Getting the edge with managed funds

Take Control of Your Money

Today, more than ever, we are encouraged to take responsibility for our own financial future. Many of us don't give it much thought, but if you are serious about achieving your financial goals, taking control of your money gives you more chance of success.

While many Australians don't proactively manage their investments, many do have a list of financial goals, such as saving more, paying off debts, and taking out insurance.

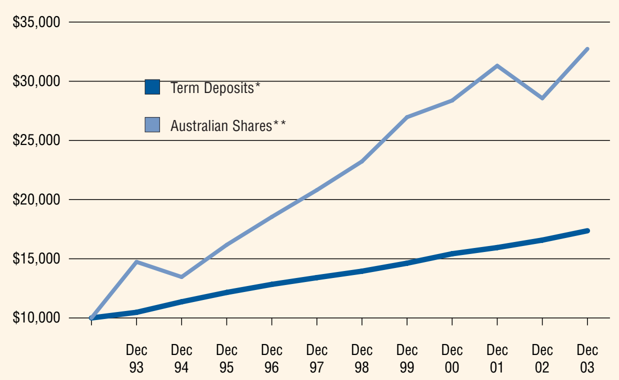
The only way to achieve your financial objectives is to take an active role in managing your finances. This brochure provides you with simple guidelines for establishing financial goals, steps you can take to move towards those goals, and how to get advice if you require it.

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.

Comparison of Term Deposits and Australian Shares



* RBA Retail Deposits and Investment Rates, bank fixed deposits $5,000 to $100,000 for one year
** S&P/ASX200 accumulation index

Set yourself some goals

You probably have a dream that you can't afford right now - perhaps a holiday or a new car. The first step to turning your dream into reality is to establish your financial goals. It's important to have clear goals, with definite time frames. Your goals may be for the short, medium or long term.

	Time frame	Goals
Short term	0-3 years	Save for holiday, pay off credit card
Medium term	3-5 years	Pay off car loan
Long term	more than 5 years	Pay off mortgage, save for retirement

How much can you save?

Think about how much you can put away to achieve these goals without restricting yourself. If you're one of the many who find the idea of being forced into a budget unappealing, start by simply keeping track of your income and expenses for a month or two.

Using a budget can make it easy to see where your money's going. If you find that there's nothing left over at the end of each month, don't panic, there's a relatively painless way to start saving.

The answer lies in paying yourself first...

Each month, put aside the amount you want to save somewhere you won't (or can't) touch it. And if you do this before you pay for anything else, it's like treating saving as a fixed expense.

Decide on an appropriate amount to put aside and then set up a direct debit to channel part of your salary straight into a high interest account or managed fund. What you can't see and get your hands on, you don't think about or spend.

See if you can trim any of your monthly expenses and free up dollars to contribute to your savings. A good starting point would be to aim for around 10% of your annual income, but it will depend on your personal situation. Paying yourself first is an excellent first step to becoming a disciplined saver.

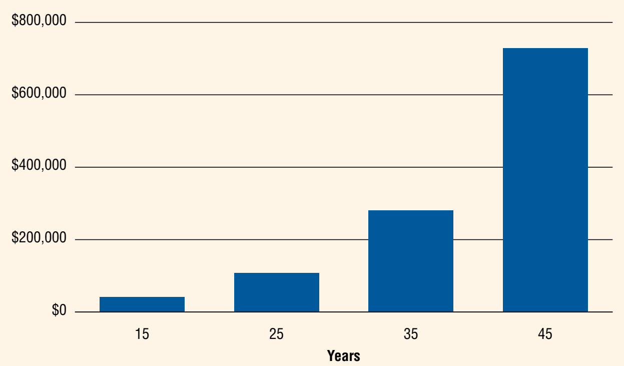
Give your money time to grow

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.

See how much $10,000 grows to when invested at 10% pa



Learn the investment basics

It's a good idea to try to make the most of your savings. By investing your savings, your money can make money for you. It can grow through the income you earn (for example dividends you receive from a managed fund) and through an increase in the capital value of the investment (like a property that rises in price).

There are some basic themes you should understand before beginning to proactively manage your finances.

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

Defensive investments	Growth investments
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.	**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. **International shares** are investments in overseas companies listed on overseas stock exchanges. **Australian shares** give you a stake in companies listed on the Australian Stock Exchange, mainly from Australia.
Cash investments are similar to fixed interest investments but have short-term repayment periods. Cash is the lowest-risk investment, but historically it also has the lowest returns.	There is a range of **property** investments available: commercial, residential, industrial, and rural. Property has the potential for high growth over the long term.

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 smoothes 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 value 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.

Improvements you can make right now

Take control today

There are some simple steps you can take now to begin actively managing your finances.

> Roll your bank accounts into one

Rolling your bank accounts into one will mean you only pay one set of bank fees. It will also simplify your paper-work because you will only receive one bank statement and have to take care of one set of personal details.

> Consolidate your debt

If you have accumulated a number of different loans, you might consider consolidating your debt into a single loan. However, examine the terms closely. While it may be tempting to pay off your debts in the short term, if it means you pay a higher rate of interest in the long term this option may not be right for you. Consolidating your debt can also potentially help you save on transaction fees.

> Pay your bills online

Paying your bills online will save you time and will also enable you to keep a record of your transactions. It will help you identify spending trends, and could simplify identifying expenses for tax purposes. Make sure you use a secure internet connection when transacting on-line.

> Consolidate your super

If you've had more than one job in your career you will probably have more than one superannuation account. Consolidating your super into one account means you will pay less in fees, do less paperwork, and be easily able to ensure your super is allocated according to your asset allocation targets.

> Protect your income

Most of us know of someone who has had to take considerable time off work because they were injured or ill. While of course we don't like to think about this happening to us, it's a good idea to make plans to protect your income in case you do become ill or are injured. Income protection is particularly relevant if you have a mortgage or dependents. It will prevent having to dip into your savings to meet your financial obligations if the worst does occur and premiums are usually tax deductible.

> Consider life insurance

If you have a family that relies on your income, you might also consider life insurance, especially if you have any significant liabilities. Most insurance providers provide online calculators to help you work out how much cover you could need. Alternatively, your financial adviser can assist you in making a decision.

Getting Advice

Taking control doesn't mean you have to travel solo. Going to see a financial adviser is a good place to begin your new financial independence. An adviser has the skills and experience to help establish your goals, develop a plan and help you manage your investments on an ongoing basis.

While there are some components of your financial strategy that are simple and easy to implement, like consolidating your bank accounts or setting up a savings plan, some areas of investment are more complicated and require specific skills and knowledge.

For example, if you would like to direct some of your investments into a managed fund you might need some help choosing a fund that is right for you. A financial adviser will provide recommendations and assist you with implementing your choice.

Refer to IFSA's *Six Easy Steps* to find a financial adviser that you will feel comfortable talking to.

If you do decide to go it alone, make sure you do plenty of research before establishing your goals and putting a plan in place.

Stay Informed

Whether you are investing independently or through a financial adviser, you will benefit from having a broad understanding of investing and financial markets. It's also beneficial to monitor your investments on a regular basis.

The more you educate yourself, the more in control you'll be.

There are many ways to learn about investing and financial markets:

- Investment seminars (with reputable companies)
- Newspapers, such as *The Australian Financial Review*
- Magazines focusing on financial and investment issues
- Newsletters and bulletins distributed by fund managers
- Online learning centres

When you invest in a managed fund you also receive a statement at least annually providing information about your investment - your account balance, movements in your account and any transactions you have made. Most institutions offer this information year round via their website enabling you to review your account whenever you want to.

When monitoring your investments, don't lose heart if they go through periods of poor performance. One basic point worth repeating: it's important not to make snap decisions in response to short-term fluctuations on the markets.

Your financial adviser can help you monitor your investments. They can tailor a financial plan which takes into account your personal needs and your tolerance for risk. Make sure you talk to your adviser if you are concerned about market movements and their impact on your investments.

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