

The influence of the situation in the financial market on the investment results of our pension plans

Last year showed once again that the economy is cyclic and that stock market volatility is not just a theoretical concept but a real risk that is to be considered by every investor and that one has to understand to be able to use it favourably.

Last year the financial markets saw falling prices of all risky assets – stocks, real property, private sector bonds and raw materials, and they reached the lowest point in November. Only the classically safe assets – government promissory notes of developed Western countries – escaped the negative development and ensured a stable but low yield.

The fall in asset prices was not linear, not even throughout the year. Although early in the year it seemed that the sub-prime mortgage lending market crisis in the USA would be a low-scale one and easy-to-solve, actually it was the spark that brought the fire from one asset class to another. In the first half of the year there were concerns about inflation due to rising prices of raw materials, as it was forecasted that the growth possibilities in emerging markets would be immense. The dollar became weaker and weaker. In the second half of the year, the commodities demand began to fall and raw material prices have gone down rapidly since then. The fall in the prices of stocks of emerging markets has been much sharper than in the developed economies.

The results of pension plans of Swedbank Atklātais Pensiju Fonds AS reflect the risk level of the plans. The assets of the plan Dinamika+100 are invested in stock markets only; consequently, the value per share of this plan lost most value among all plans – it fell by 48%. The investments of the plan Dinamika+60 in stock markets are counterbalanced with investments in bond markets, which partially mitigated the risk; therefore, the value per share of this plan fell by 31 %. The investment policy of the plan Stabilitāte+25 stipulates a comparatively low weighting of investments in stock markets, and consequently its value per share fell by 15%.

Every plan has a strategy for the weighting of investments in stock markets because it historically has provided the highest return to the investors in the long run, even though there have been periods, just like we see now, that have disappointed the investors. The history knows previous periods of long-term recession and stagnation in the stock market. The longest period when US stock investors had to wait for a capital growth that was real and exceeded the inflation, taking into account the received dividends, was ten years, from 1973 to 1983, and then a period of rapid growth followed.

Therefore, the investment period and regularity of investing are of great importance: to receive a higher return in the long-term, patience and steadiness in investing is required, in particular if investing in the plans Dinamika+60 and Dinamika+100. The plan Stabilitāte+25 would normally provide positive yield every year; however, the fall in prices in the bond markets, where a majority of this plans assets is invested, reached unprecedented lows in late 2008, although the amplitude of fluctuations still remained narrower than in the stock markets. The market price of the investments of the plan Stabilitāte+25 in private sector bonds, foreign bonds and Latvian Government securities decreased.

It is in the nature of people to look for similarities in the history and to apply the experience of recent history to the future. If the stock market is in decline for some time, then forecasts on inevitable large depression become very popular. It was not a long time ago when it seemed that the stock prices only would go up. Financial markets are volatile; many investments at the moment have lower prices, and that means better opportunities of making profit in the future.

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 You can receive information on the pension plans Stabilitāte +25, Dinamika +60, Dinamika +100 and Dinamika +(USD) and their investment policies at the office of Swedbank Atklātais Pensiju Fonds AS, at Swedbank branches and on our website www.swedbank.lv.