Investment

Smart financial strategies for women

Secure, Build, Succeed.

WPP Licensee Services Pty Ltd
Suite 110, Level 1 Eastside
232 Robina Town Centre Drive
Robina Q 4226 Australia
AFSL No. 530393 ABN 76 649 079 998

Wealth Planning PARTNERS

Investment

Investing at any stage in your life can help grow your wealth and provide an additional income stream.

Before you start investing, it is important to identify your financial goals. Perhaps you may want to save up for a holiday or ensure you have enough for retirement.

Once you have defined your financial goals, you can then choose investments to suit your budget and lifestyle.

Time frame	Investment goals
Short term (1 to 3 years)	• Car • Holiday • Starting a family
Medium term (3 to 5 years)	• House deposit • Boat • Regular income • Extended work leave
Long term (7 years or more)	• Children's education fund • Retirement

Before you start investing, you should draw up a budget to work out how much you can afford to invest, without having to compromise your lifestyle too much.

Draw up a monthly personal budget and note down the income you receive after tax, all your fixed expenses such as regular bills, rent and car/transport expenses, as well as the variable expenses such as entertainment, lunch and grocery expenses.

For each category, work out an annual total. Whatever amount you have left over can be put towards your investment, but it is a good idea not to invest all your spare cash, in case of emergencies or extra expenditures that may arise throughout the year.

Use our budget planner to start calculating your budget. Visit onepath.com.au/supercalculators and click on Budget Planner.

Risk and return

It is important to recognise the level of risk you feel comfortable with for different investment types. Some investors are more risk averse and prefer to invest in safe, low-interest cash and bank deposits where the value of their money is unlikely to fall.

Other investors may accept that the value of their money may go down over short periods of time, but have the potential to earn a higher return over a longer period of time, if they invest in shares or property.

It is important to remember that losses are always possible, depending on the fluctuations in the sharemarket.

The magic of compound interest

The sooner you start investing, the better. This is because of the powerful effects of compound interest.

"Our budget helps us manage our money and plan our future."

For example, if you decide today to invest an initial amount of $1,000, then contribute $100 per month into a managed fund that earns 8% p.a., in 10 years time, you would have $20,071.

If you started investing the same amount three years later, you would only have $12,708. This is where the magic of compound interest takes effect.

The longer you invest for, the greater the difference in the compound interest, which is why starting to invest now and not waiting is important.

Asset classes

There are four main asset classes you can put your money into. The return you achieve and the level of risk associated is different for each asset class.

You can invest in cash, fixed interest (such as bonds), property and shares. To build a balanced portfolio, you can invest in a combination of these asset classes, this method is called diversification.

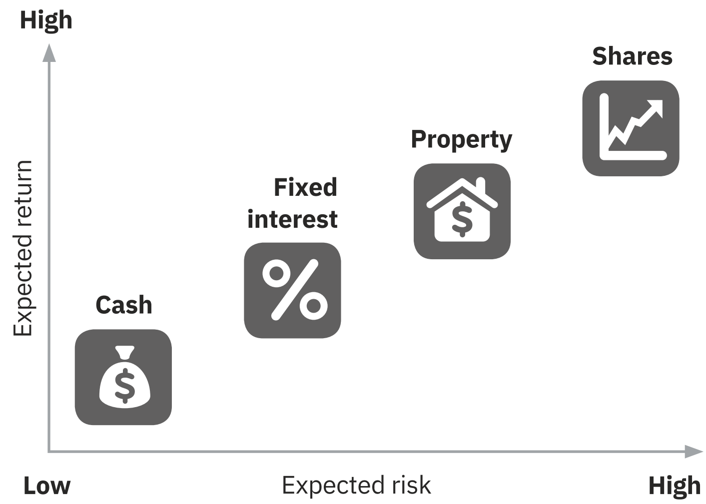
Diversification

Diversification involves spreading your investment over a number of different asset classes (cash, fixed interest, property and shares) to provide more consistent overall returns. It is a good way to reduce the risks associated with investing over short periods of time.

By not having all your money in one type of investment, the high returns you receive from one investment can sometimes offset any poor performance in another asset class.

Cash and fixed interest asset classes are considered 'defensive' assets, which means they are designed to defend an investment from losses. These tend to be more popular for shortterm or risk averse investors, who prefer safe, more secure investments with some consistency in returns.

Shares and property asset classes are considered 'growth or aggressive assets' because they tend to provide overall higher long-term returns but they are considered more volatile (higher risk).



Cash

Cash funds include bank deposits and investments in securities such as treasury notes, with a term of less than one year. Investing in cash via a cash management trust could be good for short-term financial goals such as saving for a holiday or a car, as there is little risk of losing money over short periods of time.

Fixed interest

A fixed interest investment or 'bond' is a debt security issued by a corporation or Government in return for cash from an investor.

Bonds are the most common form of fixed interest securities. They are agreements to repay a fixed amount of money at a predetermined date in the future (maturity date).

Fixed interest investments are commonly referred to as 'income-producing' investments.

Interest rates can impact on the value of a bond, therefore they can be riskier than cash, but bonds can potentially offer better returns.

Property

Property investments can include investments in direct property, listed property trusts (LPTs) and other property securities. LPTs invest in a range of residential and commercial property, office buildings, hotels and industrial properties.

They are pooled property investments which are broken into units and listed on the stock exchange like shares in a company.

Funds which invest in property securities allow you to take advantage of the benefits of diversification from investing across a range of different property sectors. Property investments have a higher risk than fixed interest investments, but are generally considered to have less risk than shares.

Shares

Shares or stocks are securities representing ownership of a company. When you buy a share in a company, you become a joint owner of the business. When companies distribute profits via dividends, the investor receives part of it.

Shares are generally known to provide the potential for the highest return of all the asset classes over the long term, but a company's value can rise or fall due to changes in economic and industry conditions and the company's profitability means they carry the highest risk of loss on your investment.

Managed funds

A managed fund (or managed investment) is made up of a pool of money which allows people with similar investment goals to individually invest an amount of money into the fund. Managed funds are good for those wanting to grow the value of their money as an alternative to traditional term deposits and bank savings accounts.

Managed funds are managed by professional fund managers who decide which assets to purchase. This means that you do not have to accept the responsibility of buying investments yourself and can take advantage of your fund manager's expertise and experience.

Managed funds are easy to get started, with many funds only requiring $1,000 as an initial investment to begin investing. They cater for all types of investors from people with as little as $100 to invest per month to those with larger sums to invest.

Gearing

Gearing, or borrowing to invest, can be useful in allowing you to borrow and invest more in order to achieve greater investment returns. It makes sense if the investment returns you achieve will exceed the cost of borrowing, but sometimes it can also generate greater losses.

This long-term strategy would suit investors who can cope with higher risks and have income from other sources to service the loan. One of the potential benefits of gearing is the tax effectiveness, where you may be able to deduct interest expenses and ongoing borrowing fees for tax purposes.

Investing for your children's education and future

School fees are expensive and if you plan to send your children to an independent or private school, it is a good idea to start saving for their education as early as possible. Depending on the area and type of school, some independent and private school fees can cost upwards of $15,000 per year. That's not including school books, uniform, extracurricular activities and other necessary items which are usually in addition to the standard tuition fees.

Popular options to invest for a child's education and future include a cash management trust (CMT), an investment bond or a managed fund. By investing early you can watch your money grow with the magic of compound interest. So by the time your children have reached school age, you should have a nice little nest egg to cater for all the educational costs.

Investing internationally

When you invest overseas, it gives you access to growing economies, geographic and sector diversification, a better spread of risk and the potential for higher returns over the longer term.

The main advantage of investing overseas is access to investments not available in Australia. Some of the world's largest and most successful companies such as Microsoft, Apple and Coca-Cola are only listed on international stock exchanges.

Buying direct shares in overseas companies can be complex, as well as having currency exchange risks. Some alternatives are to invest internationally through your superannuation fund or a managed fund which invests in international shares and may manage the currency risks.

Speak to your financial adviser for personal advice. Your adviser will work with you to create an investment plan that is most suitable for your personal goals and circumstances.

Wealth Planning Partners
T (07) 5593 0855
E amanda@wealthplanningpartners.com.au
www.wealthplanningpartners.com.au

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