

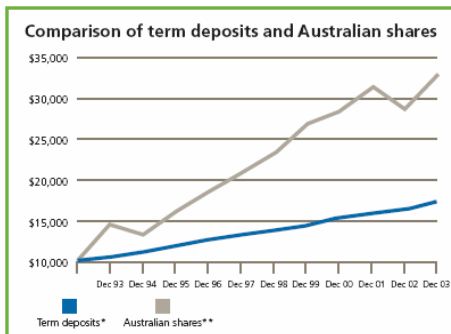
Investment basics

While many Australians don't proactively manage their investments, many do have a list of financial goals. The only way to achieve your financial objectives is to take an active role, but there are some basic themes you should understand before beginning to proactively manage your finances.

Don't limit your investment options

The investments you choose can significantly influence your financial situation. Property, in the form of the family home or an investment property, makes up the majority of many Australians' investment portfolios, and any surplus cash is often directed into a term deposit. The large range of investment options available is frequently overlooked. As a result many people are missing out on additional growth from their savings.

Investing in Australian shares over the last 10-years delivered a significantly better result than investing in term deposits.



The risk/return trade off

The risk/return trade off is the amount of risk you are prepared to take on in order to achieve a desired level of return.

Return is the amount of money your investment earns. Risk (in the investment context) refers to the amount that

investment returns vary, and the chance of making a loss on your investment.

Generally speaking, the greater the investment risk, the higher the return. The situation is the same in reverse; the lower the risk, the lower the return.

Striking the right balance between risk and return is an essential part of your investment decision.

Defensive vs. growth investments

Your risk/return balance will determine how your portfolio is weighted between defensive and growth investments.

Defensive investments carry lower risk and can be used to try to protect portfolios from making losses. The downside of defensive investments is that they generally deliver lower returns, sometimes not even enough to keep pace with inflation.

Growth investments carry higher risk, but historically deliver higher returns over the long term. Having growth assets as a portion of your portfolio is a good way to help your investments grow more quickly than inflation.

The following table describes the most common types of defensive and growth investments.

Defensive investments	Growth investments
<p>Fixed interest investments are loans made to a company or government. In return for the loan, you receive the promise that the funds will be returned to you with interest. Bonds, bank bills and debentures are examples of fixed interest investments.</p>	<p>Shares (also known as equities or stocks) are issued by companies as a way to raise money. In return, investors become part owners of the company and are generally entitled to a portion of the profits.</p> <p>International shares are investments in overseas companies listed on overseas stock exchanges.</p> <p>Australian shares give you a stake in companies listed on the Australian Stock Exchange, mainly from Australia.</p>
<p>Cash investments are similar to fixed interest investments but have short-term repayment periods.</p> <p>Cash is the lowest-risk investment, but historically it also has the lowest returns.</p>	<p>There is a range of property investments available: commercial, residential, industrial, and rural. Property has the potential for high growth over the long term.</p>

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The importance of diversification

You can lower the risk of your portfolio through diversification, which means spreading your investments across a number of different asset types. It reduces the reliance of your portfolio on the performance of any single asset class; if one asset is performing poorly, another may perform well and make up for the loss. Diversification generally smooths the return on your portfolio.

Managed funds provide an easy route to diversification. Through a single managed fund it's possible to diversify across asset class, company, industry, sector, country and even fund manager.

Asset allocation

Your asset allocation is the way you decide to spread your investments across the asset classes. It involves allocating a percentage of your portfolio to particular asset classes.

For example, if you wish to maximise the potential return on your portfolio you could allocate the largest portion of your portfolio to growth assets, such as shares and property. On the other hand, if you want to protect the value of your portfolio and were mainly focused on gaining an income from your investments, your asset allocation could be weighted towards defensive investments such as fixed interest and cash.

Establishing the right asset allocation is one of the most important investment decisions you make. If you are unsure about how to go about finding the right balance, a financial adviser can help. They will assess your personal needs and financial situation and recommend an asset allocation to suit your circumstances.

Stick to your strategy

Once you've established your risk/return profile and have decided on your asset allocation, it's important that you remain focused on your investment goals.

If you are investing for the long term, it's wise to resist making snap financial decisions.

There is an old saying in the markets that "you haven't lost money until you sell".

So even if markets are weak, you should resist the temptation to sell. By sticking to your investment strategy you will be there for the market recovery, which can sometimes arrive unexpectedly and take off quickly.

Similarly, when markets are booming, be aware of investment bubbles. Stay focused on your goals and avoid buying when markets could be inflated.

It's important to remember that your original investment strategy was made for compelling reasons. Unless your circumstances change you should stick to it.

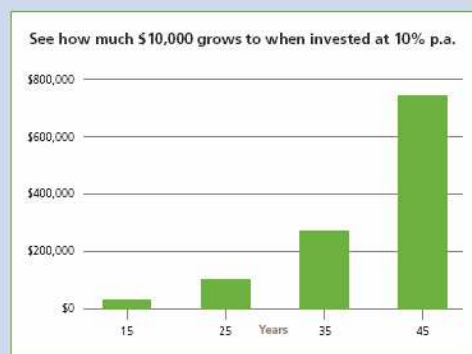
If you feel unsure about your investment portfolio, talk to your financial adviser before you make any changes. Your financial adviser can advise you about the potential risks and/or benefits of replacing one investment with another.

Give your money time to grow

Albert Einstein believed that compound interest was one of the great wonders of the world.

Compounding, or compound interest, is the idea of earning interest on interest. When you reinvest your investment returns, interest is accrued on both your original investment (the principal) and your investment returns, helping your savings to grow faster. This can be achieved automatically, for example, through a dividend reinvestment plan.

It's okay to start small; over time your savings will build up through the power of compounding - so the earlier you begin investing, the greater the rewards.



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