

Investments – What to look for

Investment means different things to different people. To some, it is capital growth – building wealth over a number of years. Others have a shorter time horizon or are looking for regular income and/or a higher return on their money. When choosing an investment you need to ask a lot of questions, understand some basic principles of investment, and work out what type of investment suits your goals.

Identify goals

One of the keys to putting together a successful investment strategy is identifying and understanding your investment goals and your investment budget.

It might be that you have a few different goals. For example, you might be saving for an overseas holiday, and saving for your retirement at the same time.

Each goal may require a different investment profile and hence a different type of investment.

Basic factors

Most investments are generally a blend of the following factors:

- + Risk;
- + Return;
- + Duration; and
- + Liquidity.

Risk

All investments carry some risk of losing value. But risk is usually directly related to return, so generally, higher returns mean higher risks.

An example of a low risk investment is a bank savings account – you know the return (interest), but compared to riskier investments, eg shares or property, it is not high.

Return

To work out the type of returns that suit you, ask this question: are you interested in income, growth, or a mixture of both?

If you need short term income from your investment, it is probably better to put your money where you can guarantee how much money it will earn, eg in a term deposit bank account. On the other hand if you do not need the income in the short term and want to grow a lump sum as much as possible, you can consider investments that don't guarantee returns from year to year, eg shares.

Duration

How long do you want to invest for? Generally investments break down as follows:

- + Short term – 1 to 3 years;
- + Medium term – 3 to 7 years; and
- + Long term – over 7 years.

For example, saving for an overseas holiday is generally a short term goal, whereas saving for retirement is likely to be a long term goal.

Liquidity

Liquidity is the speed at which you can convert your investment into money before the end of your investment period, without taking a loss.

An investment with high liquidity means you can get at your investment anytime, eg a bank savings account. Illiquid investments are those where it can take time to access your money without

suffering loss. Property or going into business are examples of potentially illiquid investments.

Investor profile

To determine your investment profile there are three basic questions to ask:

- ✦ How much money do you want to accumulate?
- ✦ When do you want the money to be available?
- ✦ How much volatility or investment risk can you tolerate?

Information – the key!

Once you have established your goals and your basic investment criteria, the biggest difference between people who make money investing and those who lose it is the information they have.

You must do your homework before handing over any money. Most people who become victims of scams have invested on the basis of someone's word without investigating the investment properly.

Many investments offered to the public will require an investment statement and/or prospectus under the Securities Act or other laws, so there should be plenty of information available to assist you in making an investment decision.

A more difficult situation is where you are approached privately to make an investment, for example, by a friend.

Key questions

The following is a list of key questions to ask when considering any investment. It is by no means exhaustive, but intended to assist you to narrow down a selection of suitable investment options and determine if an investment meets your investor profile and investment goals.

- ✦ What sort of investment is this? What am I buying?
- ✦ Is the investment a direct investment or a managed fund?

- ✦ Who is providing the investment?
- ✦ How much money am I required to pay? How often? Can I stop contributions?
- ✦ What is the duration of the investment?
- ✦ What are the previous and forecasted returns? Over what timeframe?
- ✦ What are the risks associated with the investment?
- ✦ Can the investment be altered?
- ✦ How easily can I cash in the investment?
- ✦ What fees and charges are associated with the investment?
- ✦ What information will I receive about the investment? How often?
- ✦ What taxes are payable on the earnings from the investment?
- ✦ Who can I contact about the investment?
- ✦ What other information is available about this investment?

Finally

Speak to us before investing. Whatever the type of investment you are considering, keep asking questions until you are satisfied that you are in a position to make a fully informed decision, or seek a second opinion if you are unsure.

Remember saying 'no' is okay! Why hand over your money if you do not fully understand what will happen to it? We would be pleased to assist you to navigate the investment maze.

See Us First

- ✦ Before making any financial decisions.
- ✦ To assist you in meeting the necessary legal or financial requirements.
- ✦ If you consider that any of the issues contained in this fact sheet may affect you.

Disclaimer

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