk can also occur during periods of extreme volatility and extraordinary economic conditions. During the global financial crisis, for example, investors in a small number of managed funds wanted to withdraw their money at the same time. To protect the interests of all investors, the trustees froze the investments, placing restrictions on withdrawals.

2 Legislative risk

The risk that a change in the law results in an adverse outcome for you. Examples may include changes to the superannuation or income tax laws.

3 Longevity risk

The risk that you do not accumulate enough retirement capital and you outlive your money.

4 Inflation risk

The risk that your money is eroded by inflation.

5 Interest rate risk

The risk that movements in interest rates adversely affect your portfolio. This can be a problem when investing in bonds (part of the fixed interest asset class).

Note: We discuss risks 3 and 4 further in the next principle.

The value of advice

Unless you're an expert, the best way to achieve your wealth goals and protect yourself against risk is to partner with a professional wealth adviser who:

- understands who you are
- listens to what you want
- knows how to find quality investments
- spreads your risk
- stays in touch through a regular review service

Nervous? Don't be, there is a degree of risk in just about everything we do. It's a little bit like crossing the street – it's all about your approach. That's why it's important to have a relationship with a professional adviser.



Principle 3

Trying to avoid risk may be the riskiest strategy of all.

There's nothing wrong with being conservative, however, the risk/return trade-off dictates that if you try to avoid risk altogether, your wealth won't grow and you will find it hard to achieve your financial goals.

Here are two reasons why not investing for growth can hurt you:

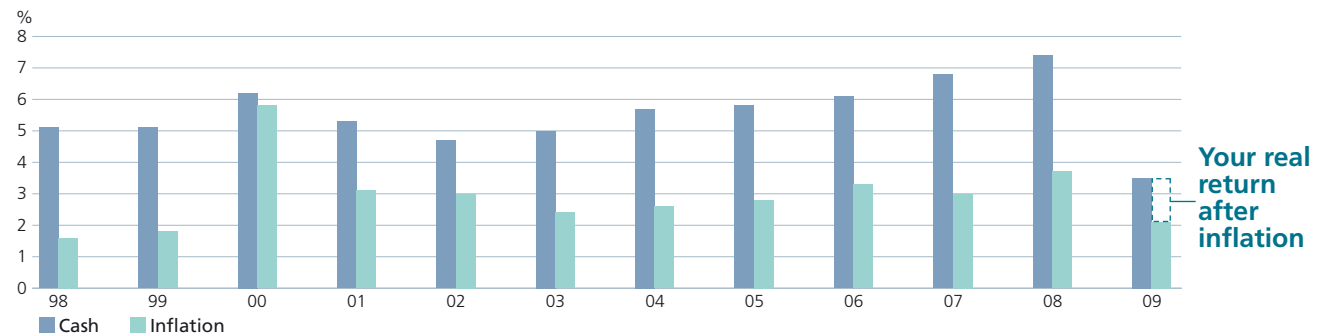
1 Money invested defensively is eroded by inflation.

Investing in assets like cash can seem like the safe option – returns can be attractive and the lack of volatility allows you to sleep at night. But are you actually receiving the return you think (or need)? No, because inflation eats into defensive investments. Remember, inflation means an increase in the cost of goods and services and when it occurs, the value of a dollar is worth less because it can buy

less. Another way of looking at it is you need more dollars to buy the same thing. The need to beat inflation is why at least some exposure to growth investments is important.

While cash has beaten inflation over time, the real return from defensive style assets is much less than you think. As the graph below illustrates, your real return from defensive assets like cash (as represented by the 90 day bank bill index) is the interest you receive after inflation has been taken into account. Add tax into the equation and you really aren't left with much.

Calendar year returns



Source: Australian Bureau of Statistics

2 Without growth, you may simply run out of money!

The Westpac Bank and the Association of Superannuation Funds of Australia (ASFA) publish quarterly estimates on how much it costs to live in retirement across our capital cities. The latest statistics* for the June 2010 quarter reveal that to have a comfortable retirement, an Australian couple would need to spend \$53,565 a year or \$1,025 per week. A single person would need \$39,081 a year or \$749 per week.

To put that in perspective, look at a couple both aged 55 who are ready to retire. Their combined superannuation nest egg is \$600,000 and they own their own home.

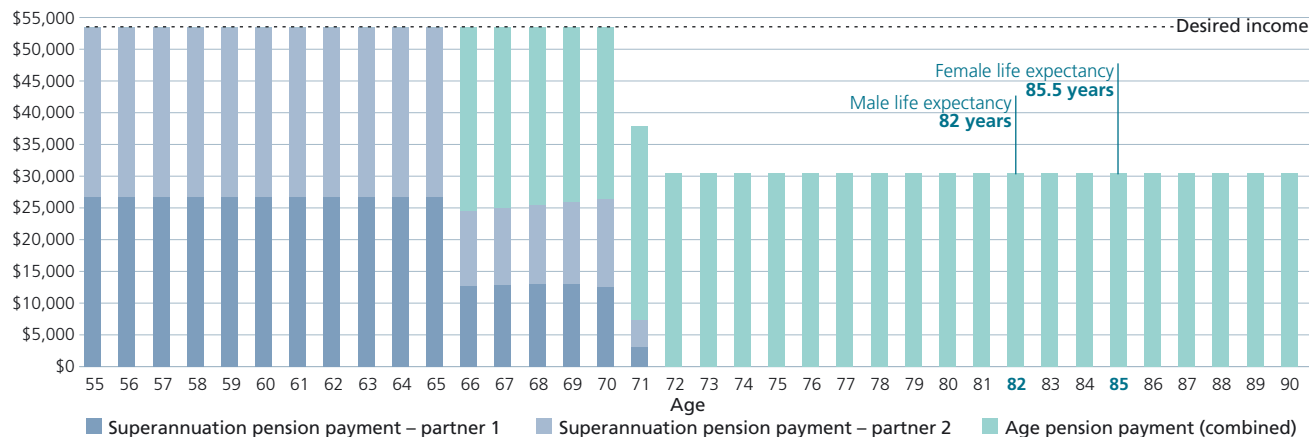
Using a common retirement strategy of investing in account based pensions, they draw a net income of \$25,392 per annum each after tax up until their account balances run out.

While \$600,000 sounds like a lot, this won't even fund a comfortable retirement. Their money would run out years before they even reach life expectancy (82 years for a male and 85.5 years for a female) leaving a life dictated by the Age Pension. This is known as 'longevity risk' – the risk that you will outlive your money. It should be noted however that the size of your nest egg depends on the lifestyle you seek, which is why you should consult an adviser.

* Source: Westpac/ASFA Retirement Standard: www.superannuation.asn.au.

\$600,000 sounds like a reasonable nest egg, but it won't even fund a 'comfortable' retirement.

Longevity risk the risk that you will outlive your money and end up on the age pension

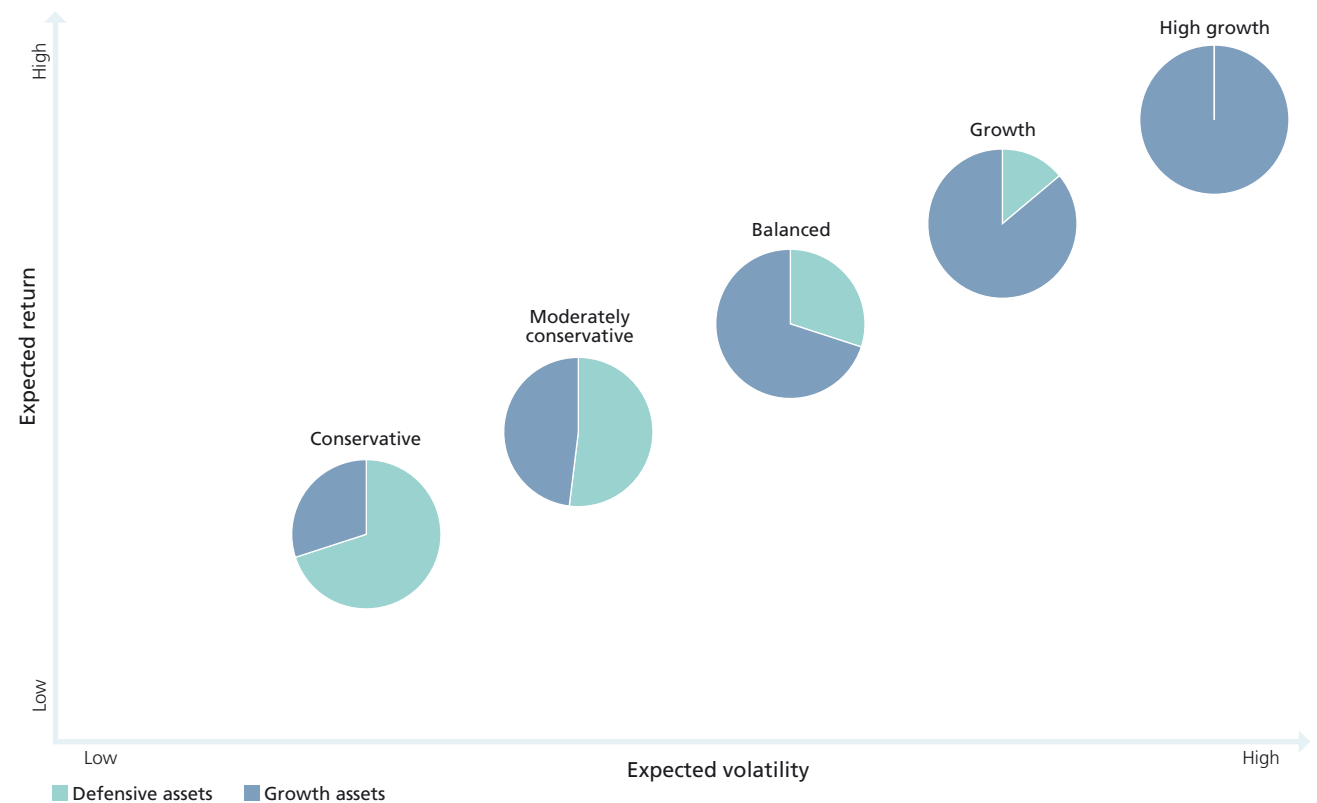


Source: ASIC's Retirement Planner calculator on their website 'FIDO': www.fido.gov.au. Assumptions: \$600,000 (2 x \$300,000 account based pensions). Partner 1 = male, Partner 2 = female. Balanced Investors – return: 8% p.a net of tax. Fees: Investment mgt 1.5% p.a. Adviser service fee: 1% p.a. Income not indexed to inflation. Age pension figures based on rates and thresholds released 20 Sept 2010: couple homeowner rate of \$583.30 p/f each. Note, this rate assumes full pension supplement (\$87 p/f) is received. Life expectancies based on 2005 – 2007 Australian life tables.

Principle 4

Growth assets generally provide a higher expected return over defensive assets, but you must expect higher volatility as well.

The term asset allocation refers to how you spread your investments across the different asset classes (cash, Australian and international fixed interest, property and Australian and international shares). These asset classes can be grouped as either defensive (cash and fixed interest) or growth (property and shares). As you allocate more money to growth assets, the expected return increases, however the volatility associated with the portfolio increases also.



Asset classes – what to expect

The behaviour of asset classes from 31 January 1971 to 30 June 2010.

	Defensive Assets		Growth Assets			
	Cash	Fixed Interest	Property Trusts	Australian Shares	International Shares	
Description	High liquidity investments e.g. bank bills and cash management trusts. Timeframe: < 1yr. Stable income. Lowest risk and volatility.	Pays regular income e.g. bonds, mortgage trusts, hybrid securities. Timeframe: 1–3 years. Income via regular interest payments. Generally low volatility but some investment options can be quite volatile. When we talk about fixed interest, we aren't always talking about something that is safe. There is the possibility of loss. Australia International	Investment in listed or unlisted property securities such as commercial real estate and infrastructure. Timeframe: 3–5 years. Return is a mix of income and growth. Medium volatility.	Exposure to companies listed on the Australian Stock Exchange. Timeframe: 5–6 years. Provides capital growth and some tax effective income. Can be very volatile in the short term.	Investment in overseas companies. Timeframe: 5–7 years. Returns can depend on exchange rates. Growth with some income. Can be very volatile in the short term.	
Average historical return	8.63%	10.17%	10.43%	12.08%	14.81%	12.94%
Worst return over any 12 months	3.42%	-6.19%	-4.00%	-44.86%	-44.40%	-33.98%
Best return over any 12 months	19.10%	25.74%	31.47%	53.32%	86.13%	92.89%
Likelihood of negative return	0	1 year in 36	1 year in 29	1 year in 5.2	1 year in 4.1	1 year in 3.9

Source: van Eyk Investment Outlook Summary July 2010. Note: Prior to 1990 historical data for some asset classes are subject to approximation, due to lack of long term performance data. Information in this table should be read as indicative of long term historical performance only. Past performance is not necessarily a prediction of future performance.

Principle 5

The right asset allocation usually depends on two things:

- 1 what's required to achieve your objectives, and
- 2 how comfortable you are with the volatility that comes with it.

Depending on your circumstances, when recommending an appropriate asset allocation, we look at things from a number of perspectives

1 What long term return target do you require to achieve your objectives?

The first step is to work out the return you need to get to where you want to be. For example, let's say you ask us to prepare a wealth plan in the lead up to your retirement which is ten years away. We have a three step process:

- we model your situation and determine the lump sum amount required to provide the retirement lifestyle you seek
- we calculate the return required to get you from where you are now to where you want to be
- we determine the asset allocation that could potentially deliver that return. To do this, we use five different asset allocation models, each with their own return objective.

2 How comfortable are you with the expected volatility of the required allocation – i.e. what is your emotional tolerance level?

The sleep test is important. If you are placed in a portfolio with too much volatility (even if it is the portfolio required to achieve your objectives), it will make you so nervous you can't sleep. This may result in a panic sale of assets at exactly the wrong time. It is therefore important that we undergo an exercise to find your emotional tolerance level

for volatility. Your particular personality (or tolerance level) is important because it will give us valuable insight into what you are comfortable with.

How do we determine your emotional tolerance level?

During our analysis of your needs and situation, we will speak with you about how you feel about risk and volatility. We will also ask you to complete a short questionnaire and discuss your investment experience, attitude and knowledge. From these collective sources, together we will identify you as being one of five personality profiles – conservative, moderately conservative, balanced, growth or high growth.

3 We compare the required asset allocation model to your personality type.

If the asset allocation required to fulfil your objectives is consistent with your emotional tolerance for volatility, then we have the right asset allocation for you. However if there is a mismatch, we will speak to you about the inconsistency and ask you to make a decision to either revise your objectives or accept more or less volatility. This is a decision we cannot make for you, but we will ensure you are armed with all the facts and consequences before you make it.

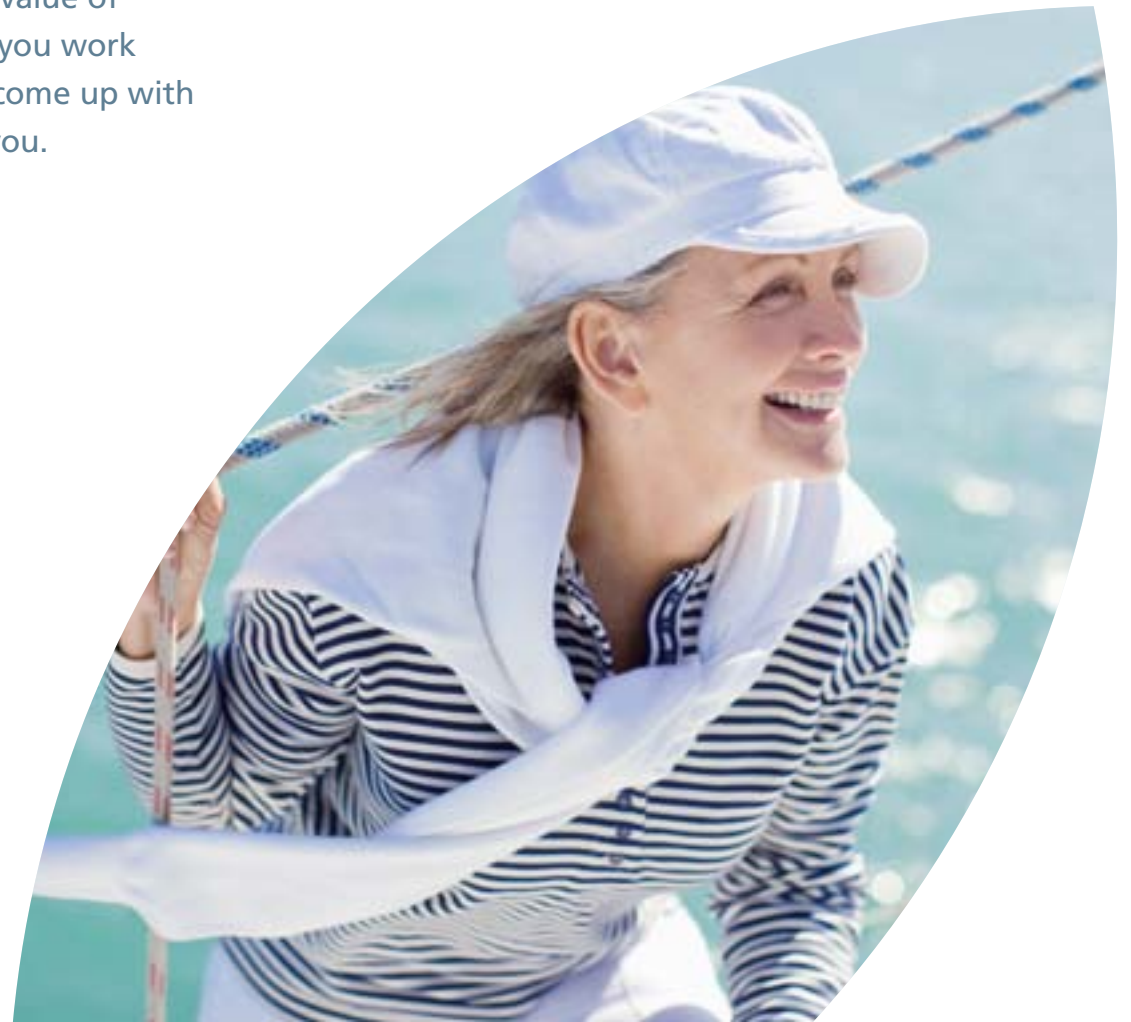
The process will be determined by your particular situation.

Your life situation also plays a role in how much volatility you can tolerate. For example the younger you are, the more volatility you can generally accept. That's because you have the time to wait for a rebound when there is a downturn in the market. But if you are retired or are nearing retirement, you may be counting on income from your investments and may not be able to tolerate so much volatility.

If you have children going to university in the next few years or people dependent on you for financial support, you may need to keep more of your portfolio in stable, defensive style assets.

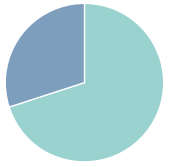

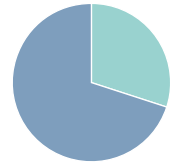
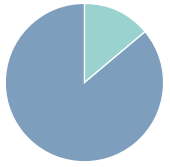
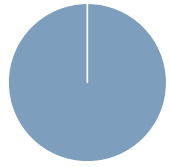
Sometimes our clients don't have particular objectives in mind. For example they are only seeking limited advice on one aspect of their affairs, or retirement is so far off they don't have a clear picture of what they are looking for. In these situations, our recommended asset allocation is based upon their emotional tolerance level and how long they have to invest.

There are a number of factors at play in finding an appropriate asset allocation. The value of our advice is to help you work through them all to come up with the right model for you.



Our investor tolerance and asset allocation models

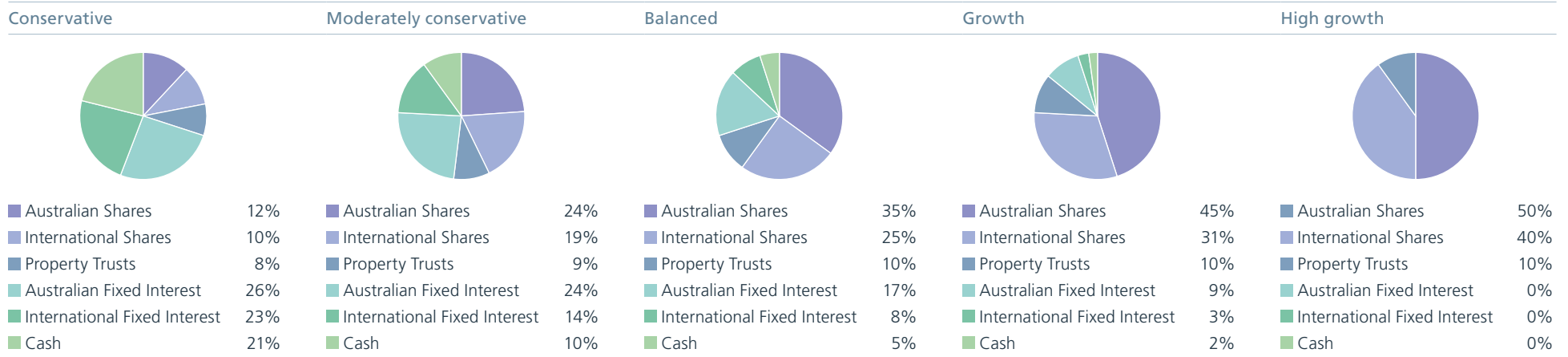
We use five investor profiles when we define your tolerance for volatility and each profile has its own target strategic asset allocation.

	Conservative	Moderately conservative	Balanced	Growth	High growth
Description	Peace of mind and security of capital is more important than return. You are uncomfortable with volatility and prefer steady, reliable income over capital growth.	The objective is capital protection with lower expected returns and lower volatility. Most of the return is in the form of income.	The objective is both capital protection and capital appreciation with a mix of both income and growth.	The objective is long term capital appreciation, with a higher chance of volatility.	The objective is long term capital growth with a high chance of volatility.
					
	<ul style="list-style-type: none"> Defensive 70% Growth 30% 	<ul style="list-style-type: none"> Defensive 52% Growth 48% 	<ul style="list-style-type: none"> Defensive 30% Growth 70% 	<ul style="list-style-type: none"> Defensive 14% Growth 86% 	<ul style="list-style-type: none"> Defensive 0% Growth 100%
What to expect	<p>Return objective Inflation + 1.5% p.a.[^]</p> <p>Minimum investment horizon 2 years</p> <p>Likelihood of a negative return* 1 year in every 17.4</p>	<p>Return objective Inflation + 2.5% p.a.[^]</p> <p>Minimum investment horizon 3 years</p> <p>Likelihood of a negative return* 1 year in every 7.5</p>	<p>Return objective Inflation + 3.5% p.a.[^]</p> <p>Minimum investment horizon 4 years</p> <p>Likelihood of a negative return* 1 year in every 5.7</p>	<p>Return objective Inflation + 4.5% p.a.[^]</p> <p>Minimum investment horizon 5 years</p> <p>Likelihood of a negative return* 1 year in every 5.0</p>	<p>Return objective Inflation + 5.5% p.a.[^]</p> <p>Minimum investment horizon 7 years</p> <p>Likelihood of a negative return* 1 year in every 4.5</p>

[^] Our target returns are based on estimated projected asset class performance. They do not consider any additional return achieved by the skill of the fund managers.

* These probabilities are estimates only. They are based on historical data and there are no guarantees that history will repeat itself. They should be considered as an approximate guide only.

Relevant asset allocation models



Principle 6

Investment returns go through a cycle but it's very difficult to pick the cycle consistently. This year's winner can easily become next year's loser so it's best not to chase short term performance.

The performance of asset classes changes from year to year in accordance with the market cycle and it's rare for one to outperform consistently. Sticking to your long term asset allocation is better than chasing last year's winners.

The market cycle

If you examine the returns from different asset classes over time you will see that a pattern is followed. These patterns – called the market cycle, are made up of different phases which vary in duration and intensity. The length of the full cycle and each phase within it varies from several months to several years. They are difficult to predict – even the experts don't get it right consistently. What is certain though is that as the market moves through each phase, the returns you receive and the volatility you experience changes.

The market cycle is related to the underlying economic cycle, but they don't necessarily move together or at the same time. The share market cycle for example generally moves ahead of the economic cycle as it attempts to predict the general ebbs and flows of the economy. This is not guaranteed, but over time this has often proven to be the case.

Let's look at the Australian share market a little closer. The four phases of its cycle are:

1 Recovery

Follows the bottom of the previous market cycle. Falling prices have stabilised, investors grow more confident and companies look underpriced compared to their true value. As buyers move into the market, share prices begin a sustained move upward continuing throughout this phase.

2 Peak

Over time, the sustained upward trend begins to slow as companies approach their fair value. During this phase buyers start to dry up as opportunities to buy underpriced companies dry up.

3 Contraction

Investors have recognised that the fair value of shares has been exceeded and start selling so as to lock in profits. The market starts its decline because there is now an excess of sellers over buyers. The decline gains momentum because more and more investors sell out to prevent losses.

4 Bottom

The decline has bottomed out because share prices have become so cheap they are considered a bargain. Buyers return to the market, it stabilises and moves toward the recovery phase and the cycle completes.

Other asset classes, like all markets, follow a cycle as well; it isn't just a share market thing. The table on the next page illustrates that when one asset class is performing poorly, another is probably performing well. That's why it is wise to diversify your portfolio so as not to become reliant upon one particular asset class..



The cyclical nature of asset classes over time

1985 to 31 December 2009

Key points

- Over the last 25 years, the best performing asset class in one year stayed number one the following year...only four times.
- If your strategy at the beginning of each year was to invest your money into the best performing asset of the previous year, you would have lost money... six times.

For the record, Australian shares have provided the best average return.

Calendar year returns

Year	International Shares	Australian Shares	Australian Listed Property	International Fixed Interest	Australian Fixed Interest	Cash
1985	72.2%	44.1%	5.2%	55.8%	8.1%	16.5%
1986	46.5%	52.2%	35.4%	25.2%	18.9%	18.1%
● 1987	7.6%	-7.9%	5.7%	13.7%	18.6%	15.0%
1988	4.7%	17.9%	16.1%	13.4%	9.4%	13.3%
1989	26.8%	17.4%	2.3%	18.9%	14.4%	18.8%
● 1990	-14.6%	-17.5%	8.7%	14.1%	19.0%	16.1%
1991	20.6%	34.2%	20.1%	18.9%	24.7%	11.1%
● 1992	5.2%	-2.3%	3.2%	10.1%	10.4%	6.8%
1993	24.8%	45.4%	30.7%	13.5%	16.3%	5.4%
● 1994	-7.6%	-8.7%	-7.1%	-2.5%	-4.7%	5.5%
1995	26.7%	20.2%	14.3%	20.6%	18.6%	8.1%
1996	6.7%	14.6%	14.2%	9.5%	11.9%	7.5%
■ 1997	42.2%	12.2%	21.9%	10.7%	12.2%	5.6%
■ 1998	32.8%	11.6%	18.4%	10.1%	9.5%	5.1%
1999	17.6%	16.1%	-4.7%	0.3%	-1.2%	5.1%
■ 2000	2.5%	5.2%	19.7%	9.7%	12.1%	6.2%
■ 2001	-9.6%	10.4%	14.6%	8.3%	5.4%	5.3%
2002	-27.1%	-8.8%	11.8%	11.6%	8.8%	4.7%
2003	-0.3%	14.6%	8.8%	6.6%	3.0%	5.0%
2004	10.4%	28.0%	32.0%	8.9%	7.0%	5.7%
2005	17.4%	22.8%	12.5%	6.6%	5.8%	5.8%
2006	12.0%	24.2%	34.0%	4.4%	3.2%	6.1%
● 2007	-2.1%	16.1%	-8.4%	6.6%	3.5%	6.8%
● 2008	-24.5%	-38.4%	-54.0%	9.2%	14.9%	7.4%
2009	0.3%	37.0%	9.6%	8.0%	1.7%	3.5%
Average	11.6%	14.4%	10.6%	12.5%	10.1%	8.6%

Indices used: (Assumes income reinvested)
 International Shares: MSCI World Ex Aust Acc Ind Gross Div A\$.
 Australian Shares: S&P/ASX 200 Accumulation Index.
 Australian Listed Property: S&P/ASX 200 A-REIT Accumulation Index.
 International Fixed Interest: BarCap Global Aggregate Index Hedged \$A (J.P.Morgan Gov Bond Acc Index Hedged A\$. used for period 1986-1989, SSB World Govt. Bond Unhedged Accum. Index used for period 1983-1985).
 Australian Fixed Interest: U B S Warburg Composite 0 + Years.
 Cash: Australian 90 Day Bank Accepted Bill.

Note: Past performance may not necessarily be an indicator of future performance. Taxation, fees, or fund manager performance not considered. Assumes re-investment of income.



Principle 7

Volatility will always exist but it can be managed.

Through our earlier principles, you have learned two important lessons:

- 1 That exposure to at least some growth assets is important.
- 2 When you invest in growth assets, you have to expect some volatility in returns.

While there will be volatility there are some things we can do as your adviser to assist in smoothing out the ride.

1 Volatility can be managed by diversifying your portfolio.

By building a portfolio made up of different investment types and asset classes, we will help smooth volatility under a range of economic conditions. Why? Because not all investments and asset classes move up and down at the same time. It should also be noted, that diversification not just insures against volatility, it is also a fundamental way we protect our clients against pure risk – the adverse effects of an investment failing.

Let's look at the same table we used in Principle Six, only this time adding another column with a diversified portfolio made up of: cash 5%, Australian fixed interest 17%, international fixed interest 8%, property trusts 10%, Australian shares 35%, international shares 25%.

The cyclical nature of asset classes over time

1985 to 31 December 2009

Calendar year returns

Year	International Shares	Australian Shares	Australian Listed Property	International Fixed Interest	Australian Fixed Interest	Cash	Diversified portfolio (Balanced)
1985	72.2%	44.1%	5.2%	55.8%	8.1%	16.5%	40.7%
1986	46.5%	52.2%	35.4%	25.2%	18.9%	18.1%	39.6%
1987	7.6%	-7.9%	5.7%	13.7%	18.6%	15.0%	4.7%
1988	4.7%	17.9%	16.1%	13.4%	9.4%	13.3%	12.4%
1989	26.8%	17.4%	2.3%	18.9%	14.4%	18.8%	17.9%
1990	-14.6%	-17.5%	8.7%	14.1%	19.0%	16.1%	-3.7%
1991	20.6%	34.2%	20.1%	18.9%	24.7%	11.1%	25.4%
1992	5.2%	-2.3%	3.2%	10.1%	10.4%	6.8%	3.7%
1993	24.8%	45.4%	30.7%	13.5%	16.3%	5.4%	29.3%
1994	-7.6%	-8.7%	-7.1%	-2.5%	-4.7%	5.5%	-6.4%
1995	26.7%	20.2%	14.3%	20.6%	18.6%	8.1%	20.4%
1996	6.7%	14.6%	14.2%	9.5%	11.9%	7.5%	11.7%
1997	42.2%	12.2%	21.9%	10.7%	12.2%	5.6%	20.2%
1998	32.8%	11.6%	18.4%	10.1%	9.5%	5.1%	16.8%
1999	17.6%	16.1%	-4.7%	0.3%	-1.2%	5.1%	9.6%
2000	2.5%	5.2%	19.7%	9.7%	12.1%	6.2%	7.6%
2001	-9.6%	10.4%	14.6%	8.3%	5.4%	5.3%	4.6%
2002	-27.1%	-8.8%	11.8%	11.6%	8.8%	4.7%	-6.0%
2003	-0.3%	14.6%	8.8%	6.6%	3.0%	5.0%	7.2%
2004	10.4%	28.0%	32.0%	8.9%	7.0%	5.7%	17.8%
2005	17.4%	22.8%	12.5%	6.6%	5.8%	5.8%	15.4%
2006	12.0%	24.2%	34.0%	4.4%	3.2%	6.1%	16.1%
2007	-2.1%	16.1%	-8.4%	6.6%	3.5%	6.8%	5.7%
2008	-24.5%	-38.4%	-54.0%	9.2%	14.9%	7.4%	-21.3%
2009	0.3%	37.0%	9.6%	8.0%	1.7%	3.5%	15.0%
Average	11.6%	14.4%	10.6%	12.5%	10.1%	8.6%	10.6%

When we used this table in Principle six, the key point was that asset classes perform differently – when one is going up another is going down. Let's add another column to our earlier table to see how a portfolio made up of several asset classes would have performed.

By spreading your investments across several asset classes as opposed to just one, there is less volatility. Compare the returns between Australian shares and the diversified portfolio on a year by year basis.

Did you notice something else?

Even with diversification, you can't eliminate the potential for negative returns – even a diversified portfolio would have had a negative return four times.

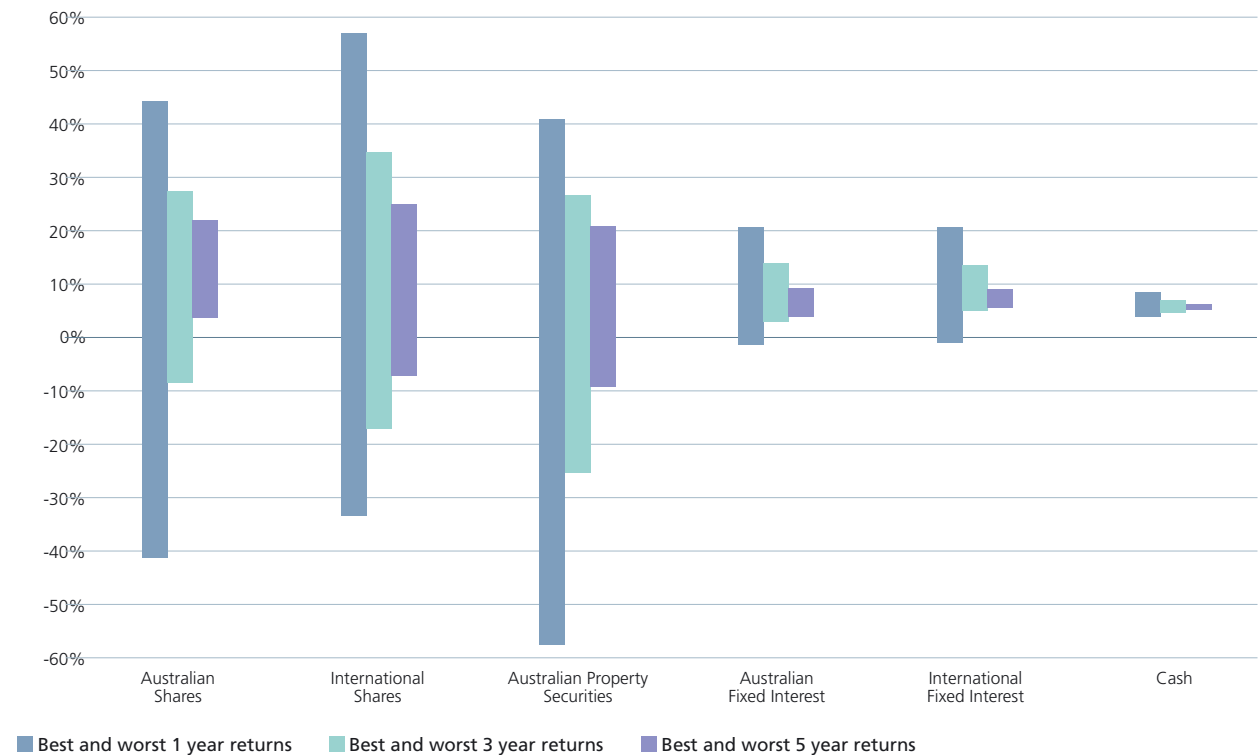
For indices and source, refer to page 18.

2 Volatility can be managed by looking at things over the longer term.

The importance of aligning your asset allocation to how long you have to invest cannot be under stated. Why? Because of the market cycle. As Principle six explained, asset classes move through periods of good returns, great returns, not so great returns and sometimes negative returns. So, if you are investing in shares, for example, and you want to access your money within a couple of years, you may sell out at exactly the wrong point of the cycle – you must let your investments run their course. You need to be sure that your investment horizon is consistent with the asset classes you are investing in because over time, volatility is reduced and returns are smoother.

The chart of the best and worst 1 year, 3 years and 5 years returns over time illustrates this point. By taking your money out after only 1 year (blue bars), you run the risk of receiving a very high return or a very low return. By leaving your money invested for longer (green and purple bars), the difference between the high return and the low return narrows. By investing for longer, returns become smoother.

Volatility smooths out over time



Source: Lonsec limited. Based on 15 years of monthly data to June 2010. All returns are in Australian dollars.



Principle 8

Don't let your emotions drive your investment decisions.

The global financial crisis. A lesson in extreme volatility.

It's one thing to understand that markets move in cycles, it's another to remain calm when that cycle is producing negative returns. Why? Because it's your money and when you feel like you are losing it, it can be a very stressful situation.

The recent global financial crisis (2007–2009) has provided us with great insight into periods of extreme market volatility. It has certainly been a rollercoaster and at the time of writing the volatility was not yet over. Let's look at what has happened to the Australian share market during 2007 to 2010.

Australian share market (S&P/ASX 200)



Source: Australian Equity Series Rolling Data.

This period of extreme volatility is also a great opportunity to highlight the difference between a 'paper' loss and a 'physical' loss referred to in Principle Two. During this period of volatility, investors in now diversified portfolios have gone from the thrill of their portfolio delivering record returns, to it halving in value and then bouncing back very quickly.

Many investors simply could not cope with the constant bad news and when it became too much for them, they sold out and went to the safety of cash. In doing so they missed the turn of the market and more importantly missed the recovery – turning a paper loss into a permanent loss.

Those investors who were able to keep sight of their longer term strategy were able to regain some of these earlier

paper losses. This is not to say that the market couldn't fall again, but it does show the danger of letting your emotions drive your investment decisions.

Think about how you felt during this time and the decisions you made as a result.

- How did you feel when your superannuation and portfolio statements reported large falls time and time again?
- What decisions did you make as a result?
- When the market was nearing its bottom, did you look at it as a disaster or an opportunity to buy some cheap investments?
- What discussions did you have with your adviser? Were they accessible?

As your adviser, we are here to listen to your feelings, to help you interpret the particular market cycle and to manage the associated volatility. This is not to say we always have a set and forget approach, but we will help you to keep perspective.

While always respecting your right to make your own decisions, we will challenge your thinking if we feel your emotions are leading you to a decision that is not in your best interests.



Principle 9

Selecting the right investments starts with a thorough research process. Then it comes down to combining the right products for our client's situation.

Our research process. Three layers of quality assessment.

Quality investment advice begins with quality research and our approach has several layers:

- 1 Genesys obtains investment research data from experienced external asset consultants. This research covers a huge number of investment alternatives available here and abroad.
- 2 Genesys employs a team of professional investment researchers who assess this research and use their skills to overlay their own thoughts so as to determine a selection of quality investment options contained in the Genesys Investment Approved List. This list contains hundreds of investment alternatives and forms the pool of quality investments that have passed quality assessment.
- 3 Our practice then selects appropriate investment choices from the approved list and builds portfolio offerings to suit a variety of client requirements.

Some of the financial products we use

Managed Funds

Also known as unit trusts, these are vehicles that allow you to pool your money with a number of other investors into a single fund that is then able to invest in investments across the main asset classes.

Advantages of managed funds:

Diversification

Because you are part of a large pool of investors, the fund is able to create a level of diversity that would not be available to individual investors. Also, a managed fund provides investment options that small scale investors often don't have access to.

Professional Management

Managed funds are run by professional fund managers who have particular expertise and knowledge. Fund managers are in constant touch with the markets they invest in, thus providing a particular advantage for investors wanting to invest in markets or sectors in which they have little or no experience.

What you need to be aware of:

- There are fees – such as fees paid to the managers for their skill and expertise. These fees are commonly referred to as a Management Expense Ratio (MER) and your returns are net of these fees. Are they worth it? It depends on who you select and what you are seeking. A fund manager who consistently beats the market is certainly worth the cost.
- The investor does not have control of the underlying investment decisions of the manager. If the manager gets it wrong, then returns will suffer. That's why it is important to select the right managers who complement the other managers in your portfolio.

Listed investments

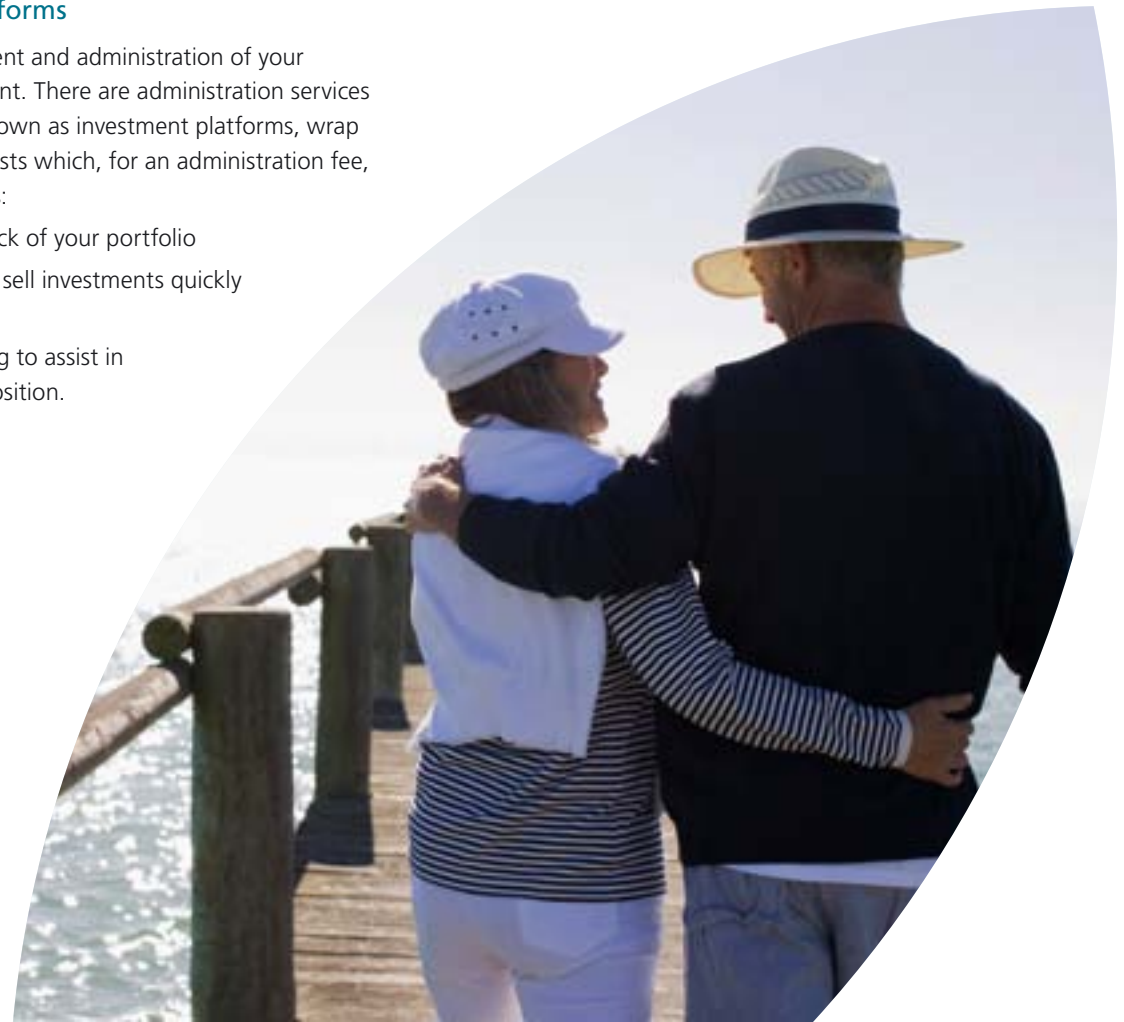
For certain clients we may recommend a portion of their portfolio be invested in shares directly. This introduces a further level of diversification, helps manage costs and provides an element of control back to you. By 'listed' investments, we mean investments such as direct shares, listed investment companies (LICs) and exchange traded funds (ETFs).

Note: In respect of direct shares, we may make the individual share recommendations ourselves or outsource this to one of our approved stock brokers.

Administration platforms



The ongoing management and administration of your portfolio is very important. There are administration services available to investors known as investment platforms, wrap accounts and master trusts which, for an administration fee, offer the follow benefits:

- the ability to keep track of your portfolio
- the ability to buy and sell investments quickly and effectively
- consolidated reporting to assist in managing your tax position.



Our portfolio solutions

The approach we take in constructing your portfolio depends upon your particular situation – different clients require different things. In essence however, there are three styles we typically adopt depending upon what is appropriate for you:

	Passive model	Active model
Description	 <ul style="list-style-type: none"> ■ Cash ■ Australian Shares ■ International Shares ■ Property Trusts ■ Australian Fixed Interest ■ International Fixed Interest 	 <ul style="list-style-type: none"> ■ Cash ■ Australian Shares ■ International Shares ■ Property Trusts ■ Australian Fixed Interest ■ International Fixed Interest
	<p>These models are all about keeping things simple. Minimising cost and ongoing maintenance, while ensuring adequate diversification. Passive models aim to control volatility together with delivering consistent returns.</p>	<p>We look at each asset class individually and allocate to several sector specific products. For example, for Australian shares we may select three or four Australian share funds each with a different approach. This helps to manage risk while allowing the individual managers to apply their skills at beating the market. We may also use direct investments (e.g. shares) in conjunction with or instead of managed funds.</p> <p>An active model can be more volatile and more expensive than a passive solution because the managers are more active and many have specialist skills. They do however offer the best chance of superior returns.</p>
Suitable for	<p>Clients who generally have smaller balances (and a need to keep costs down) or who don't want active ongoing servicing from us.</p>	<p>Clients who seek to outperform the general market and want active management of their portfolio via a service agreement.</p>
Types of products used	<p>Single manager multi sector funds. Multi manager funds. Index and exchange traded funds.</p>	<p>Single sector funds. Direct investments such as shares.</p>

Core / Satellite model



- Cash
- Australian Shares
- International Shares
- Property Trusts
- Australian Fixed Interest
- International Fixed Interest

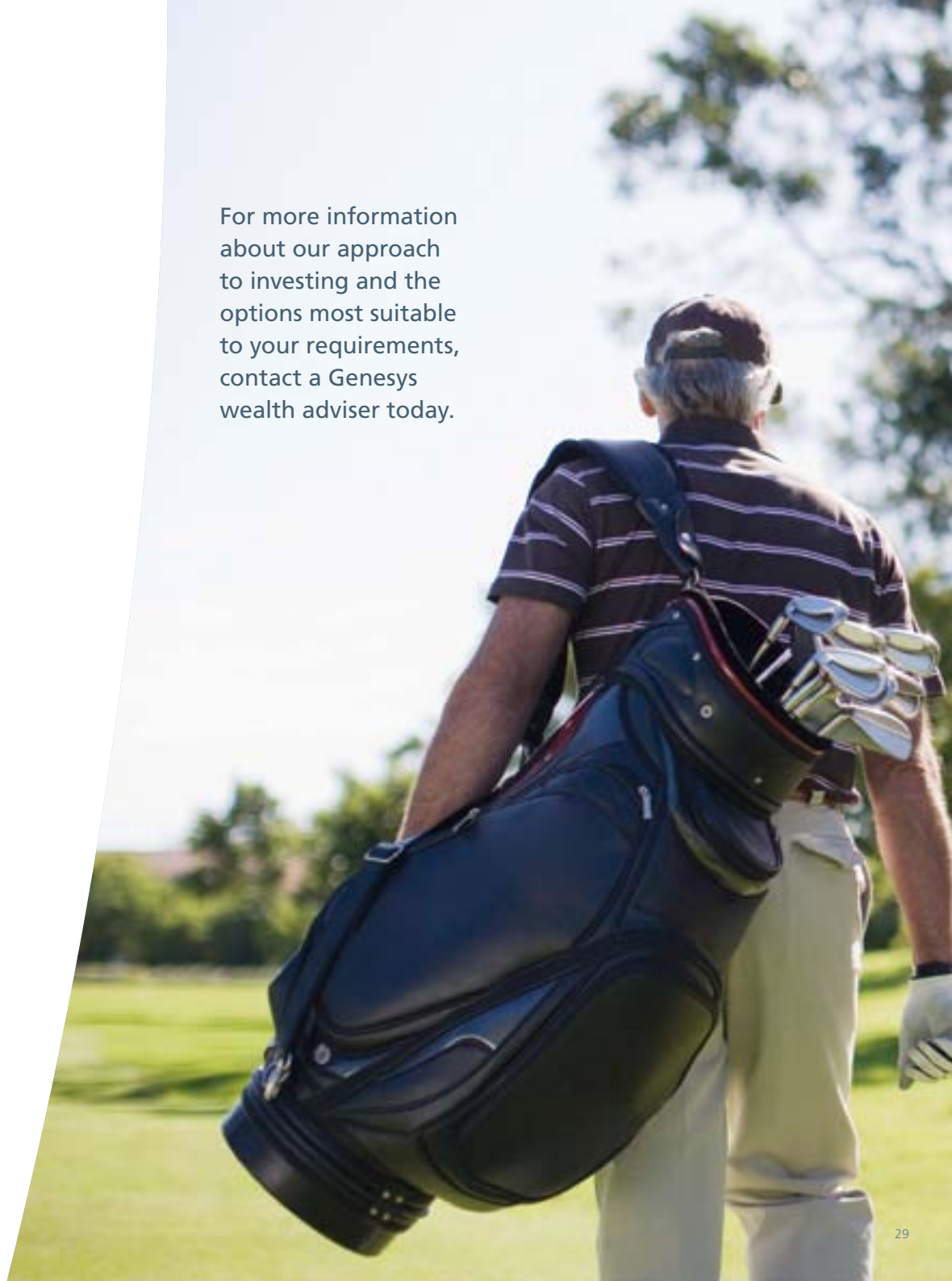
Our core/satellite models sit somewhere between an active and a passive solution in terms of cost, expected returns and expected volatility. With these models, lower cost passive style investments make up the core and we add one or more active investments to it. The core helps to manage cost and volatility and the satellites offer the potential to enhance returns.

Clients who seek superior returns and active management, but also want to manage cost and volatility.

Passive style (refer above) investments as the core.

Active style (refer above) investments as the satellites.

For more information about our approach to investing and the options most suitable to your requirements, contact a Genesys wealth adviser today.



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Important information

This booklet provides general information only. Before making any financial or investment decisions, we recommend you consult a financial adviser to take into account your particular investment objectives, financial situation and individual needs. Genesys Wealth Advisers and its Authorised Representatives do not accept any liability for any errors or omissions of information supplied in this booklet.

The investment statistics provided in this book are provided by third party sources. They are deemed to be accurate however this is not guaranteed. The past returns are not indicative of future returns.



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