

## Investments – What are my options?

There are many different types of investment. Some are riskier than other – and hence carry the potential for greater returns. The type of investment that is best for you will depend upon your investment goals and your investor profile (see factsheet: *Investments – what to look for?*). Here we examine the main types of investment options and how they compare.

### Forms of investments

Broadly, investments generally fit into four asset classes:

- ✦ Cash;
- ✦ Fixed interest;
- ✦ Property; and
- ✦ Shares.

What investment will be best for you will depend upon your investment goals, your level of risk tolerance, your time horizon, and your tax position, among other matters.

#### Cash

Examples: bank savings accounts, and term deposit investments.

This form of investment is easy, readily accessible, and low risk. Returns are low compared to other forms of investment, but are generally guaranteed, so your investment is unlikely to drop in value in the short term like others might. This makes this form of investment ideal for short term savings goals or for the purposes of keeping an emergency fund.

Term deposit investments are usually for a fixed short term, eg 3 or 6 months.

In summary: low risk – low return.

#### Fixed interest

Example: bonds.

This form of investment is like an IOU issued by a company, local authority, or government. You give them money for a certain period and they promise to pay it back at a certain interest rate. Typical fixed interest investments are longer-term bank deposits, debentures, and corporate, local authority, and government stock.

Fixed interest investments are usually more volatile than cash but carry greater potential return. Generally bonds are not a good short-term investment. Small investors do not usually invest directly in bonds but rather through a managed fund (see below).

In summary: medium to long term – medium risk.

#### Property

Investing in property generally carries a much higher rate of return than cash or fixed interest investments and, therefore, is also fairly volatile or risky.

Returns from property investment come from rental income, after deducting expenses, and from capital growth in the property over time. Property is cyclical in nature – there are times when the market is low and when it is high.

You can choose to invest directly in property yourself or through managed investment funds which invest in property. Owning rental property directly for investment is like running a small business. You need to know the market and understand the risks/rewards and tax aspects to make the investment work well.

In summary: long term – medium to high risk.

## Shares

When you buy shares you become a part-owner in the company and, therefore, are entitled to a share of the profits (dividends). You may also make a capital gain because the shares increase in value over time. Of course, capital losses are also possible.

Shares are generally considered the most volatile form of investment as prices of shares can vary from day to day and a range of complex factors affect share price performance.

Generally, any investment in shares should be geared towards a long term investment. However, when you need your money you will generally be able to sell your shares.

In summary: long term – high risk.

## Direct vs indirect investment

You can invest directly in cash, fixed interest products, property, and shares (direct investment) or you can place your money in a superannuation scheme, unit trust or managed fund and have specialists look after the investment decisions for you (indirect investment).

Direct investment requires much more time and effort as you need to understand the relevant product and market yourself, and make all the investment decisions.

In a managed fund your money is pooled with other investors, and a professional manager invests it in a variety of investments, using guidelines that you provide. Managed funds come in many different forms and cover a variety of assets for different objectives. You pay a fee for this management service. Financial advisers, banks, and insurance companies can all advise you on managed funds that match your investment needs.

## Diversification

A diversified investment portfolio is important because every investment carries some risk and can be subject to unexpected change. If you invest narrowly in one stock or one sector, an unforeseen event could hit you hard, but if your investment 'eggs' are spread around more than

one basket then the risk against inevitable changes is reduced.

## Allocation of assets

As noted above, you should not keep all of your eggs in one basket. So what percentage of your investment portfolio should be invested in different forms of investments?

One way to determine the right mix is to look at age and risk tolerance. Investment portfolios also generally need to be reconsidered from time to time as a person's circumstances change.

## Age

In a person's younger years, investment time horizons are longer and more volatility can arguably be tolerated. As a person approaches retirement, they become more dependent on income from investments, although modern life expectancies mean that it may still be important to maintain some longer term investments.

## Risk tolerance

The investment allocation decision is also dependent on a person's attitude about risk and this tends to be a very personal decision regardless of age or other factors. Some people are simply prepared to take more risks than others.

## How to get started

Talk to us when you are considering your investment strategy. We can assist you in developing an investment plan to fit your requirements. There are also many other forms of investment not discussed here, such as investing in your own business, buying a franchise, etc. We would be happy to discuss these and any other investments you are considering.

## See Us First

- ✦ Before making any financial decisions.
- ✦ To assist you in meeting the necessary legal or financial requirements.

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## Disclaimer

Important: This is not advice. Clients should not act solely on the basis of the material contained in this fact sheet. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. We believe the contents to be true and accurate as at the date of writing but can give no assurances or warranty regarding the accuracy, currency or applicability of any of the contents. This fact sheet is made available to our clients as a helpful guide for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.