



Institute of Actuaries of Australia

2004 Financial Services Forum ...The New Environment

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TOWERS
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PRICEWATERHOUSECOOPERS 

2004

Financial Services Forum

...The New Environment



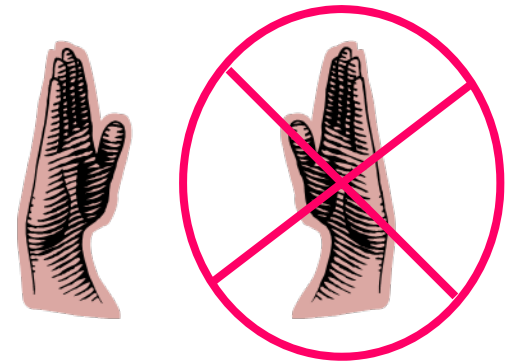
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Volatility – The Jagged Little Pill Coping with Volatility

Paul Scully BA, AIA, GAICD, FIAA

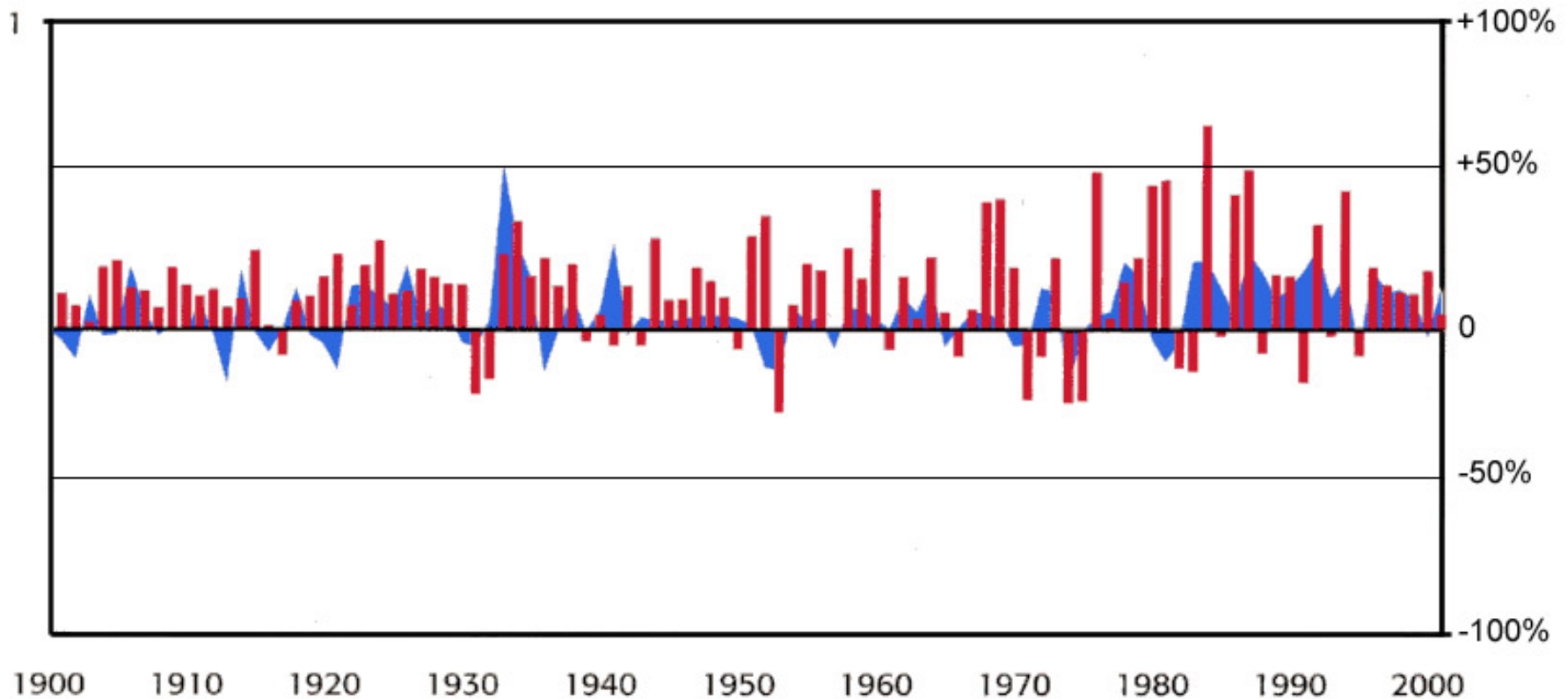
Volatility?

- ❑ Volatility of Volatility
- ❑ Downside Volatility – Loss to the Public
- ❑ Focus on Recent History (Representation Bias)



The History of Volatility

AEQ Returns 1900-2000

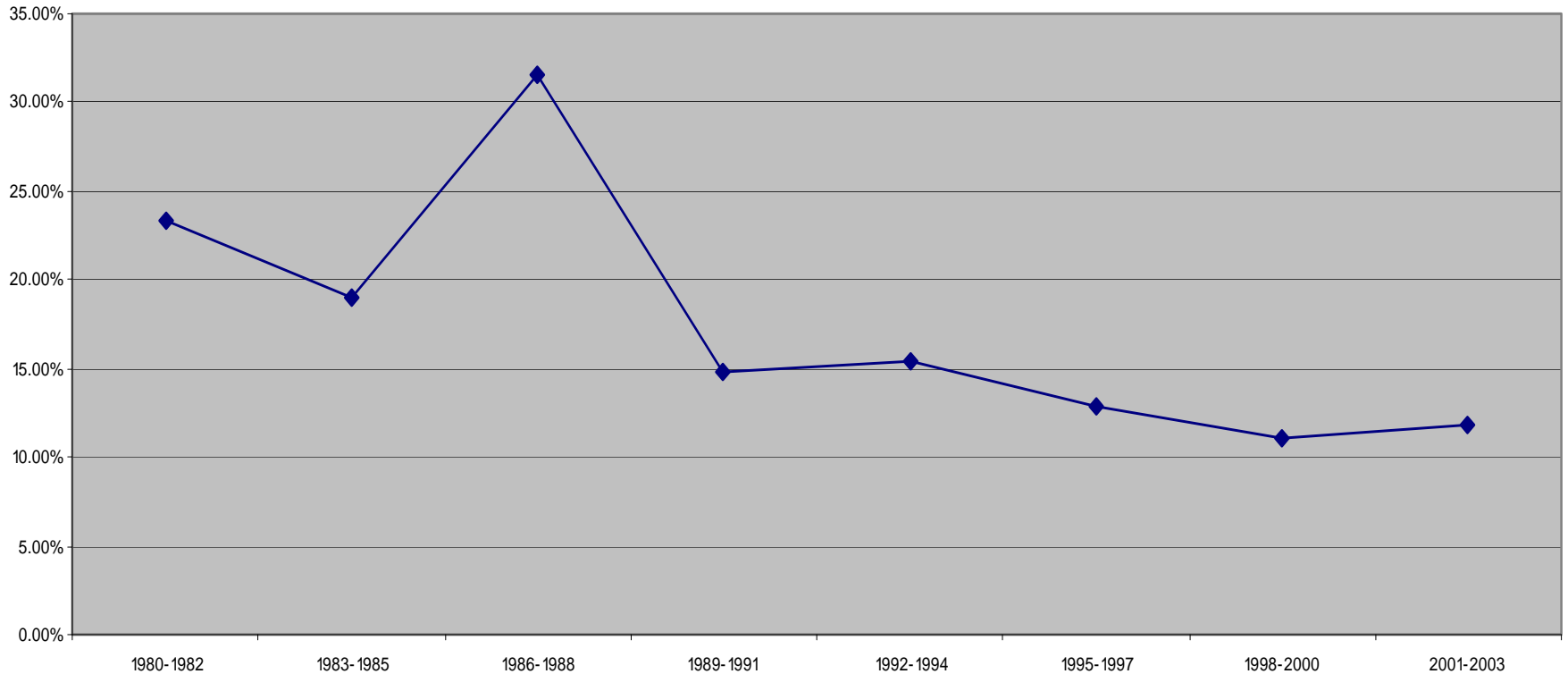


Source: E Dimson, P Marsh & M Staunton (2002), *Triumph of the Optimists: 101 years of Global Investment Returns*, Princeton University Press, p232.

The History of Volatility

AEQ Volatility 1979-2003

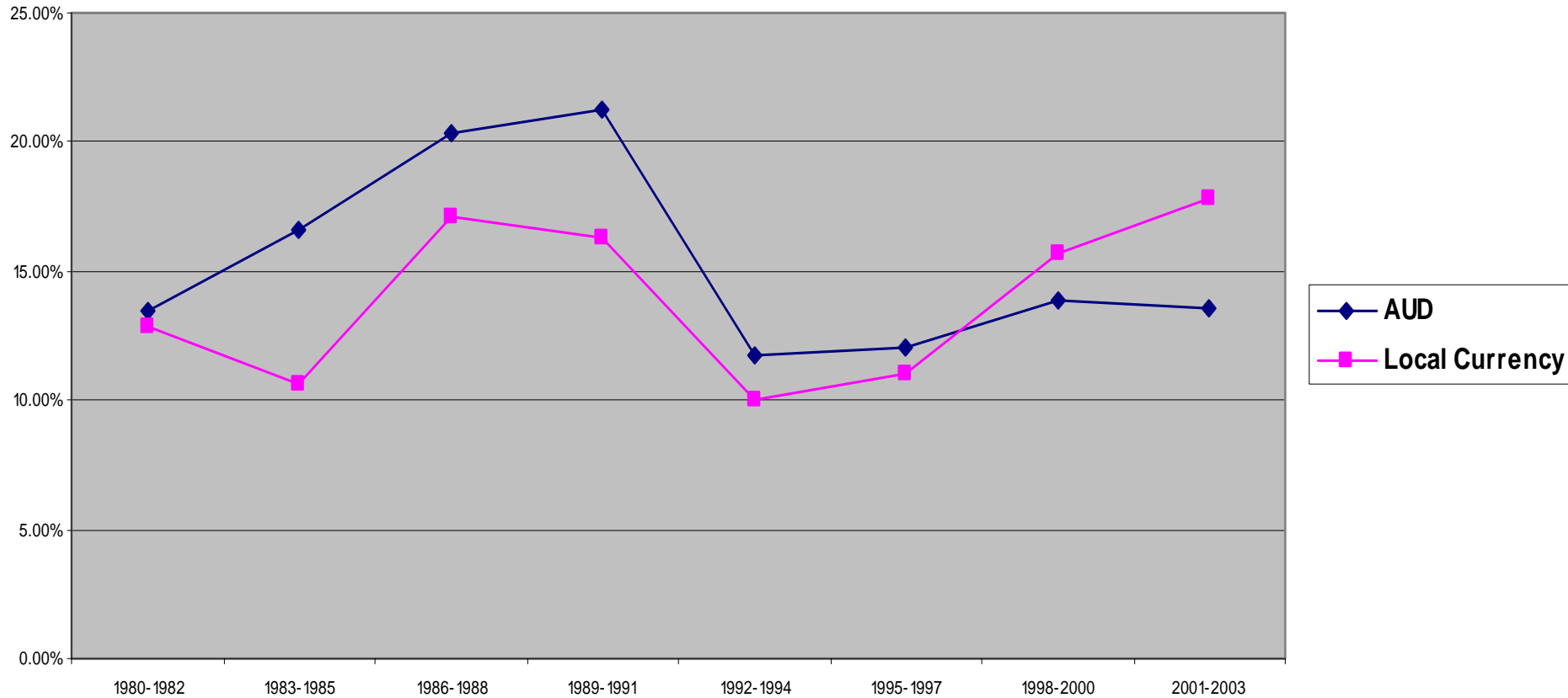
3 Year Standard Deviations



The History of Volatility

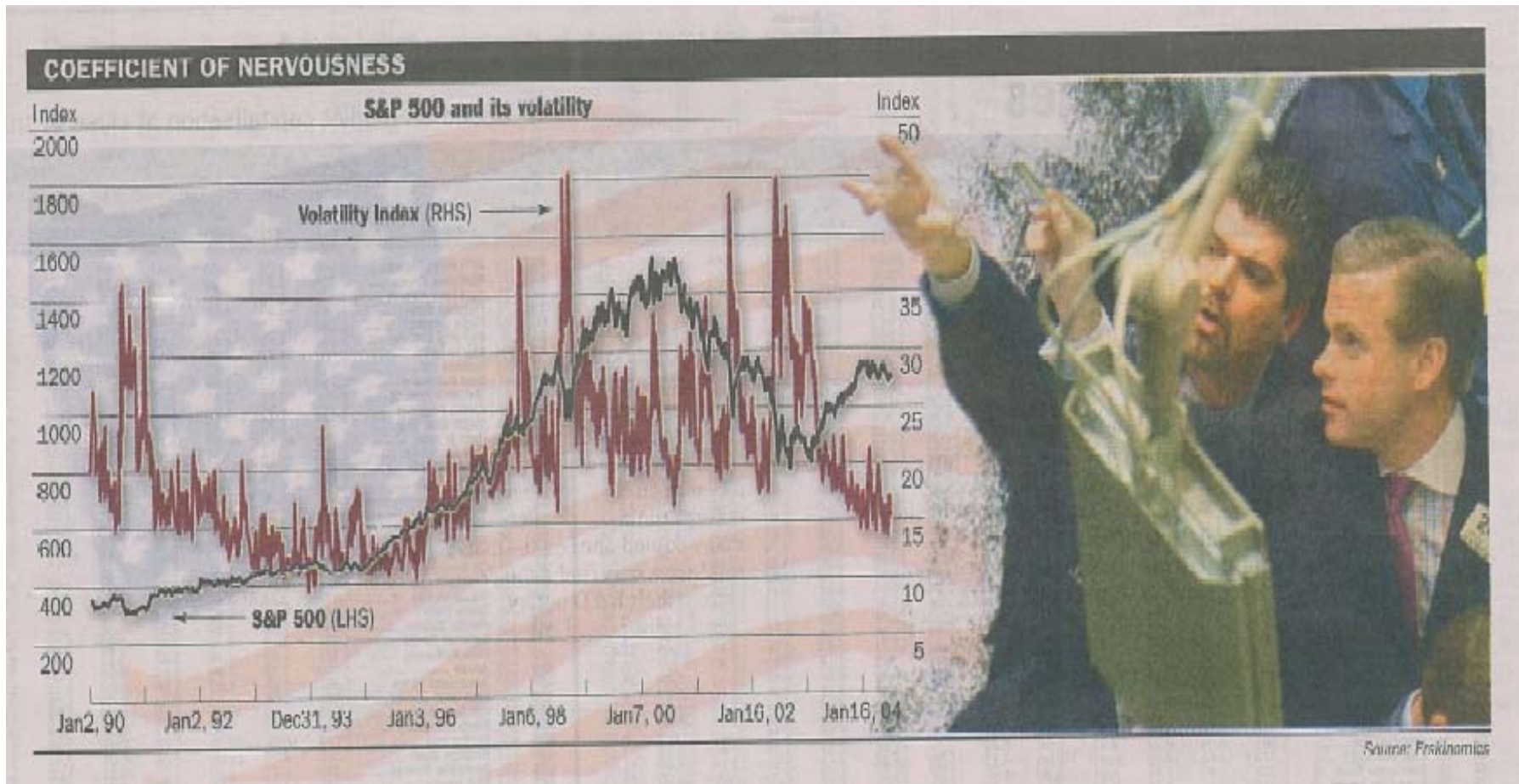
IEQ Volatility 1979-2003

3 Year Standard Deviations



The History of Volatility

USEQ Volatility 1990-2004



Source: Alex Erskine, Australian Financial Review, 9 August 2004, p 23.

Volatility Observations

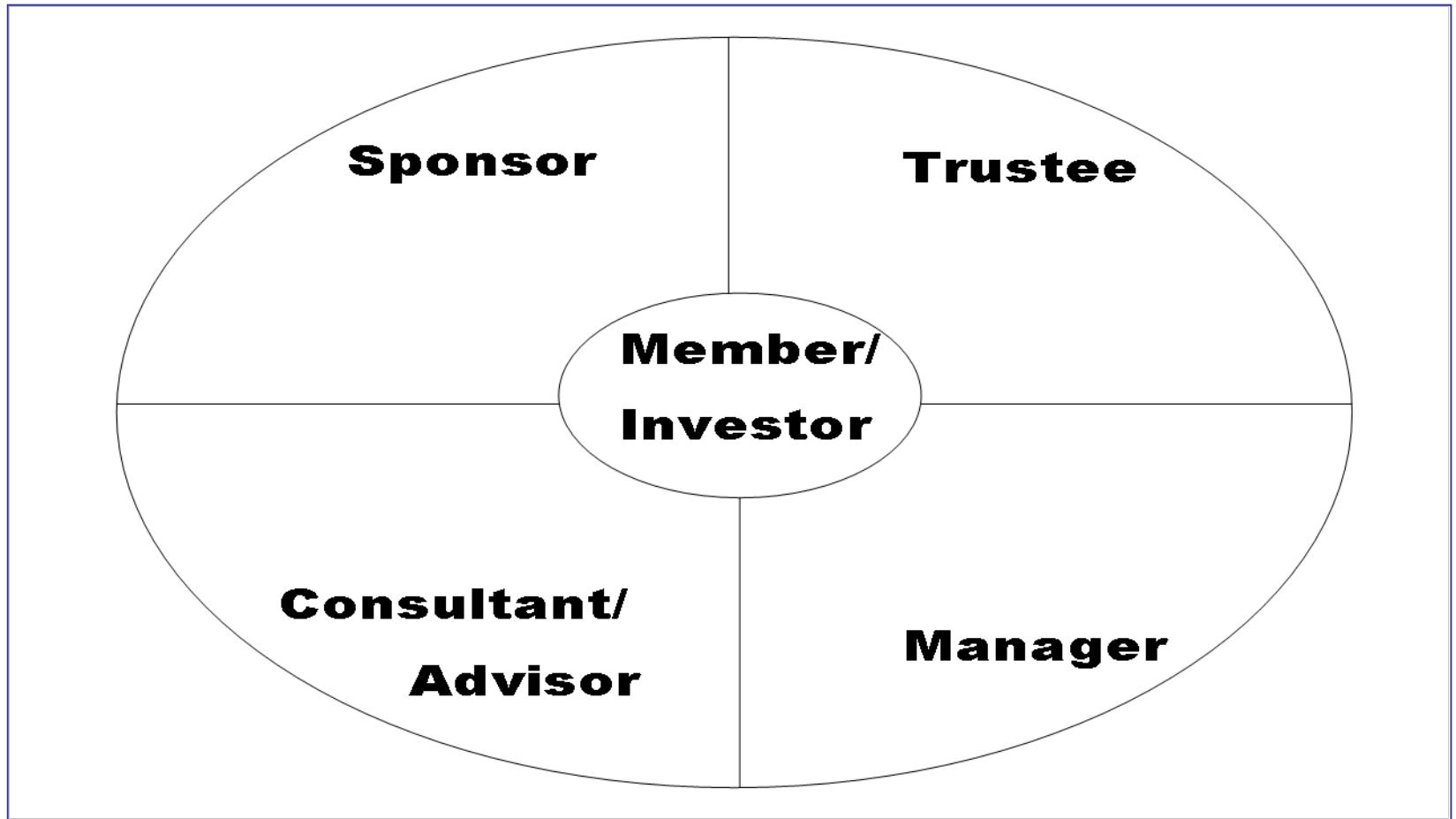
- ❑ Equity volatility did increase
- ❑ There were downside features
- ❑ Increase followed a period of relatively subdued volatility
- ❑ Increase for Australian equities
 - ✓ was relatively slight
 - ✓ a fair way below peaks of last 25 years
 - ✓ multiple precedents for return gyrations

Volatility Observations (cont.)

- Increase for global equities
 - ✓ was greater
 - ✓ started earlier
 - ✓ did revert to previous highs

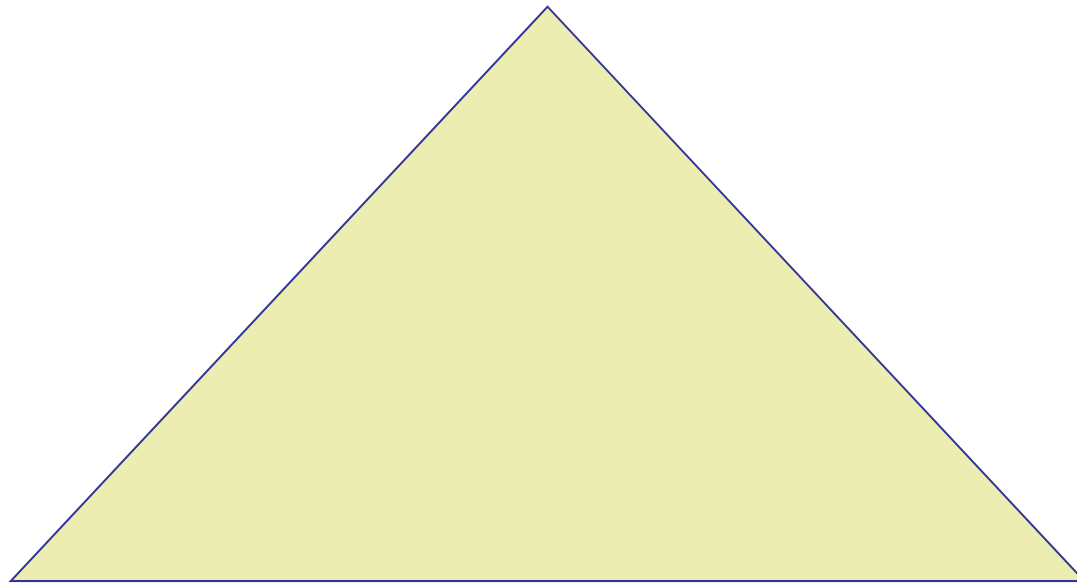


A 360° View All Super Stakeholders



Issues for Discussion

Investment Issues



Fund
Issues

Business
Issues

Investment Issues

Tactical Asset Allocation

Hedging

Horizon Shortening

Indices & Alternatives

Fund Issues

Smoothing

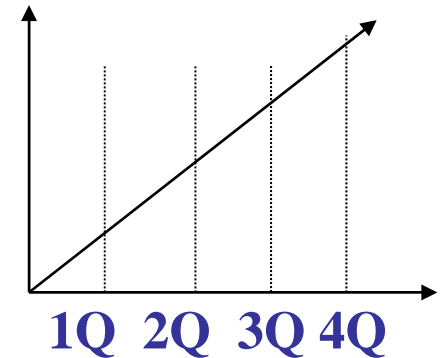


Cashflow



Business Issues

□ Profit & Reporting Horizons



□ A Broader, Risk Graduated Product Range

□ The Strengthening Currency of Boutiques

Coping

- ❑ **Active vs Avoidant Strategies**
and
- ❑ **Problem Solving vs Emotion Focussed Strategies**

- ❑ *Drugs/Alcohol*
- ❑ *Religion*
- ❑ *Humour ????*

Taking Responsibility	Denial
Reinterpretation & Growth	Disengagement
Planning	Venting of Emotions
Confronting the Problem	Resignation & Acceptance
Suppressing Competing Activities	Escape



Here's coping with you, kid !

**Thank
you**

