

# The fundamentals of investing

Investing is all about making your money work harder for you, to ensure your financial security now and into the future.

## Determining your investment goals

The first step towards successful investing is to determine why you're investing – in other words, determining your investment goals. Personal investment goals can be as varied as the people who invest. For example, you may be:

- ✂ investing for your child's education;
- ✂ planning to take part in a world tour; or
- ✂ wanting to build your wealth for retirement.

Whilst these would be considered long-term goals, you should also look at what you want to achieve in the short to medium term. This may include saving for a house deposit or paying off your mortgage. All goals need to be considered when planning your investment strategy.

## What are the next steps?

Once you've determined your investment goals, there are three main factors you need to think about that will impact your investment strategy. These include your understanding and tolerance of investment risk, your investment time frame and the importance of keeping to your financial plan. So let's look at each of these in more detail, and find out why their influence on your overall investment strategy is so powerful.

## Investment risk

Investment risk refers to the level of volatility or fluctuation in investment returns you're prepared to accept, including the potential loss of some of your capital (your initial investment amount) in the short term as a result of market movements. For example, risk can mean:

- ✂ the chance that your investments might decrease in value due to a drop in market value;
- ✂ the chance that your capital doesn't grow enough to keep pace with inflation; and
- ✂ the chance you won't have enough money to draw a reasonable income when you retire.

Any investment decision will involve risk. However, it's the level of risk that you're prepared to take which will affect your investment strategy.

Risk and return\* are strongly related. Generally, the higher the level of risk you're prepared to accept, the higher the potential return from the investment. Conversely, this higher level of risk will also increase your chances of incurring a loss in the short term.

\*Return is the income and capital gains (and sometimes losses) made on an investment.

## Investment time frame

Usually, your age and relative proximity to retirement will determine whether you're investing for the:

- ✂ short term (one to three years);
- ✂ medium term (three to five years); or
- ✂ long term (more than five years).

Investment markets move up and down over time as will the value of your investment. If you have many years to invest, you may be prepared to take on more risk in your investment portfolio. In this situation, you'll have time to ride out any short-term fluctuations in investment returns and benefit from the higher expected returns offered by growth investments such as equities (shares).

If, on the other hand, you only have a couple of years to invest, you're investing for the short term. Security may be more important than higher returns. Accordingly, you might put a greater emphasis on placing your investments in short-term, more secure assets, such as cash and fixed interest.

## Keeping to your plan

Once developed, your investment strategy should incorporate all aspects of your personal finances. It's therefore important to keep to your strategy to give yourself the greatest chance of achieving your financial goals. After all, your investment strategy has been designed to assist you over the short, medium and long term and the success of the strategy depends on whether you adhere to it.

Future Wealth Planners Pty Ltd  
Corporate Authorised Representative of  
Choice Future Planning Pty Ltd  
Australian Financial Services Licence No 222755  
4a Centro Avenue Subiaco WA 6008 | PO Box 338 Morley WA 6943



9382 2225



9382 2207



[www.futurewealthplanners.com.au](http://www.futurewealthplanners.com.au)



## What can you invest in?

There are four main asset classes that should be considered when determining your investment strategy:

- ✧ cash;
- ✧ fixed interest;
- ✧ property; and
- ✧ equities (shares).

Each asset class has inherent attributes. The table below highlights the characteristics, risk and return for the various asset classes.

Choosing where to invest your money is a difficult decision and will depend on many factors including your overall investment objectives, risk profile and the amount of time you have to invest. It's therefore best to seek the advice of a qualified financial adviser who can help define your unique personal situation and identify an investment option that suits.

## How can you minimise investment risk?

### Diversification of investments

By diversifying your investments (effectively spreading your money across more than one asset class), you can reduce your exposure to risk and potentially achieve more consistent returns over time.

It's worth remembering that different asset classes generally perform well at different times. Diversifying therefore helps to manage the highs and lows of economic and investment

cycles, by balancing the returns of lower performing asset classes with the returns of better performing asset classes.

It's also important that your investment portfolio is diversified within as well as across asset classes. For example, your property portfolio should include a mix of industrial and commercial property in a range of locations. Whilst your investment in commercial property may not be generating a positive return, industrial properties may be in high demand, hence, what you're losing in the commercial property market, you're gaining in the industrial property market.

### Direct versus managed investments

**Investing directly** means that you have control over your investment options. To manage your investments directly, you

need to keep up-to-date with market trends, legislative changes and paperwork requirements. And whilst this means you may save on administrative fees, investing directly can be very time consuming and requires a high level of financial expertise. Direct investment may also require you to have access to large amounts of funds in order to diversify your portfolio properly.

**Managed investments**, also known as managed funds or unit trusts, allow you to pool your money with that of many other individuals. The pool of money is managed collectively by a professional fund manager, who's able to buy into a wide range of investments not normally accessible if you invested on your own.

The diverse range of managed investments available means that you should be able to find one with similar investment objectives to your own. Managed investments offer many benefits

- ✧ Professional management: full-time investment professionals managing your investments, making changes in line with market conditions, and researching the markets, companies and other securities in which they invest.
- ✧ Investment power: with a managed investment your money is pooled with that of other investors, which provides the fund with the investment buying power not often available to individual investors with smaller amounts. This means you gain access to a wider range of investments for a generally lower cost.
- ✧ Diversification: the opportunity to diversify your investments with a relatively small investment.

Investing directly is suitable if, as an investor, you have a clear understanding of your financial goals and objectives, you understand the implications of your risk tolerance and investment time frames and understand the process involved in implementing your investment plan. Alternatively, managed investments are ideal if you don't have the knowledge or time required to make complex investment decisions, but want to create a professionally managed, diversified investment portfolio.

If you require the help of a professional to determine your investment goals and financial strategy before making investment decisions, you should contact Future Wealth Planners to help you with the selection and management of your investments.

**Disclaimer:** This is general information only and is not intended to provide advice to particular investors, or take into account an individual's investment objectives, circumstances or needs for investment. Investors should first consult Future Wealth Planners Pty Ltd. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.