



**How to control your emotions and
invest wisely** /



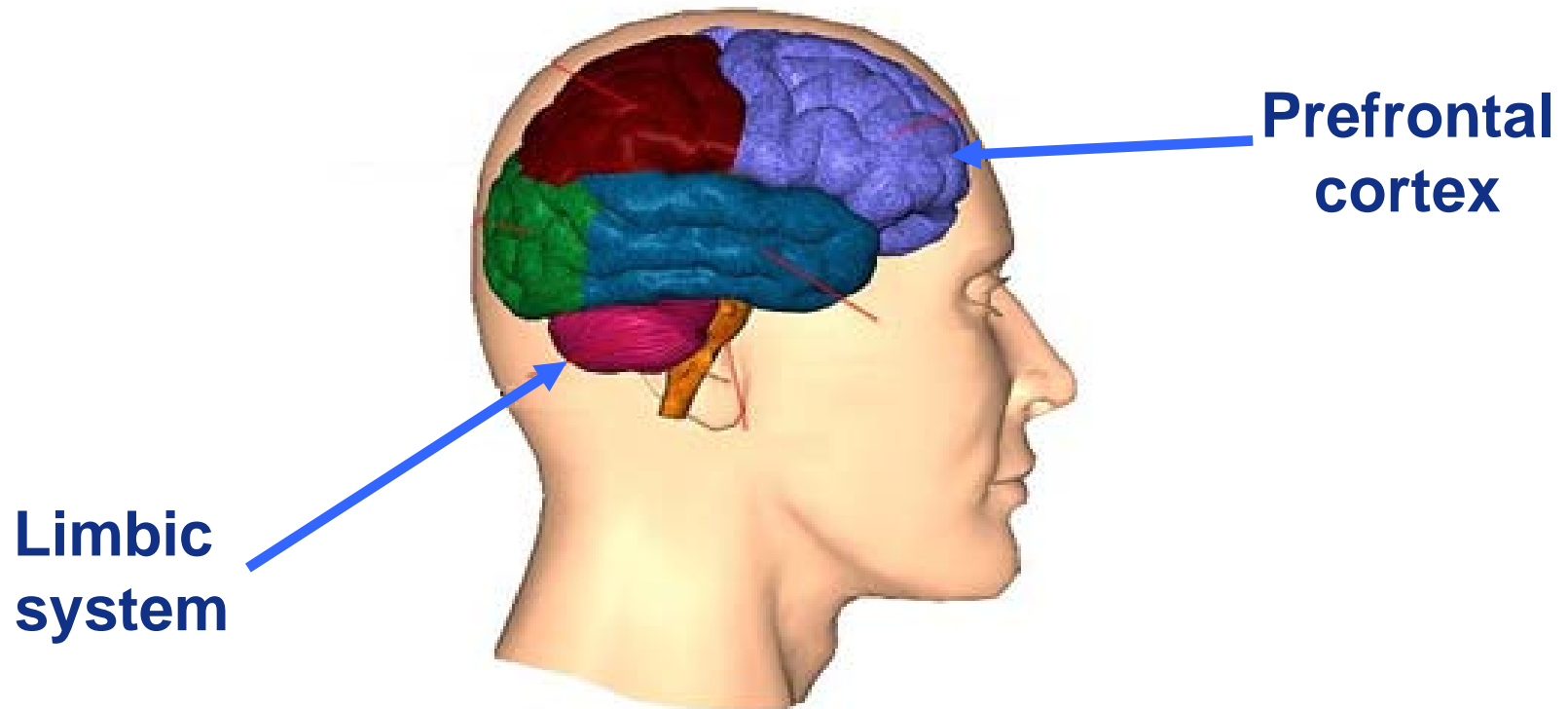
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**On average over long periods of
time shares have outperformed
cash and fixed interest by around
5% annually.**



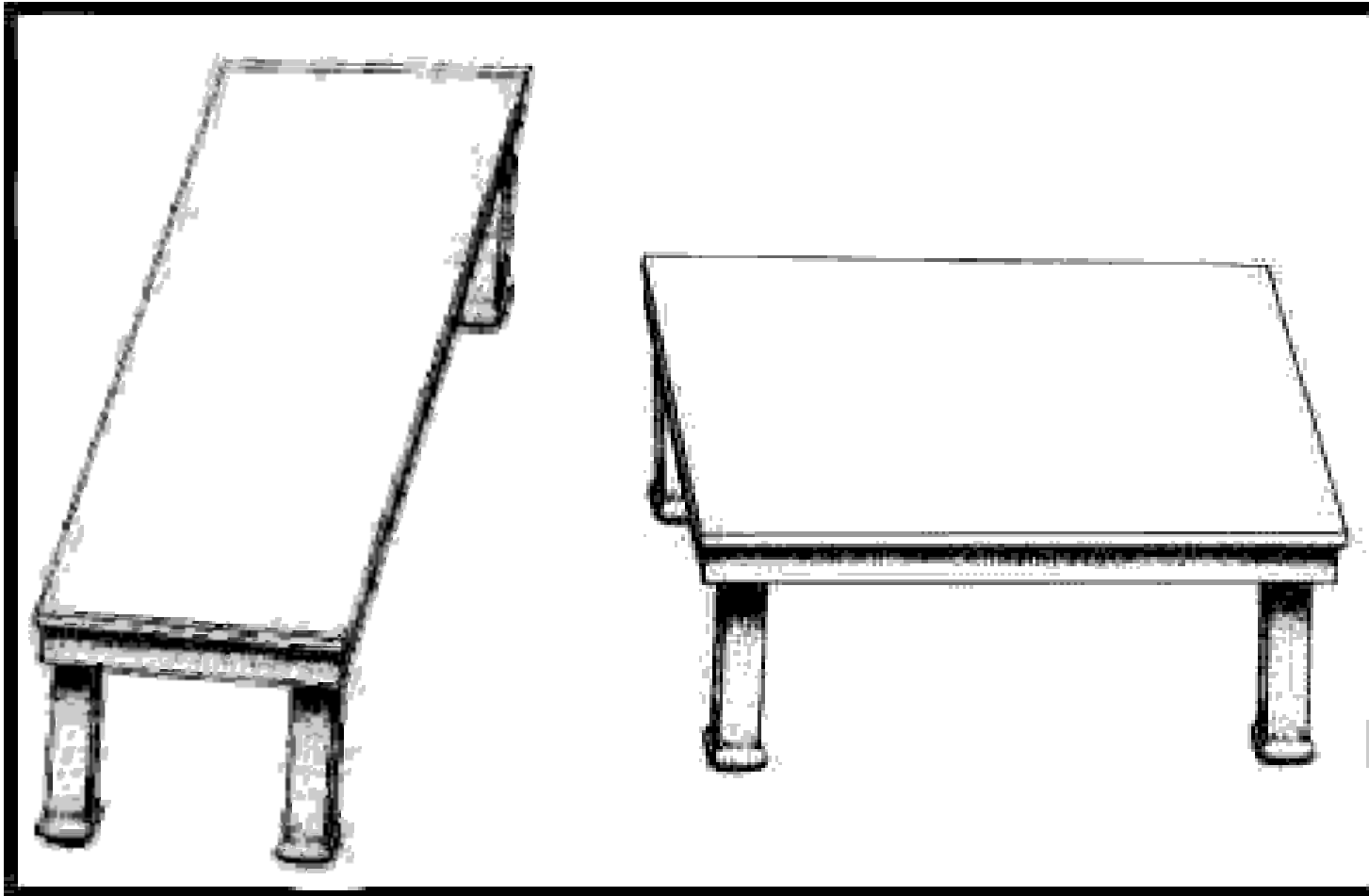
**The difference between success
and failure is not how investment
markets behave, but how
investors behave.**

Emotional investing /



Behavioural finance is the link between emotions and investing

The limbic system in action



Source: Roger Shepard (1990)



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Public reacts to banking crisis with a DIY solution

Safe sales on the rise

Kathryn Welling

FOR the past couple of weeks dozens of elderly people have been taking their money out of the bank and stashing it, not under the mattress, but in a domestic safe.

The sales manager of one of the country's major safe manufacturers said people, most of them elderly, were emptying their accounts and ordering in sophisticated home safes.

He added it wasn't the first time nervous people have hoarded their savings at home.

"We saw it happen in 1982," said Ken Berry of the CMI Safe Company. "It seems to go in a cycle, but we're urging them not to panic."

Normally the family-owned business sells its domestic safes through resellers, although it usually has one or two people a day coming to their door.

"In the last two to three weeks we are selling six to 10 domestic safes a day to

people coming into the office which is unusual," Mr Berry said.

And locally locksmith David Plush agreed his safe sales were up, too.

"This time of year is our biggest month but we have sold a few extra this year, about six safes in 10 days," he said.

The Australian-made domestic safes installed by a locksmith do not come cheap at between \$400 to \$1000 each, but Mr Plush said the cheaper models purchased at hardware stores were made in China and easy to break into.

"We can open a Chinese safe in 60 seconds," he said.

With the announcement this week that all Australian bank deposits will be guaranteed by the Federal Government, safe sales are expected to slow. Northern Beaches duty officer Insp Paul Devaney said residents were not advised to leave amounts of cash in their homes.



Locksmith David Plush said safe sales have definitely increased. Picture: SIMON DEAN

quicknews

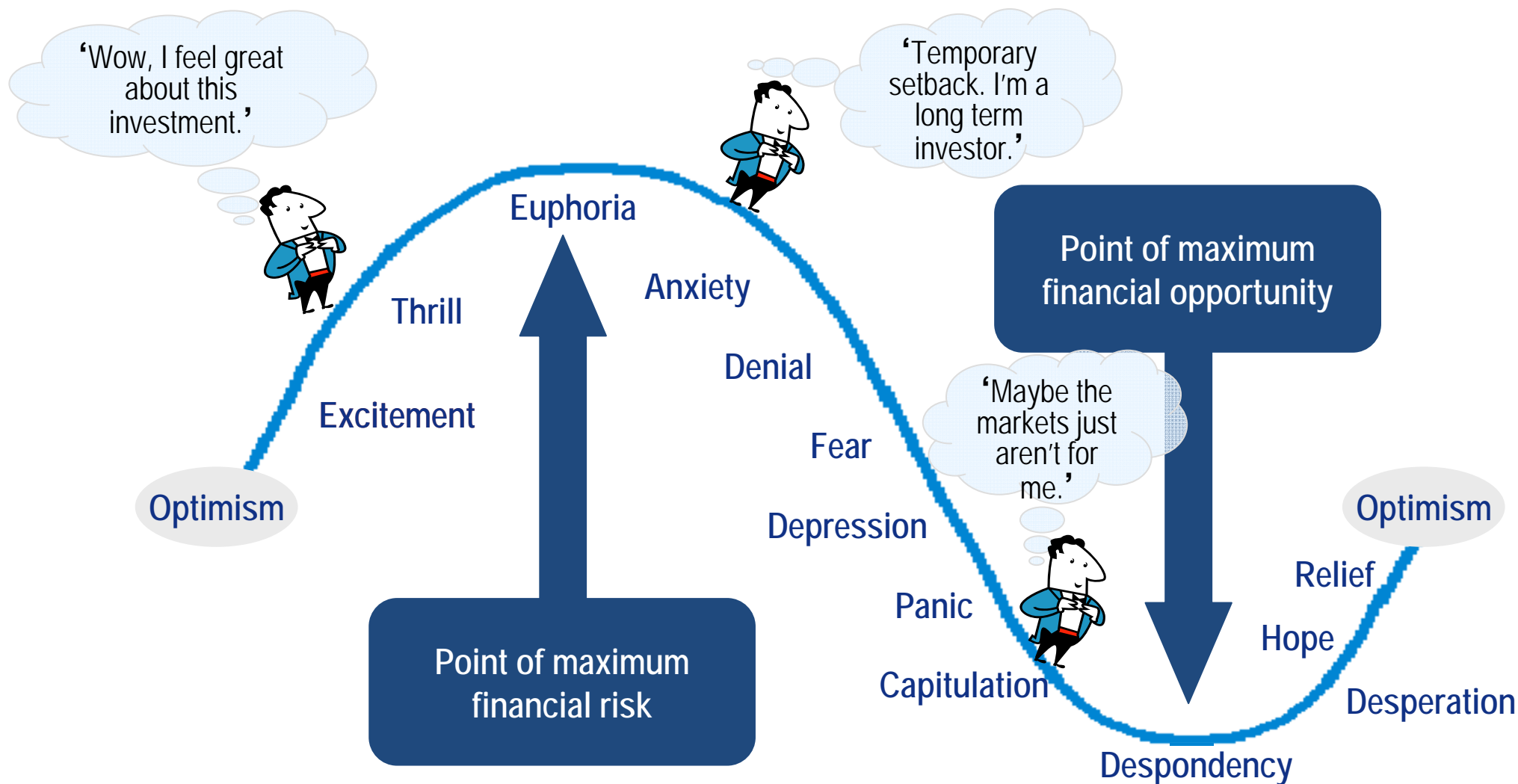
Crisis money

THE Federal Government yesterday announced a \$10.4 billion package to help Australia counter the global economic crisis. Pensioners, low and middle income families, and first-home buyers will be among the major beneficiaries. First-home buyers will be eligible for grants of up to \$21,000 designed to stimulate housing activity. The scheme will be time limited. All contracts entered into by June 30 next year will be eligible for the new assistance. The payment under the first-home buyers scheme will be doubled from \$7000 to \$14,000 and first-home buyers who buy newly-constructed homes will receive an extra \$14,000, taking their total grant to \$21,000. Australia's four million pensioners, carer and seniors will benefit from December 8. Single pensioners will receive a lump sum payment of \$1400 while pensioner couples will receive \$2100. People receiving the carers allowance will also receive \$1000 for each eligible person in their care.

Free art tuition

BUDDING artists in Pittwater will be given the chance of receiving free tuition from a professional artist at several locations in Pittwater on Saturday, October 25. The artists will be at North Avalon Beach, Newport Beach and Clareville Beach from 10am to 2pm, while artist Nick Hall will be at Mona Vale Library on the same day to show locals how to draw using the technique of mark-making, which combines charcoal and rubber to create pictures. For information phone 9997 1933.

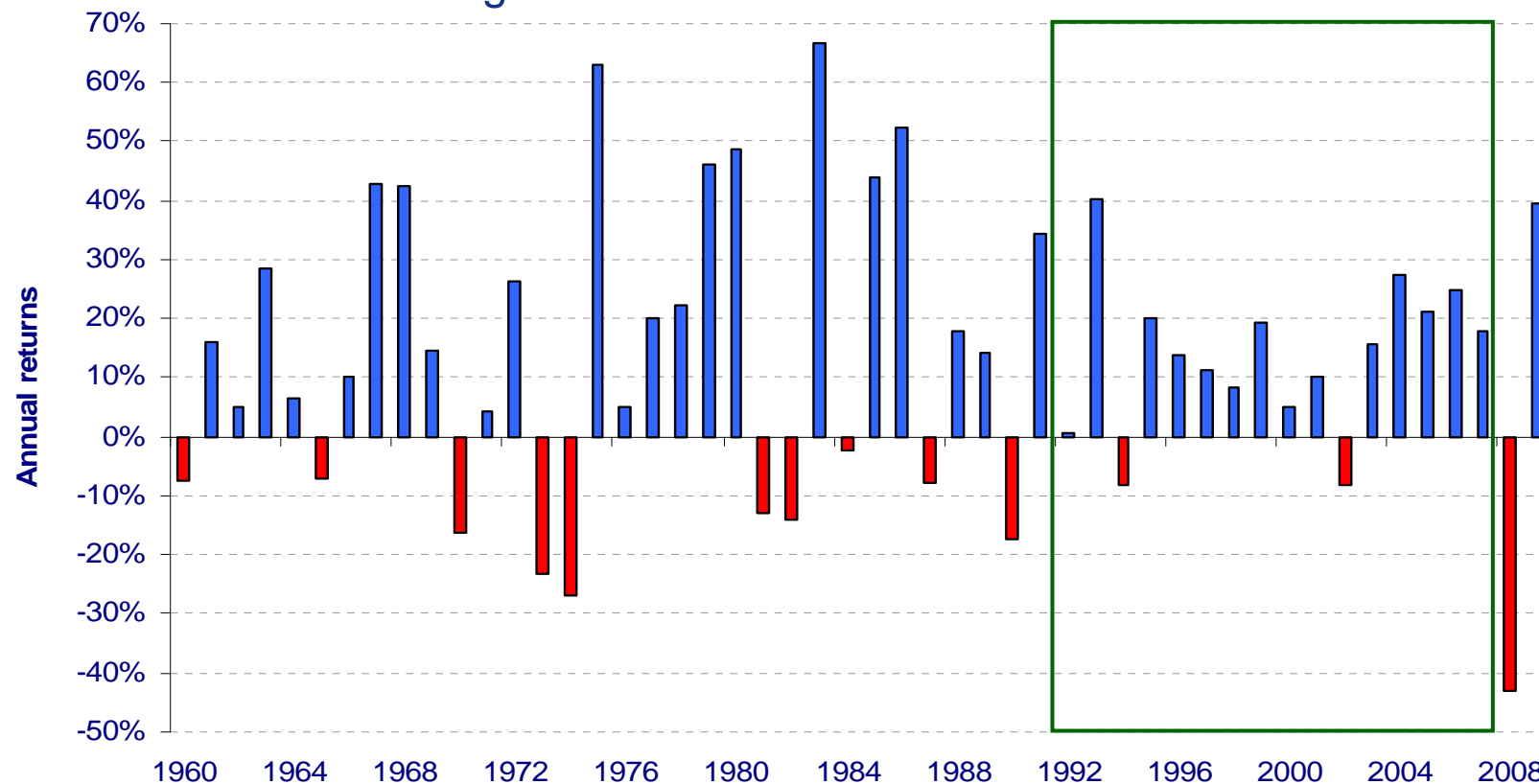
Be fearful when others are greedy and be greedy when others are fearful – Warren Buffet



Shares have always recovered

Australian sharemarket 1960 to 2010

- Between 1992 and 2007, 1 in 8 years negative
- Between 1960 and 2010, 1 in 4 years negative
- Average Return 14.4%



Source: Bloomberg, AXA. All Ordinaries Accumulation Index
Yearly data from December 1960 to December 2009



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Market up 54% but there's 41% more on the table

Index high	1 Nov 07	6829
Index low	6 Mar 09	3145
Index today	17 Mar 10	4853

Expected return if market recovers to previous high

Years to return to 6829

Annualised return

3

12.1%

5

7.1%

7

5.0%

10

3.5%

**Plus
dividend
yield**

Investor behaviours...Framing

Framing

Defined: *the manner in which a 'rational choice' problem has been presented*

Consequence: *depending on how a choice is framed a person's decision making will change*



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Framing



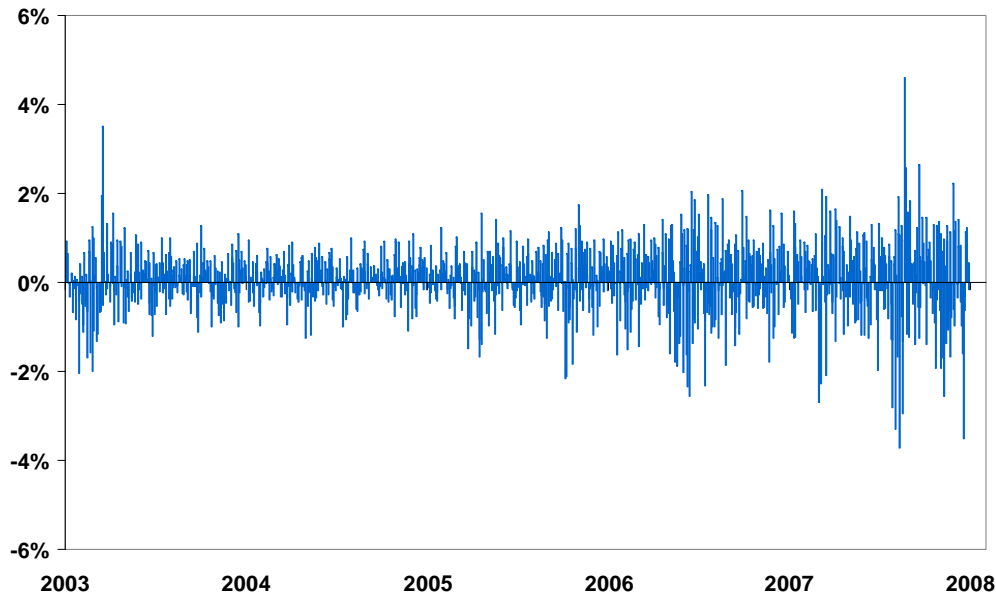
Perverse reframing – “Come and ride the death road!”



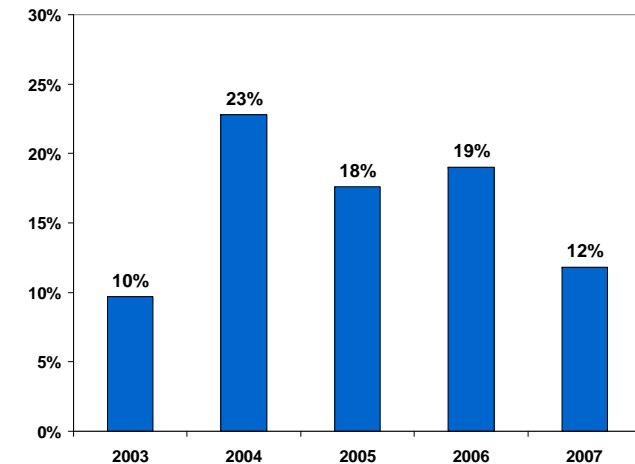
Investor behaviours... Framing

Australian shares price movement 2003 – 2007 The same information framed in two different ways

Daily movement



Annual movement



Growth over 5 year period 111%, 43% of days were negative

Investor behaviours...Herding

Herding

Defined: *Investors feel a strong impulse to do what others are doing*

Consequence: *People put more money in the top of the market and sell after crashes at the bottom of the market*



Investor behaviours... Anchoring

Anchoring

Defined: *Investors future decisions are dictated by past experiences*

Consequence: *Investment opportunities are missed*



Investor behaviours...Eeny, meeny, miny, mo

Eeny, meeny, miny, mo

Investors are faced with too much choice.

Consequence: *The more choices people face in life the more likely they are to simply do nothing.*



Investor behaviours...Loss aversion /

Loss aversion

The pain of loss is about twice as great as the pleasure of an equivalent gain

Why?

“Loss hurts the wallet but regret strikes the heart”



Investor behaviours...Loss aversion

Choice A		Choice B	
Amount	Probability	Amount	Probability
\$3,000	100%	\$4,000	80%
Expected Value		\$3,200	
Popularity		20%	

Investor behaviours...Loss aversion

Choice A		Choice B	
Amount	Probability	Amount	Probability
\$(3,000)	100%	\$(4,000)	80%
Expected Value		\$ (3,200)	
Popularity		92%	

What investors really do

A 20 year comparison of market returns and the return achieved by the average investor



Ignoring the sirens /



Odysseus, the great sailing adventurer, had to strap himself to the mast of his ship when he passed the island of the sirens.

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