

## How can you minimise investment risk? (continued)

**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 a qualified financial adviser to help you with the selection and management of your investments.

## Investing to create wealth and financial security – where do you start?

A qualified financial adviser will be able to assist you in ascertaining your current financial situation, attitude to risk and investment time frames in order to create an investment strategy that's tailored to your needs. Once you've agreed to the strategy, your financial adviser will develop a plan to help you meet your investment goals. They can then implement the investment plan and place your money into investments on your behalf.

Of course, over time your financial situation could change. For example, you may receive a pay rise or an unexpected financial windfall. Other external factors may also impact the effectiveness of your investment strategy, such as significant changes to interest rates and the economy. That's why you should regularly review your financial plan – at least once a year. By regularly reviewing your plan with your financial adviser, you can ensure you remain focused on achieving your financial goals both now and in the future.

Start making your money work for you and contact a qualified financial adviser today.

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

Being a successful investor isn't difficult. However, you do need to dedicate some time to looking at your current lifestyle, identifying which financial goals you'd like to achieve and what lifestyle you want to lead in later years.

## 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.

## 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.

Asset Class	Characteristics	Risk	Return
Cash: includes bank deposits, cheque accounts and cash management trusts.	Lowest level of risk and lowest level of return of all asset classes. Suitable for investors who have a short-term investment outlook or low tolerance to risk. As the investment provides interest-only, the investment value may not keep up with inflation.	Low	Low
Fixed interest: generally includes income-producing assets (Government bonds, fixed term deposits, mortgage trusts) although the capital value can rise or fall in certain circumstances.	Fixed interest is more volatile than cash but still a relatively stable asset class. You receive your initial investment amount back at the end of the set term. Investments often don't keep pace with inflation as only a predetermined, fixed amount of interest is paid on the initial investment.	Low/Moderate	Moderate
Property: includes residential, industrial and commercial	Property investments have a higher risk than fixed interest but less than equities (shares). Can provide tax-advantaged income from rent received and grow in value.	Moderate/High	Moderate/High
Equities (shares): involves the purchase of a stake or financial interest in a company, enabling you to share in the profits and future growth of that company.	Equities are the most volatile asset class but over long periods of time, have achieved on average the highest returns. Investment sectors include Australian equities and international equities.	High	High

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?

There are a number of methods that you can take advantage of to minimise investment risk. Let's look at them briefly.

### 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.