



Investment basics

Investment and Financial Services Association

Making the most of your money

Hi I'm <NAME> and on behalf of the Investment and Financial Services Organisation I would like to welcome you to this seminar on Investing.

We have called today's / tonight's seminar "Making the Most of your Money", because that's what a good investment plan should allow you to do. This presentation is designed to provide information about investing if you have not done so before, or to increase your knowledge if you are already an investor.

This presentation is designed to give you information, not to give you financial advice. With a better understanding of investment concepts you should be in a better position to understand your investment choices and any advice given to you. Before you make any investment decisions you should consider getting advice from a qualified financial adviser.

The presentation runs for a little over an hour, and there'll be time for questions at the end.

Contents

Making the most of your money

- Investing: Frequently Asked Questions (FAQs)
- Investing Tips
- Protect what you have
- How do I start?
- Where can I get help?



The aim today / tonight is to introduce some of the key concepts, and perhaps answer some of your questions about investing.

- We will start off by covering some frequently asked questions about investing.
- Next we will run through some investment tips
- We will also cover some information on protecting what you have through insurance

Then we'll finish with some information on how to get started and where to go for help.

Investing FAQs

Frequently asked questions

- What is investing?
- What can I invest in?
- What about risk?
- Why diversify?
- What is a managed fund?



If you haven't invested before you probably have lots of questions.

First up we will try to answer some of the most common questions that investors ask:

<RUN THROUGH POINTS>

What is investing?

Is it different to saving?

- Both = delaying spending for a future goal
- A saver puts money in a bank account
 - usually for short terms <2 years
- An investor wants their money to grow
 - often have longer time frames: 5 years+



First Commonly Asked Question: What is Investing?
<BUILD> and is it different to saving?

<BUILD> Investing and saving both involve delaying your spending for a future financial goal.

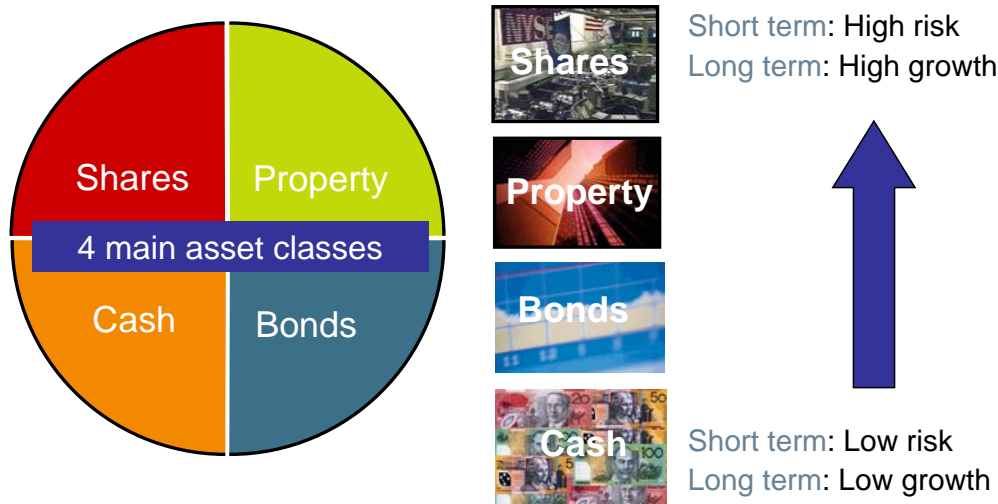
But as I see it, there is 1 main difference between a saver and an investor:

<BUILD> A saver puts money aside – often in the bank – for short term goals – things they want to do in the near future. For example, a holiday, a wedding, or buying household goods.

<BUILD> An investor wants their money to grow and usually has a longer time frame – they are working towards building wealth in the longer term, perhaps to be able to cover the costs of childrens' education, or to let them give up work early.

Because an investor has a longer time frame, they have more options open to them for what to do with their money.

What can I invest in?



Our second frequently asked question is “What Can I Invest In? Pretty much anything. People invest in all sorts of things – wine, art, collectables like dolls and stamps – the list is endless.

Today / tonight we will be talking about the more “mainstream” types of investment, which can generally be divided into four asset classes:

1. Shares – that is, buying a part ownership in a company. This can be done either directly by buying shares in a company, or through a share fund where you buy into a pool that invests in lots of different companies
2. Property – Buying an investment property is one of the most popular investments in Australia. You can also invest in a listed property fund which invests in commercial, industrial & retail property (e.g.. office blocks, factories, hotels and shopping centres).
3. Bonds are also known as Fixed Interest. This is an investment which pays a regular income and whose value changes according to what interest rates are doing, and lastly
4. Cash is money on short term deposit.

Then you can have different types of one asset class e.g. Australian or International shares or bonds. Then a share fund could further specialise in – shares of small companies, shares in one area or industry e.g. Resources Shares (like Gold, oil, copper) or shares of just one country or region e.g.. Asia or Europe.

<BUILD> I have ranked the main asset classes according to their risk and their return potential.

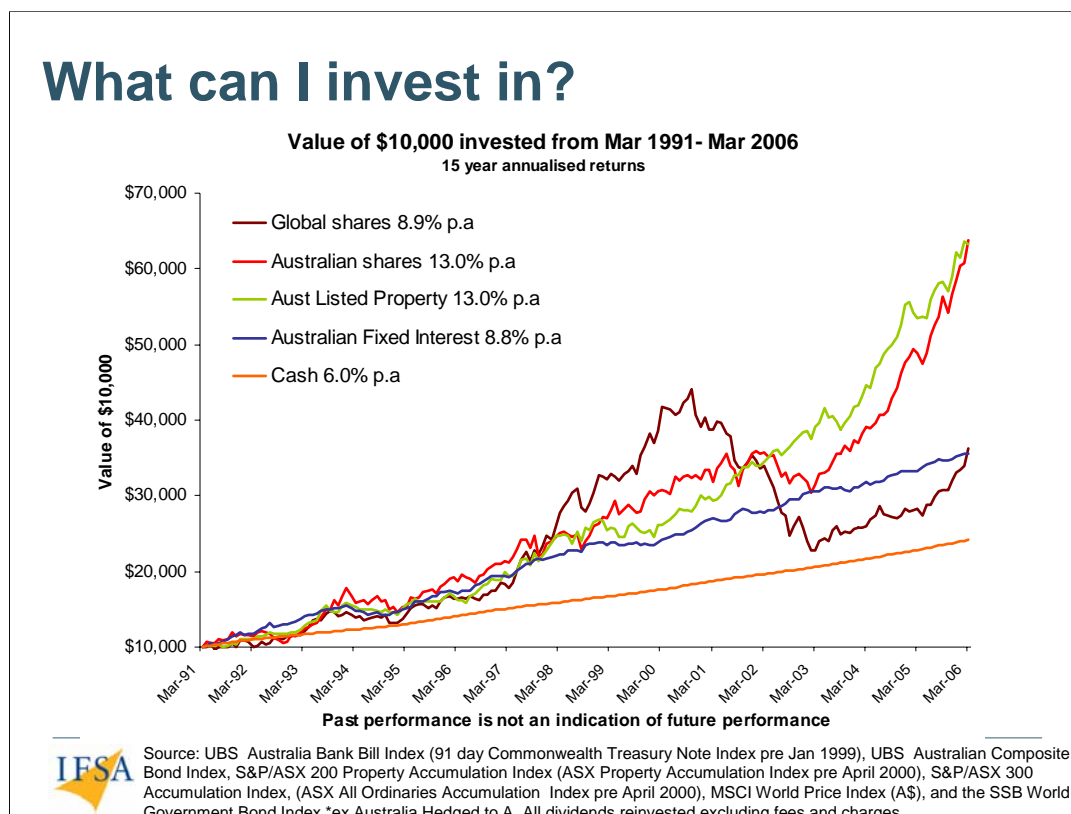
So you will see shares at the top having the highest risk– that is their value will jump around more in the short term – and cash at the bottom having the least risk – that is their value will be more stable.

In terms of return, shares have the highest potential for return and cash has the lowest.

Shares and property are known as “Growth Investments” because they grow your money more quickly over the long term.

Let’s look at some actual results for these different asset classes to see how they behave.

What can I invest in?



This chart shows the actual value that would have accumulated over the last 15 years from an investment of \$10,000 if it was invested in the following asset classes:

- Global shares (in dark red)
- Australian shares (in bright red)
- Property securities (in green)
- Fixed interest or bonds (in blue); and
- Cash (in orange).

You can see that the Growth Investments – shares and property – had rather spiky lines, which shows that their value jumped around in the short term with lots of ups and downs. This is called volatility.

In contrast, bonds and cash had much smoother lines and their returns were more predictable – but remember bonds can still go down in value! (Look at the yellow line from 1993 to 1994).

You can also see that the growth investments – shares and property – have grown the \$10,000 the most over the 15 years. Cash and fixed interest have generally grown your money the least.

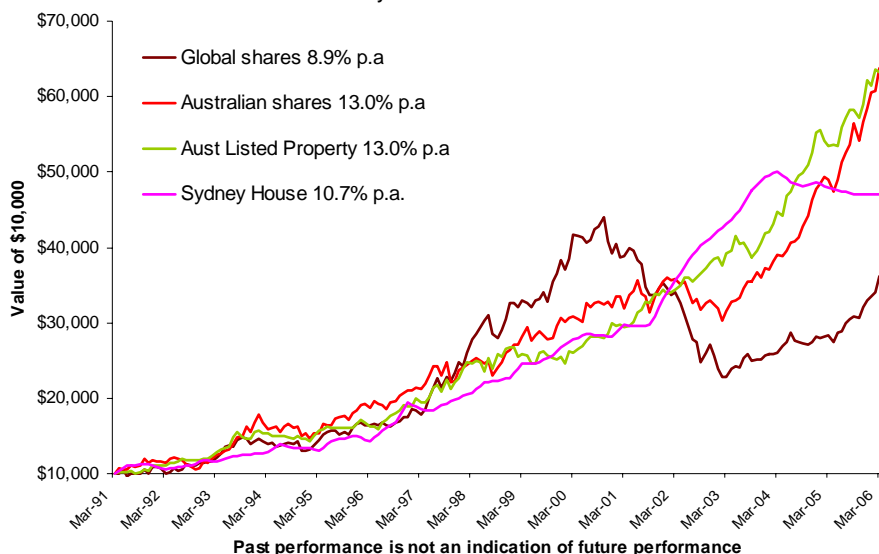
International shares have historically been the best performing asset class over most long time periods. However you can see in this chart that property securities has been the best over the last 15 years, closely followed by Australian shares.

So why have returns for international shares been lower? Let's look at the Brown line -you can see the "bubble" that happened - there was a sharp rise from 1996 to 2000, then a sharp fall from 2000 until 2002. These two years of large negative returns in a row means International Shares have performed worse than fixed interest over the last 15 years.

Whilst we can be confident that their value will recover over time, these sorts of big swings are the reason shares have to be viewed as a long term investment.

What can I invest in?

Value of \$10,000 invested from Mar 1991- Mar 2006
15 year annualised returns



Past performance is not an indication of future performance



Source: Real Estate Institute RIPI Index (3br house), S&P/ASX 200 Property Accumulation Index (ASX Property Accumulation Index pre April 2000), S&P/ASX 300 Accumulation Index, (ASX All Ordinaries Accumulation Index pre April 2000), MSCI World Price Index (A\$), and the SSB World Government Bond Index *ex Australia Hedged to A. All dividends reinvested excluding fees and charges

SYDNEY SLIDE

Let's just look at the Growth investments of shares and property for a minute. Remember that property here is listed property and is things like office blocks and shopping centres.

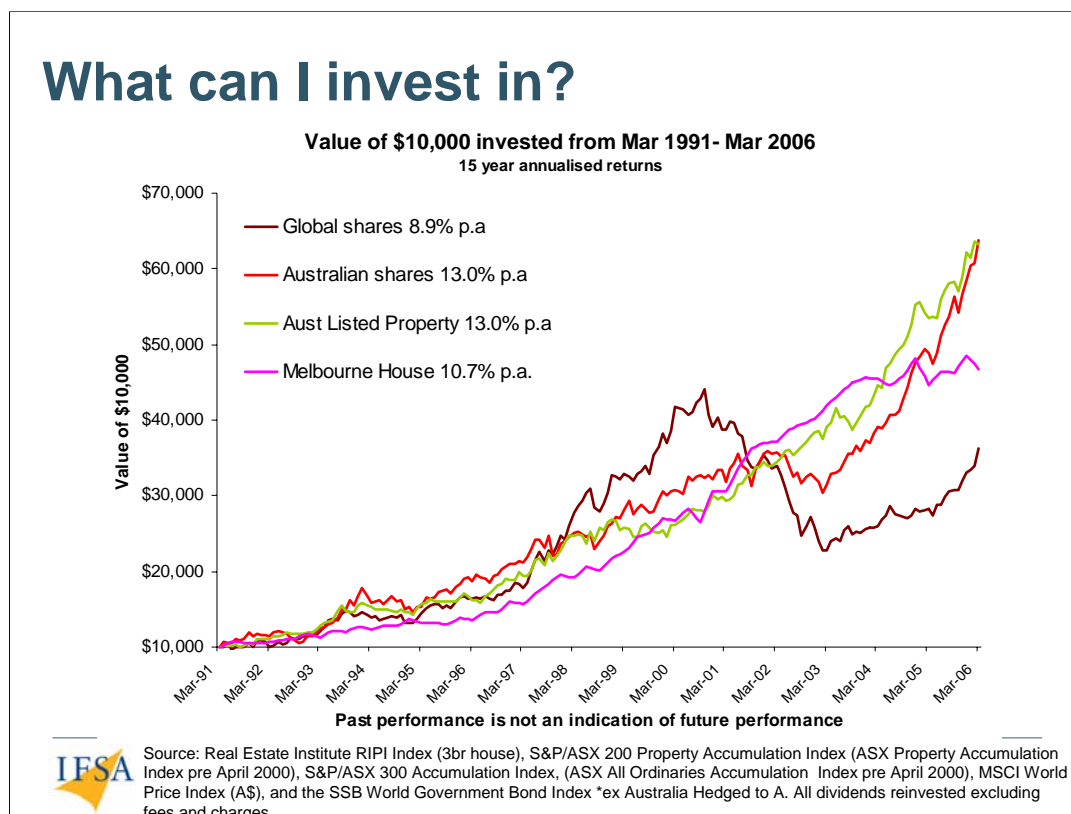
You may be wondering how these investments stack up against buying a residential property – which is one of Australia's most popular forms of investment.

Here is how SYDNEY residential property has gone over the same time period – it's the pink line.

So you can see that residential property has not performed as well as listed property over this time period. It underperformed the other growth investments until 2002, then had a big rise and has now come off over the past 2 years.

It has also been outperformed by Australian shares but has beaten International shares.

What can I invest in?



MELBOURNE SLIDE

Let's just look at the Growth investments of shares and property for a minute. Remember that property here is listed property and is things like office blocks and shopping centres.

You may be wondering how these investments stack up against buying a residential property – which is one of Australia's most popular forms of investment.

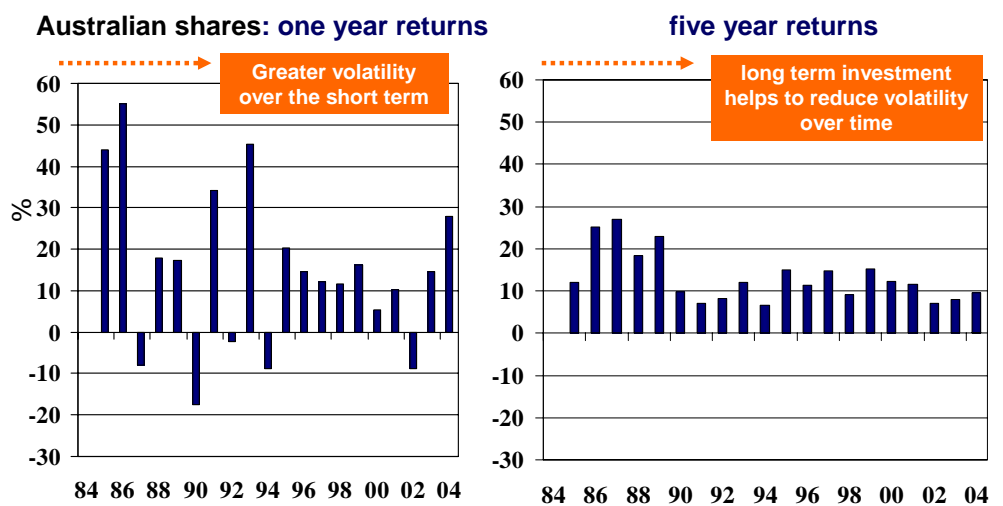
Here is how MELBOURNE residential property has gone over the same time period – it's the pink line.

So you can see that residential property has not performed as well as listed property over this time period. It underperformed the other growth investments until 1999, then had a strong rise through the early "noughties" and has eased off over the last year.

It has also been outperformed by Australian shares but has beaten International shares.

What about risk?

Don't avoid or ignore risk – understand it. Then put it to work for you



Source: Datastream. S&P/ASX200 Accumulation index annualised returns shown for calendar years.

Now we know what we can invest in, our 3rd Question is: What about the risks?

I mentioned earlier that risk and return go hand in hand. All investing involves a trade off between risk and return. Generally the higher the risk, the higher the potential long-term return will be but this also brings a higher the potential for short-term loss.

Risk is often referred to as volatility – remember the spiky lines on the chart I showed you before. The more volatile an investment, the greater the fluctuations in return from month to month or year to year. In investment terms, risk is an indicator of the potential gain or loss associated with an investment.

So risk is not necessarily a bad thing. Once you understand risk and remember that risk indicates gains as well as losses, you can put risk to work for you.

One of the most effective ways to make risk work for you is to invest over the long term.

<BUILD> If you invested into Australian Shares for just one year and withdrew your money at the end of the year, you could expect your returns to look like this. Volatility (the ups and downs of investment markets) can have a significant effect on your investments in the short term. You can expect a share investment to go backwards about once every 5 years. In this chart you can see there were 4 negative returns over 20 years.

<BUILD> Over time, however, the effect of volatility tends to be reduced. If you left your money in Australian Shares for five years, your returns averaged over the whole 5 years would look like this.

You can notice 2 things about this chart:

1. There are no negative returns, and
2. Your returns are much smoother because you have had time to ride out the ups and downs.

This chart demonstrates that investing over a longer period of time greatly reduces volatility, and helps to smooth out returns.

What about risk?

Would you invest in shares if you knew these things would happen over the next 25 years?

- Major wars
- Commodity prices plunge
- Australian dollar plummets
- World sharemarket crash
- Major recession
- Interest rates skyrocket
- Money in previously “safe” investments vanishes
- Terrorist attacks on the United States
- Most devastating natural disaster in modern history



Let's think about risk another way – again taking the example of investing in shares because it tends to be the riskiest.

We are always hearing about doom and gloom on the news and inevitably we are told that this or that event is going to make share markets fall. This can scare people away from investing their money into shares.

Let me ask you a question:

<BUILD>

Would you invest in shares if you knew all of these things would happen over the next 25 years?

<PICK SOMEONE FROM THE AUDIENCE AND ASK THEM>

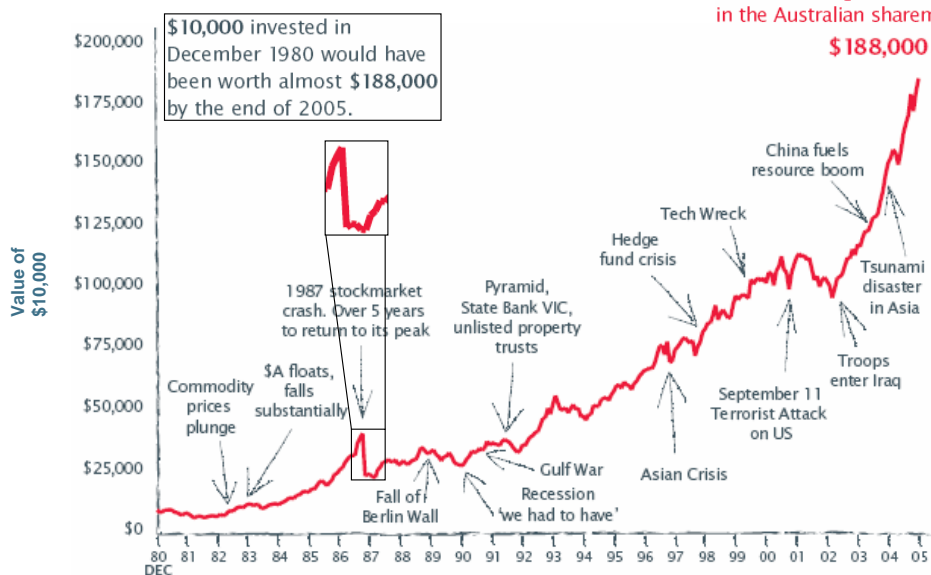
Why / Why not?

What about risk?

25 years

in the Australian sharemarket

\$188,000



Source: Westpac flyer "The Australian sharemarket – a litany of disasters?" 2006

There is no right answer here – it all depends on how long you were investing for. If you were investing for just one year from 1987 to 1988, this is what would have happened to your money. Remember the 1987 sharemarket crash? So you would have been right not to invest.

But let's put that disastrous year into the context of a long term investment.

<BUILD> All those disasters did actually occur over this 25 year period. However \$10,000 invested in Australian Shares in 1979 would have been worth over \$220,000 by the end of 2004 despite all these disasters.

Many investors were scared away from share investing after the 1987 crash, but look at the returns they have missed out on since then!

If you are investing for the long term, you have time to ride out the ups and downs and use risk to your advantage – to grow your money over time.

What about risk?



1. Risk and return go hand in hand

2. The level of risk you choose will depend on your timeframe



3. And your own comfort level with ups and downs



Source: BT Financial Group

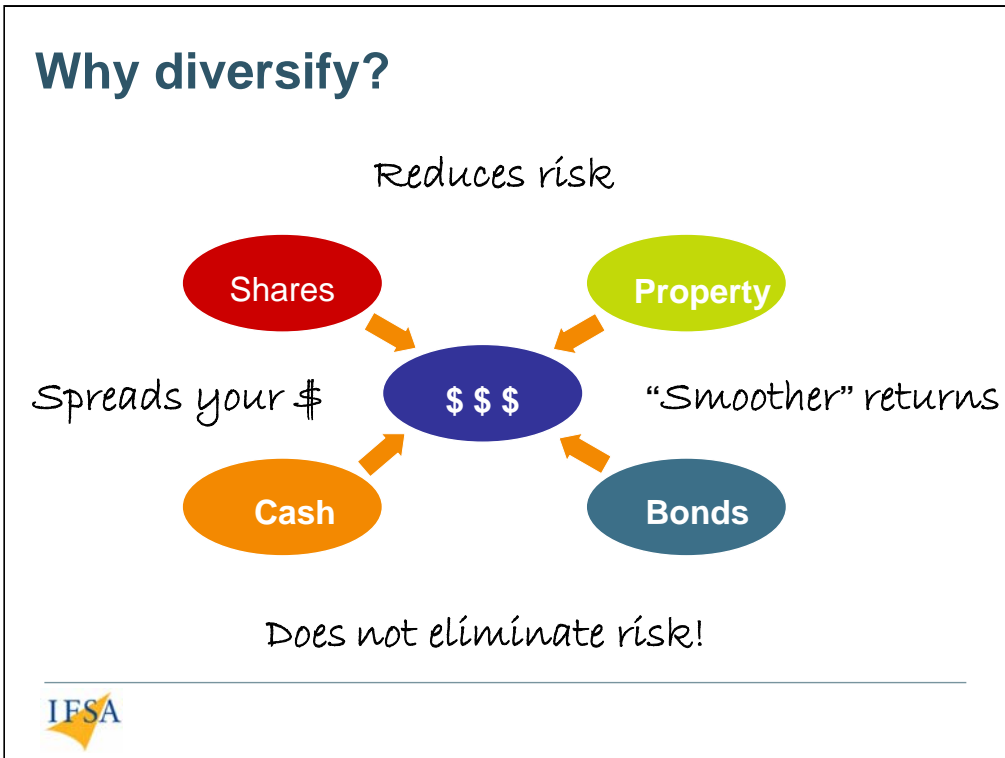
When you think about choosing an investment, the questions we should all ask ourselves and the considerations are the same.

1. Risk and return go hand in hand. You cannot have a safe investment that never goes backwards and also earns you a great return. And if someone is trying to sell you one of those, I would get on the phone to the police! If it sounds too good to be true – it usually is.

2. Consider your timeframe. If you need to access your money in the short term it might mean you choose to have a more predictable investment which is not so prone to high fluctuations and surprises. For money you can leave invested for the long term you may choose to take on more risk in the prospect of getting a higher return over that long term.

3. At end of day, the amount of risk you take is your personal choice. Whilst timeframes are important, it doesn't mean your investment choice will be the same as someone else with the same timeframe.

Even if you have a long investment timeframe, if you're in an investment that makes you uncomfortable by its movements, you might not be in the right one for you. Your investment should not keep you awake at night!



We have learned quite a bit about risk and how to reduce it by investing for the long term. But are there any ways you can reduce your risk? Yes – through diversification. So let’s answer Question 4 – Why Diversify?

Diversification is a powerful way to reduce risk, by spreading your investments around <BUILD>

You can spread your investments across different asset classes. <BUILD> Property, fixed interest, cash and shares may react differently to the prevailing economic and political conditions. By investing in a number of different markets, you reduce the impact that a fall in any one market can have on your overall investment value.

Another way to diversify is to spread your money over different investments within each asset class. So for example if you want to invest in Australian shares, you could buy shares in one or two companies – but that’s not very diversified. If you want to diversify, you could put your money into an Australian Share managed fund that spreads your money over more than 50 different companies. This reduces your exposure to any particular company having a bad return.

<BUILD> That’s another thing – when you diversify you tend to get smoother returns – that is, more consistent returns. If one investment is going backwards another may be doing really well. So your return is averaged over all your investments and your return won’t usually jump around as much.

<BUILD> Remember that there will always be risks and diversification cannot eliminate risk altogether.

Why diversify?

Don't chase returns!

Annual Asset class returns (% pa) to 31st December

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australian										
Cash	7.6	5.6	5.1	5.0	6.3	5.2	4.8	4.9	5.6	5.7
Bonds	11.9	12.2	9.5	-1.2	12.1	5.4	8.8	3.0	7.0	5.8
Listed Prop	14.5	20.3	18.0	-5.0	17.8	14.6	11.8	8.8	32.0	12.5
Shares	14.6	12.2	11.6	16.1	4.8	10.5	-8.6	15.0	27.9	22.5
International										
Shares	6.3	41.1	32.1	17.1	2.2	-9.7	-27.2	-0.5	10.3	17.0

Past performance is not an indication of future performance.

Source: BT Financial Group



Source: UBS Australia Bank Bill Index (91 day Commonwealth Treasury Note Index pre Jan 1989), UBS Australian Composite Bond Index 0+ Years (CBBI All Series All Mats Accumulation pre Oct 1989), S&P/ASX 200 Property Accumulation Index (ASX Property Trusts Accumulation Index pre April 2000), S&P/ASX 300 Accumulation Index, (ASX All Ordinaries Accumulation Index pre April 2000), MSCI World Net Index (\$A)

This is one way to show value in diversifying your investment across different asset classes – which are shown on the left. This is a chart of their returns each year for the last 10 years.

Various types of investments will perform better at different times, and you can see here I have circled the best performer each year.

So spreading your money around reduces the risk of a poor return and smooths out your returns.

<BUILD> One of the most common investing errors is to chase returns – that is, to invest in the asset class that did best last year. It's like driving using the rear-view mirror. You can see clearly what is behind you - but not what lies ahead.

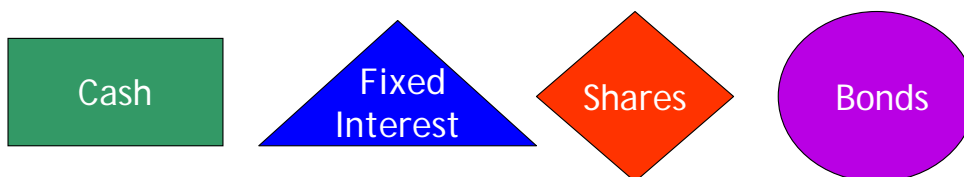
It's unusual for the asset class that performed the best this year to be the best next year. So don't move your money around into last year's best performer. Stick to your long-term strategy.

<BUILD> This chart also shows how often shares are the best performers – 6 out of the 10 years - and the other growth asset property has the other 4 best returns. Whilst growth assets are very volatile in the short term – and will have negative returns more often than other asset classes – they also give you a better ability to earn high returns in the long term. You should remember though that high returns are not guaranteed and there is always the risk of a loss.

What is a managed fund?

A professionally managed pool of \$

You buy “units” in the investment option(s) of your choice



$$\begin{array}{rcccl} \text{Number of Units} & \times & \text{Unit price that day} & = & \text{Investment value} \\ 9000 & & \$1.75 & & \$15,750 \end{array}$$



Source: BT Financial Group

This brings us to Question 5. You may have heard the term “Managed Funds” But what are they?

A managed fund is a professionally managed pool of money.

You buy units in the investment option of your choice for example:

- Shares, property, bonds, or cash (called “sector funds”)
- or a mixture (called a “diversified fund”)

You buy a number of “units” in the fund

The value of your units rises and falls with market values

The value of your investment on any day is your number of units multiplied by the unit price that day.

<run through example on the screen>

What is a managed fund?

CASE STUDY: Anna invests \$10,000

→ Balanced fund, unit price \$5.00 on 1 June.

→ Number of units = $\$10,000 / \$5 = 2,000$ units

→ Balance 1 June = $2,000 \times \$5 = \$10,000$

Date	Investment	Unit price	Units	Total value
1 June	\$10,000	\$5.00	2,000	\$10,000
2 June		\$4.99	2,000	\$9,980
3 June		\$5.02	2,000	\$10,040



Source: BT Financial Group.

Example assumes no fees. Many funds have an up front investment fee, or a spread (to cover brokerage and other costs) whereby the "sell price" may be lower than the "buy price".

<BUILD> Let's look at a case study

<BUILD> Anna wants to invest \$10,000 into a Balanced Fund on 1st June. She selects a fund with a unit price of \$5.00.

Remember that the unit price represents the value of the underlying investments in cash, fixed interest, property and shares.

The \$ figure of the unit price is not important in itself, what is important is the way it changes over time as the value of the assets rises and falls. So a fund with a unit price of \$5 is not necessarily better than one with a unit price of \$2. It's just a way of representing value.

Now how does the unit price determine the value of Anna's investment?

Her \$10,000 is divided by the unit price to get a number of units. So Anna holds 2,000 units in the fund. The first line of the table shows us that the unit price of \$5 times her 2,000 units equals the \$10,000 she invested – I am ignoring fees.

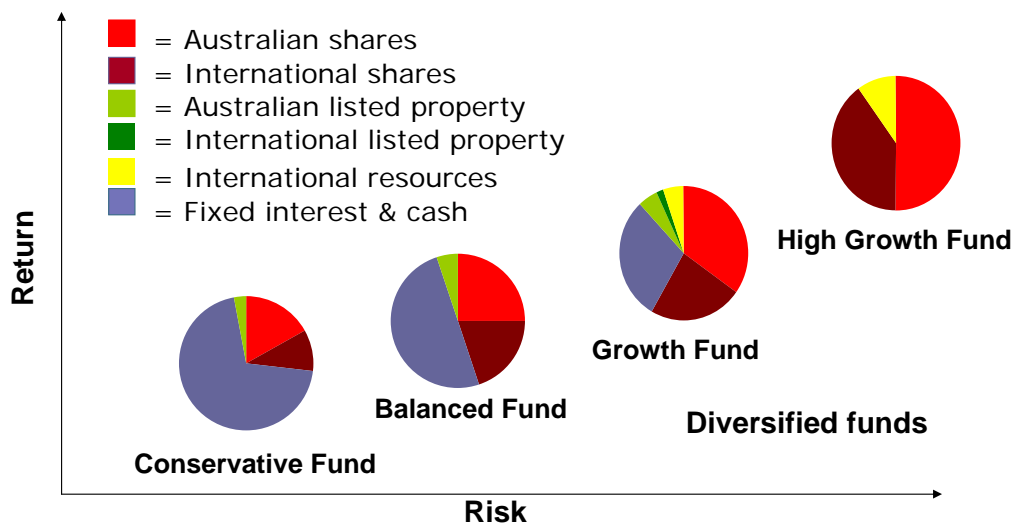
Let's look at what happens to her investment in the next 2 days. Most managed funds are priced daily.

On 2nd June the unit price drops to \$4.99, so the 2,000 units are worth \$9,980.

On 3rd June the price climbs to \$5.02, so her investment is worth \$10,040.

What is a managed fund?

An easy way to diversify



Allocations represent Colonial First State's benchmark allocations as at June 2005
(Note Growth Fund above = Diversified Fund).

Managed funds are an easy way to diversify your investment. Most superannuation funds are managed funds.

Some managed funds that allow you to invest in just one asset class. These are called "sector funds" or "specialist funds", for example an Australian Share fund, a Property Fund or a Cash fund.

Some of the most popular managed funds are called "Diversified Funds", and allow you to invest your money into a mixture of different asset classes.

I've shown a few different types here, ranging from a Conservative Fund containing mostly Bonds, right up to a High Growth Fund containing mostly Shares.

You'll notice that I have mapped these funds against a graph showing risk and return. We have just learned about the risk / return tradeoff. If you hold more Growth investments you can expect higher returns in the long term, although there is a higher level of investment risk and the possibility of losses.

The further you move to the right on this chart, you will see more fluctuations in the value of your investment in the short term.

Investing FAQs

*We've answered some
frequently asked questions*

- What is investing?
- What can I invest in?
- What about risk?
- Why diversify?
- What is a managed fund?

- **Risk and return go hand in hand**
- **Short term risk = long term returns**
- **Reduce risk - diversification**
- **Managed funds – easy way to diversify**



So we have answered five of the most common questions that investors ask.

The main lessons we have learned are that <BUILD>:

- Risk and return go hand in hand
- You can use risk to your advantage because investments that expose you to the most S-T risk have the potential for the highest L-T return.
- Diversification reduces risk, and
- Managed funds are an easy way to diversify your investment.

Investing Tips

How to make the most of your \$

- Start now
- Invest regularly
- Be patient
- Should I consider gearing?



Now that you understand the basics of investing, let's look at some tips that may help you make the most of your money.

We will talk about:

- Why you should start investing now
- The advantages you can get from regular investing
- Why it pays to be patient, and
- The pros and cons of gearing your investment.

Tip 1: start now

The power of compounding

→ How does compounding work?

→ you earn returns on every dollar you invest,



→ and returns on your returns!



→ Start now – it's never too late

→ time is your best friend



The first tip is to start now and take advantage of <BUILD> The power of compounding.

What is compounding? <BUILD>

Everyone knows that when you invest you earn returns on the money you invest. Compounding happens when an investment is held for the long term and your returns are re-invested – so you are earning returns on your returns.

<BUILD> It's never too late to start investing – in fact the sooner the better because time is your best friend.

Tip 1: start now

Cost of delay

CASE STUDY – Jack and Jill:

→ Jill invests \$2,000 p.a. for 10 years

→ from year 1 to year 10

→ Jack waits 8 years, then invests \$2,000 p.a. for 12 years

→ from year 9 to year 20

Who will be wealthier?



Note: Jill invests \$20,000 and Jack invests \$24,000.

A case study may help illustrate the reason it pays to start now, and the cost of delaying. <BUILD>

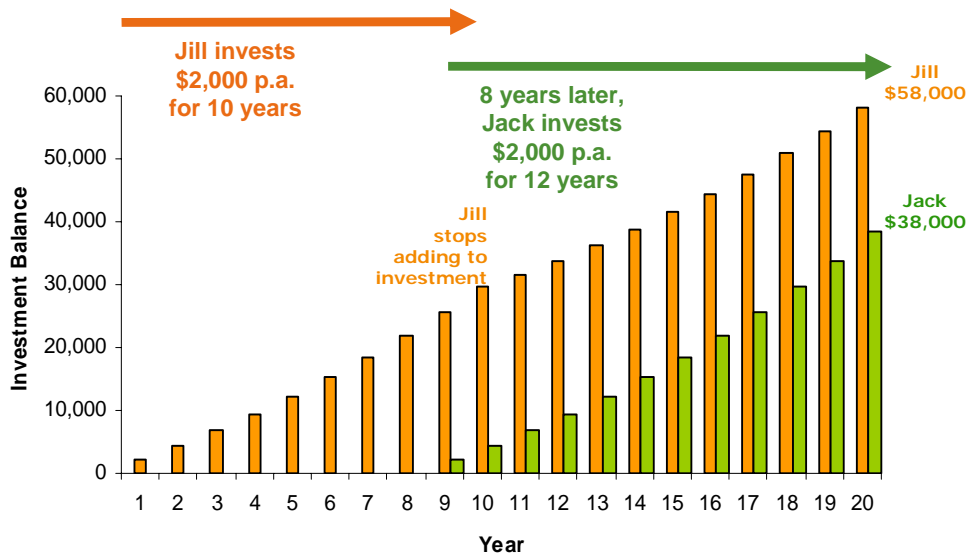
Jack and Jill are two investors, and we'll look at them over a 20 year time period investing into the same investment. <BUILD>

Jill invests \$2,000 a year for 10 years, or a total of \$20,000, then leaves her money invested for the other 10 years. <BUILD>

Jack puts off his investment plan and waits 8 years to start – then he invests \$2,000 a year for the remaining 12 years, so he invests a total of \$24,000. <BUILD>

<BUILD> Let's take a look at who will be wealthier after 20 years.

Tip 1: start now



Return 7%p.a. All earnings are reinvested. No tax assumed –capital gains tax will be deducted from investment when withdrawn. \$2,000 invested annually at start of each year. With inflation 2% p.a., both Jill and Jack have invested similar total amounts in today's dollars (18,300 Jill and \$18,400 Jack). Year 20 results \$39,000 Jill and \$26,000 Jack in today's dollars. Jill \$13,000 better off. Balance figures rounded to nearest \$1,000.

Jill ends up with \$58,000 at the end of 20 years, whilst Jack – having invested more – ends up with just \$38,000.

The 8 year delay has cost Jack \$20,000. He has had less time to benefit from the magic of compounding.

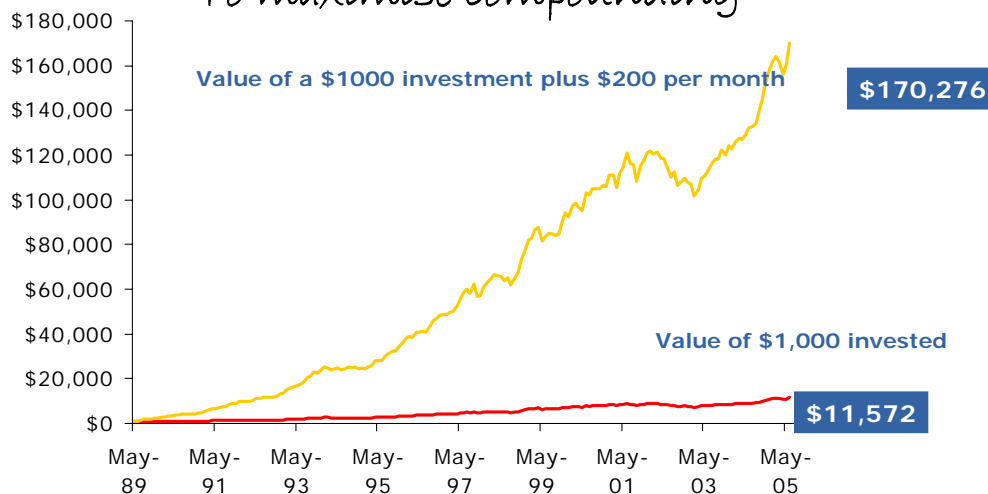
These figures I just mentioned do not allow for the eroding effects of inflation.

I have also calculated the numbers into today's dollars, after allowing for inflation. I have put these numbers in the fine print at the bottom of the slide and they show that Jill is \$13,000 better off in today's dollars.

One of the keys to investment success is the amount of time you have your money invested for. Compounding can have a dramatic effect on your savings, so you can see the benefit of starting now.

Tip 2: invest regularly

To maximise compounding



Past performance is no indication of future performance.



Source: Colonial First State (CFS).
From Fund is CFS Retail Imputation Fund 31st May 1989 to 31st December 2005.. Performance stated after fees and charges with distributions reinvested. Performance takes into account initial application fees of 4% and 4% for all ongoing applications. Performance has been calculated based on entry price to exit price.

The second tip is to invest regularly.

A regular investment can be used to maximise the compounding effect of time. Take this example of two investors in an Australian share fund.

The first investor shown in red put \$1,000 into their investment in May 1989 and did not add to it. He ended up with \$11,5720 by May 2005.

The second investor shown in yellow did the same thing but added \$200 per month to their investment. She ended up with more than \$170,000 by May 2005 and was almost than \$160,000 better off.

The second investor probably didn't miss their \$200 per month – after all it's only \$46 a week or \$9 a day. Many working people spend that on lunch! But look at what all those small amounts have compounded to - \$160,000.

Just think about what you could achieve do if you invested regularly with the money you won't miss!

Tip 2: invest regularly

Dollar cost averaging

- Can enhance returns
- Drip feed new money into investment over time
 - smooths out unit price at which you buy
- Good strategy for investing in volatile times
 - if you expect values to fall and rise



Another strategy you can use with regular investing is Dollar Cost Averaging <BUILD>.

<BUILD> This can be used to enhance your returns. How does it work?

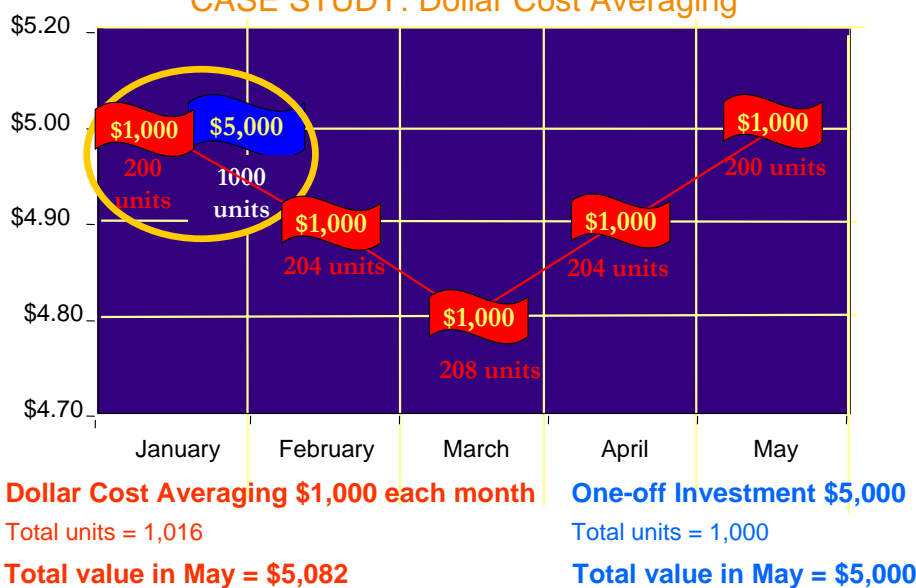
<BUILD> Instead of buying into the market on one day – you drip feed your money into an investment over time. We learned before about unit prices and how they determine the value of your investment. When you are investing, you buy units at the unit price that day. If the price is high that day it may not be a good time to buy. Drip feeding money into the market smooths out the price at which you buy.

Of course a regular investment plan automatically does this for you, and removes the temptation to “interfere” with the investment of your money.

<BUILD> Dollar cost averaging is a good strategy in volatile times – it works best when you expect values to fall and then rise.

Tip 2 – invest regularly

CASE STUDY: Dollar Cost Averaging



Source: BT Financial Group.

Let's look at a case study comparing investing \$5,000 using a regular drip-feed investment compared with investing lump sum all on one day.

<BUILD> First the drip-feed. We invest \$1,000 in January at \$5 unit price – so we buy 200 units.

<BUILD> In February we do the same but the unit price is \$4.90 so we buy 204 units.

<BUILD><BUILD><BUILD> And we do that every month for 5 months. In total we have bought 1,016 units.

If we had invested in a lump sum in January

<BUILD> we would have bought 1,000 units at \$5.

So the drip feed has bought us more units, and

<BUILD> that means that in May we have an extra \$82 under the drip feed method.

This is because we took advantage of the lower unit prices by buying in to the fund when it was cheap.

Note that if the unit price had gone up and then down, instead of down and then up, dollar cost averaging would have been worse than investing a lump sum over this short term.

As with most investment strategies, dollar cost averaging works best if you keep it running over a long time frame.

So by regular investing you can take advantage of the power of compounding, you can get big results with money you won't miss, and you can benefit from dollar cost averaging in volatile markets.

Tip 3 – be patient



Source: Colonial First State.

Our next tip is to be patient and stick to your plan.

Investing can be an emotional business and it's easy to get carried away by all the hype surrounding markets.

When most investors lose money is when they panic and pull money out at the wrong time, or try to "time the market" by buying cheap and selling at the top. In fact they often achieve the opposite.

Let's look at an investor who is trying to "time the market", and read his thoughts as he watches his investment.

<IF FEMALE PRESENTER: Notice ladies that I have made him a man – you'll see why!>

<PRESS BUILD 12 times to get all 12 comments – read them out.>

Now let's analyse what this investor has done <BUILD> here are the points where he bought and sold.

Did he achieve his intention of buying at the bottom and selling at the top?

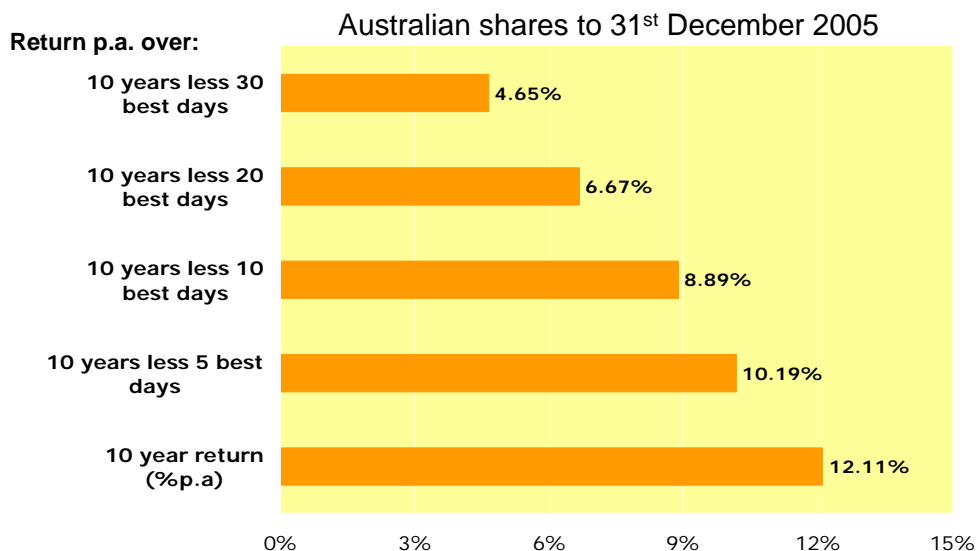
No – in fact the opposite!

He would have been so much better off to stick with his investment after he bought in – even though it went down in value significantly – because it did recover over time. Remember back to our slide on the 1987 stockmarket crash, or even the 2000-2002 international sharemarket slide, and what happened after that!

Whilst it's important to remember that there are always risks when investing, and making an investment doesn't guarantee a return, this slide shows the benefits of sticking to your strategy. There's an old saying "Patience is a Virtue" – this is as true in investing as anywhere else.

Tip 3 – be patient

Staying in the market...



Past performance is no indication of future performance.

Source: IRESS, Colonial First State

*All Ordinaries Accum Index used prior to April 2000 ASX 300 Accum Index used after April 2000

Here's another way of looking at the advantages of being patient and sticking with your plan even when things get rough.

Earlier we discussed that chart of the Australian share market through all the disasters of the last 25 years. You may have noticed that the big bounces up in the market can be just as sudden as the big falls. In fact if you analyse investment returns on shares you will see that often a large part of the return for a year is earned on just a few days of the year when the market jumps.

<BUILD> This chart is really interesting, but it takes a bit of explaining.

If you start at the bottom, you'll see the return on Australian shares over the last 10 years to December 2005 – it averaged 12.11% a year.

The next bar above that shows the same return – but what would have happened if our money was not invested for the best 5 days over that whole 10 year period. Wow – we lose nearly 2% of return per annum compound! And that 2% was earned in just 5 days out of the 3,650 days in that whole 10 year period.

And the bars above this show the effect of having your money out of the market for the best 10 days, 20 days and 30 days in that 10 year time period.

Let's look at the difference between the first and last bar – the difference in the returns is 7.5% per annum compound. This means that the returns you earned on the 30 best single days out of 3,650 days amounted to 7.5% per year.

Now if you were timing the market and putting money in and out, how easy would it be to miss the best 5 days – and you would almost certainly miss some of the best 30!

Stick with your plan, and be patient. True investing is not a get rich quick scheme – but with care and planning you can get rich slowly.

Tip 4 – should I consider gearing?

Why borrow to invest?



Source: BT Financial Group.

Assumes Loan interest rate 8%, income yield 5% fully franked, marginal tax rate 48.5%.

Let's now look at the pros and cons of gearing. Gearing is simply borrowing to invest – just like you would do if you borrowed from a bank to buy an investment property.

The advantage of gearing is that it multiplies your returns. The disadvantage is that it also multiplies your negative returns, or losses, and you still have a debt that you must pay!

This slide shows the effect of gearing at different levels:

- No gearing in orange. For example if you invested \$10,000 of your own money, and don't borrow anything, you have no gearing.
- 50% gearing in green e.g. you have \$5000 of your own money and borrow another \$5,000 to invest your total of \$10,000. Half your investment is borrowed, so you are 50% geared.
- Blue shows 60% gearing – you have \$4,000 and borrow another \$6,000
- In Yellow 70% gearing where you have \$3,000 and borrow another \$7,000.

Whilst most gearing programs won't let you gear above 70% - 80%, it's interesting to think that if you have a mortgage on your home you may actually be geared up to 90% as many banks will let you borrow up to 90% of the value of your home.

If the total market return is 10%, gearing at 70% more than doubles the after tax return compared with an ungeared investment. Look at the 10% return section and compare the yellow bar with the orange one.

If the total market return is -5%, your negative returns are also greatly multiplied – and you still have to pay off that loan.

Gearing can be a good strategy to use – however as it is complex I would recommend that if you are interested in this you seek professional financial advice.

Investing Tips

How to make the most of your \$

- Start now
- Invest regularly
- Be patient
- Should I consider gearing?



So just to re-cap, our four handy investment tips were to :

- Start now to make the most of the power of compounding
- Invest regularly to make money from small amounts you won't miss
- Stick with your plan and be patient, and lastly
- You may consider gearing to boost your returns, but it's important that you recognise the much higher risks, and the fact that you are borrowing money to invest.

Protect what you have

With insurance

- Home & Contents
- Car
- Health
- Life (death and disability)
- Income

“People insure cars & houses, but ignore their major asset – their ability to produce an income.”



Let's turn now and take a quick look at how you can protect what you have through insurance.

Most people have insurance on:

<BUILD> their home and contents

their car

and are members of a health fund.

But how many of you have:

Life insurance, disability insurance and

Income protection insurance? The last one is probably the most neglected area.

<read quote>

Let's take a quick look at income protection and life insurance.

Protect what you have

Income protection / salary continuance

Who relies on your income for their future?



Insurance helps your loved ones meet their needs
if you can no longer work



If you are earning a regular income, you can avoid losing it by taking out income protection or salary continuance insurance.

These types of insurance pay you an income whilst you are off work because you are sick or injured.

The cover is usually 75% of your salary. Payments start after 1 month or 3 months – usually by this time your sick leave has run out.

Some companies automatically cover their staff - check if you have this through your work or your super fund.

If not, you should think about the people that depend on your income and consider taking out an individual policy. The premiums you pay for this insurance are tax deductible, so this can reduce the cost.

Protect what you have

Death and disability insurance

- Death cover
 - lump sum on death
- Total and Permanent Disability (TPD)
 - lump sum if you can never return to your usual occupation
- Individual policy or through your super fund
 - tax effective through super

Trauma insurance



Death and disability insurance protects you and your family financially from more serious events.

<BUILD> Death cover pays your family a lump sum if you die.

<BUILD> Total and Permanent Disability cover – or TPD – pays you a lump sum if you are seriously injured or ill and can never work again in your usual occupation.

<BUILD> If you are in a super fund, you may already have Death and TPD cover. If not you can usually choose this as an option in your super fund, or you could take out an individual policy outside super.

Super is a really tax effective way to get this type of insurance.

If you have cover through your super, check how much you have. Often you can buy additional cover if the standard cover is inadequate for your needs.

You should also consider trauma insurance, where you can get a lump sum of money if you have a major illness or injury e.g. cancer, stroke, heart attack, major head injuries. You cannot generally get this sort of cover through a super fund.

So that was a very brief snapshot of some areas of insurance that many people neglect.

How do I start investing?

- Define your goals, with time frames
- Do a budget – work out how much you can invest
- Work out your timeframe & how much risk you can handle
- Select your investments
- Make the most of your money!



Now that you understand a bit more about investing, it's time to get started! Here is a suggested framework to help you:

Firstly, define your goals – what are you investing for? When will you need to use the money?

Next, do a budget to work out how much you can afford to invest.

Work out how long you'll be investing for and how much risk you can handle.

Select your investments, and

You're ready to start making the most of your money.

OK – so is everyone confident? Happy that after this presentation you understand everything and can confidently invest?

No?

Where can I get help?

For information...

→ IFSA website www.ifsa.com.au then click “Building Consumer Confidence”

→ IFSA member companies’ websites*.

For professional financial advice...

→ Ask your super fund, or

→ Financial Planning Association

Phone: 1800 626 393

Online: www.fpa.asn.au/Findaplanner

Free “Good Advice” pack 1300 729 623 or www.goodadvice.com.au



To find IFSA member companies go to www.ifsa.com.au then click on “About IFSA Members” tab.

I’m not surprised – this is only meant to introduce you to the concepts, not make you an expert! And there is no doubt that investing can be a complex.

So where can you get help? There are 2 different levels of help you can get.

<BUILD> Firstly there are lots of places you can go for general information. IFSA has an educational area on their website. And all their member organisations, companies that produce investment products, have educational areas and calculators on their websites. You can also call these companies and ask for copies of booklets about investing. To get a list of IFSA members click the “About IFSA Members” tab in the IFSA website.

While it’s good to improve your knowledge, any of this sort of information can only be generic – it does not relate to your own circumstances.

If you’re wondering how you can get started or get help with your investments – to make sure you have everything tailored to your own circumstances - I would encourage you to seek professional financial advice.

Would you treat your own medical condition or run your own legal case? Generally when things get complex you seek out a professional in the field. Financial matters are no different.

<BUILD>If you do not have an adviser the Financial Planning Association can put you in touch with a one in your area.

Where can I get help?

A financial planner can help with...

- Goal setting
- Risk profile
- Which investments?
- How much insurance?
- Action plan – how to get started



When you first make contact with a financial adviser, it's a good idea to ask them about their qualifications and experience to make sure they will give you good advice. Also ask about their fee structure including how much they charge as a fee for service and how much as commission. Ask for a written quote for how much it will cost.

<BUILD> Here are some of the things a financial planner may be able to assist you with:

<BUILD AND READ OUT POINTS>

<PAUSE>

Well I hope the information we have gone through tonight has been helpful to you.

Disclaimer

IFSA ABN 82080744163

We are legally required to disclose the following disclaimer:

The information contained in this presentation and related handouts is general information and has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should assess whether the information is relevant to you and consider talking to a financial adviser before making any investment decision.

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Taxation considerations are based on the continuation of present laws and their interpretation. The tax consequences of any investment will depend on individual circumstances, and you should seek professional tax advice.



I am required to show you this disclaimer that basically tells you that you should learn as much as you can to understand what is involved in investing and then consider getting professional advice before making any decisions on your own investments.

<NEXT SLIDE>

Investment basics

*Make a plan, and
Make the most of your money!*



So what have we learned?

- Investing is different to saving, and is a way to build wealth in the long term.
- There's a trade-off between risk and return.
- Diversification can reduce risk.
- We've learned about how managed funds work,
- We know about the power of compounding and that the longer you are invested the better
- We know that you can make risk work in your favour if you are patient and stick to your plan.
- We learned about the advantages to regular investing
- We touched on some key points about gearing and insurance.
- And finally, we learned where you can get information and financial advice to assist you.

<BUILD> So now you can make a plan, and make the most of your money!

Thank you very much. Are there any questions?