What is Investing?

Investing is putting your money to work to help you achieve your personal goals.

We all have different experiences and goals, so your decisions about investing may be different to those of your parents, children, workmates or friends.

The key to deciding what's right for you is knowing your own circumstances and goals.

Questions to ask yourself

Why

- What are your reasons for investing?
- Is what you hope to achieve realistic?

When

- Are you ready to invest?
- What is your timeframe for investing based on your goals?

Where

- Where will you invest?
- Have you considered current market conditions and your tolerance for risk?

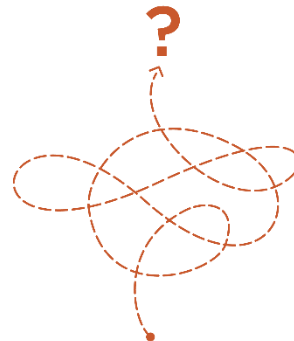
What

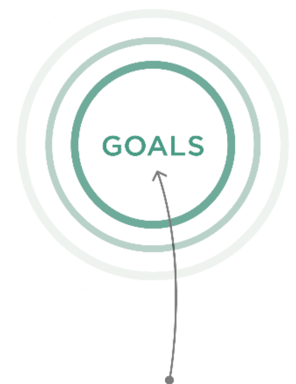
- Do you understand what you are investing in and is it appropriate to your needs?
- Have you checked the terms and conditions of the investment and any fees or commissions you'll pay?

Who

- Will you invest on your own or use an adviser?
- Who is selling this investment?

Your Financial Roadmap





Don't rush into investing.

As a worst-case scenario, if you are considering risky investments, think about what it would be like to lose all your money.

Make sure you're clear about why you're investing and only invest in products you understand.

Are you an investor?

Maybe you think of an investor as someone rich enough not to have to work, who just lives off the income from their investment portfolio. Maybe you see an investor as someone who trades shares every day.

Portfolio owners and share traders certainly are investors, but you are probably an investor too. An investor is someone who puts money (capital) into an investment product or an asset in the hope of increasing their capital or getting an income – or better still, doing both. That means just about everyone invests, even if it's money in your bank account or your super fund.

You may start thinking more about investing because you've come into some money – from a redundancy or compensation payout, an inheritance or gift or a lottery win. Or you may have a specific goal – to build a deposit for a home, to take an overseas holiday or to help someone through a tough patch.

Either way, make sure you're ready to invest by checking you have:

1. Your debt under control

Careful budgeting is the first step to reducing debt. But remember to give yourself flexibility to meet unexpected expenses or lifestyle opportunities. If you feel like you're drowning in debt, speak to a financial counsellor. Paying off debt first may be wise, before you consider investing.

2. Enough cash for emergencies

An emergency fund is essential, in case you access to cash for essential spending, or you suffer because of a loss of income. 3 months' salary in savings is a good rule of thumb.

3. Adequate insurance protection.

Have you arranged protection for yourself, your family and your home or other property? What about your car? Your income? If your property is stolen or damaged and you don't have it insured, it will cost you money to replace it.

You may have personal insurance cover within your super fund for death, disability and Income protection, so best to check what you have and ensure it's sufficient.

What are the different types of Investments?

Debt investments

'You lend money'

These are generally short-term investments and are not volatile (lower risk) but also do not provide high returns. They will generally perform lower than inflation.

Cash investments

- direct – savings accounts (including cash management accounts, online savings accounts and term deposits)
- managed – cash management trusts

Fixed interest

- direct – corporate or government bonds
- managed – bond trusts

Equity investments

'You own part or all of a property or a company or companies'

These are generally longer-term investments (5+ years) and are volatile (higher risk). They provide the opportunity to receive income (rent, dividends) and capital growth.

Property investments

- direct – investment properties (usually residential property)
- managed – property trusts (usually commercial property)

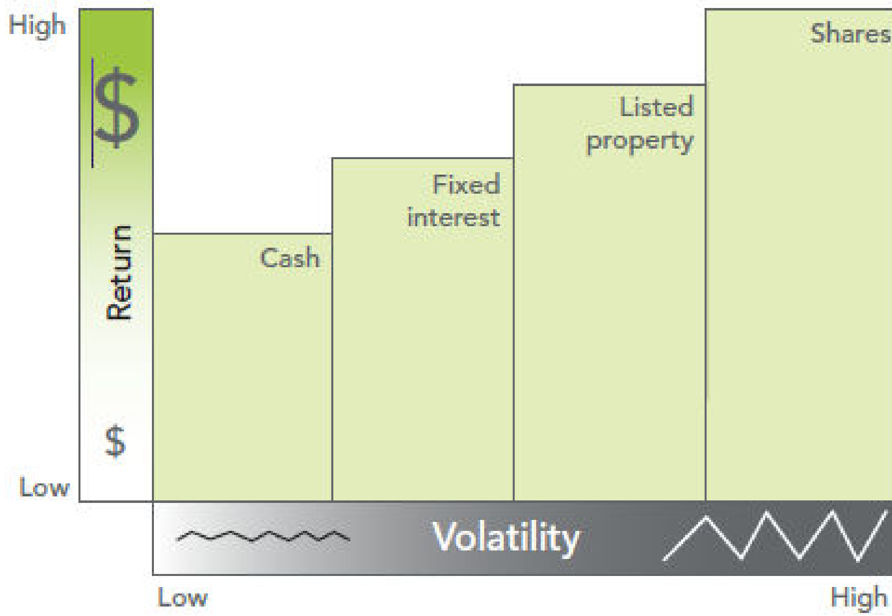
Share investments

- direct – Australian and overseas shares
- managed – share trusts, ETF's, Managed funds

There are other many investments such as cryptocurrency, futures, cfd's, and other structured investments. Many are complicated in nature and some are very high risk. They should be entered into only after receiving professional advice to understand the benefits and the risks.

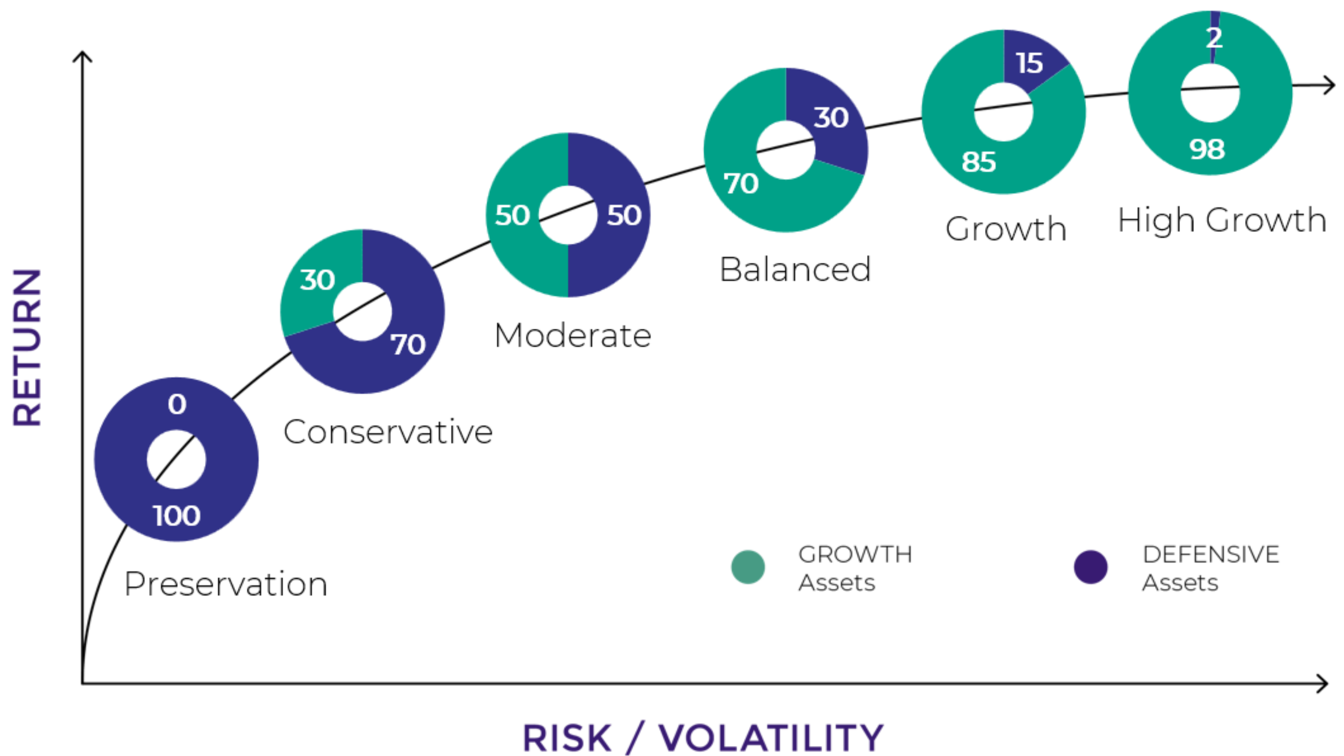
Weighing up risk and return

Generally, the higher the return, the higher the short-term volatility.



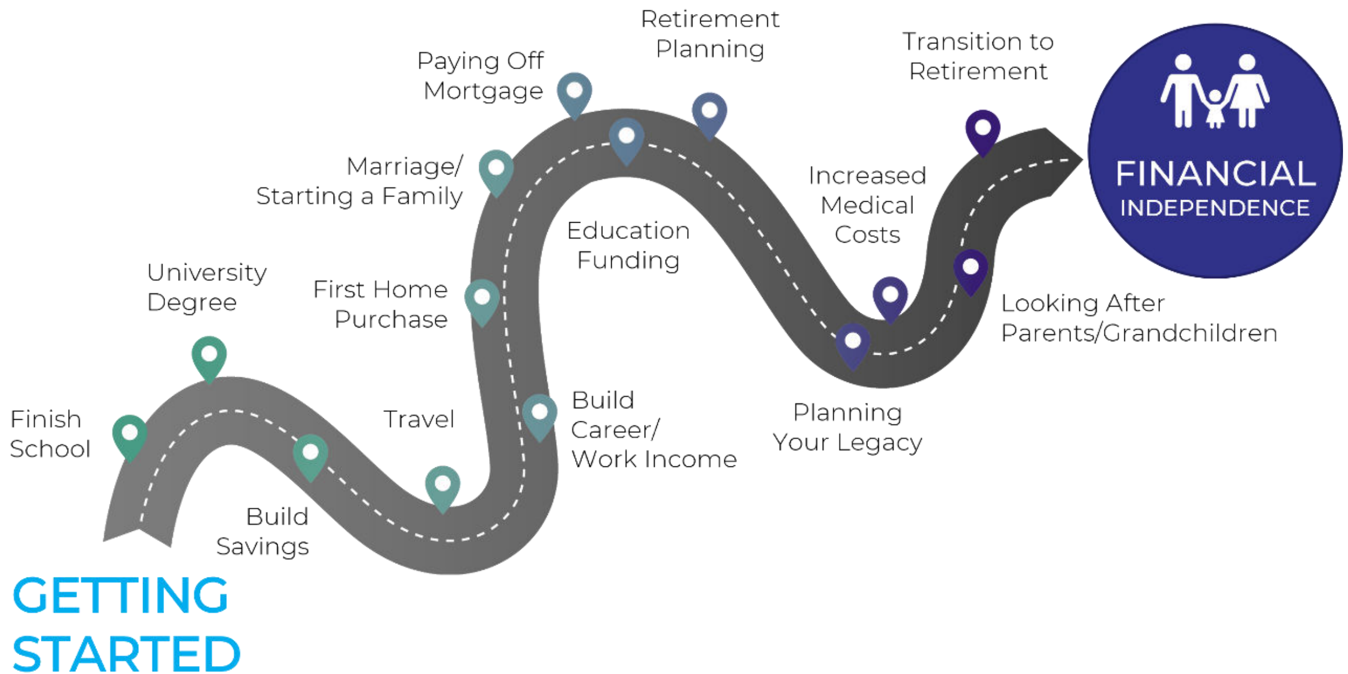
Asset Allocation

(Where you invest your money) will determine the risk and the reward from investing.



Financial Roadmap

Planning ahead provides control and certainty – so you have the time and the money to do the things you really want to do!



What are the risks of investing?

All investments carry some degree of risk. As a rule, higher risk investments have a higher potential return, but higher risk also means an increased chance that the investment will not achieve that return, particularly over the short term.

This risk/return trade-off is important. You need to ensure that you are comfortable with the level of risk taken so that it can help you achieve your financial goals but still allow you to sleep at night without worrying about the impact of a financial downturn.

The key investment risks you should be aware of are listed below.

Diversification risk

Diversification risk is the risk that if you put all of your assets into one asset class or even one asset (such as one share or one property - one 'basket') then your portfolio is at risk of being adversely affected if that asset or asset class falls in value.

The major asset classes include Australian and international shares, listed property, Australian and international fixed interest and cash. Every asset class has its bad years, but when one asset class is performing poorly, other asset classes may be doing well.

Diversifying your portfolio across these major asset classes means that when one asset class falls in value, it can be offset by other asset classes that are performing well at that time. It also means that if one asset performs poorly it only affects a portion of your overall portfolio.

Inflation risk

Inflation risk is the possibility that the return on your investments will not keep pace with inflation. If this happens, your 'real wealth' declines over time and you may not be able to meet your long-term income needs.

Including shares and property in your portfolio aims to produce positive real returns over the longer term. This is because shares and property are 'growth' assets which, historically, have outperformed inflation over time.

Fund manager risk

There is a possibility that the fund manager you invest with will underperform over an extended period. This risk can be minimised by spreading your investments over several fund managers. If one fund manager underperforms it can be offset by other fund managers who may have strong performance at that time.

Currency risk

There is a risk that international investments can be negatively impacted by exchange rate fluctuations. Specifically, as the Australian dollar rises, the value of international share holdings will fall. If the Australian dollar falls, the value of international share holdings will increase.

Investing in a variety of regions attempts to reduce currency risk as your international share exposure will be held in different currencies. You can also consider investment options that hedge against adverse currency movements (this may incur a fee).

Liquidity risk

Liquidity risk is the risk of not being able to access your funds when you need them (such as in an emergency). This risk can be reduced by using cash reserves that can be accessed immediately. Alternatively, you could invest in managed funds that can generally be accessed within 5 to 15 days, although you may incur a capital loss if you are forced to sell when markets have performed poorly.

Regulatory risk

There is always a risk that the government will change legislation in the future to the detriment of your investments. This risk is difficult to plan for and we find it more appropriate to develop strategies based on current legislation but including flexibility into your portfolio can minimise the worry of this risk.

Market risk

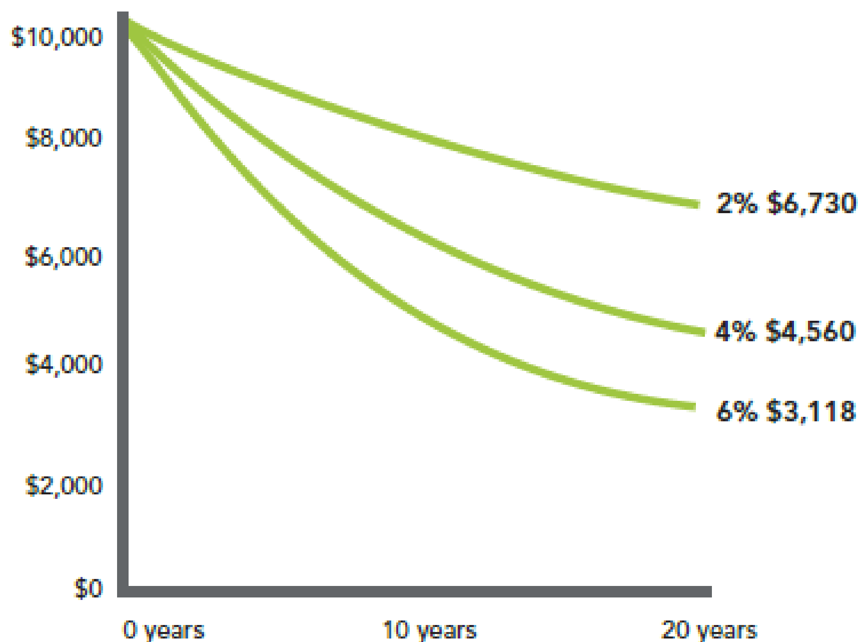
Market risk is where an investor experiences losses because of factors that affect the overall performance of the financial markets.

Market risk generally cannot be eliminated through diversification because it occurs across all asset classes. Examples include negative investor sentiment, natural disasters, recessions, economic impacts and political changes that affect market performance. Different asset classes have different levels of market risk.

Market risk can be reduced by investing for an appropriate timeframe for each particular asset class as this gives you time to ride out any downturns.

Inflation

Over the long term, you also need to think about the effect of inflation on your capital. For example, if you invest $10,000 for 20 years without reinvesting any interest you earn, you'll still have $10,000 at the end – but it will be worth less because of inflation (see graph below).



Six steps to investing wisely

Step 1: Know your goals and risk tolerance

Know your goals, timing and your appetite for risk before you choose any investment.

Step 2: Understand how investments work

Learn how different investments work and only invest in what you understand.

Step 3: Develop an investment plan

Create a realistic plan that meets your needs and spreads your assets.

Step 4: Decide how to invest

Choose whether to take a 'do-it-yourself' approach or get a professional to help you.

Step 5: Implement your plan

Put your plan into action and pay close attention to paperwork

Step 6: Monitor your investments

Keep an eye on your investments rather than adopting a 'set and forget' approach.

GA Warning/Disclosure

This document contains general advice. It does not take account of your objectives, financial situation or needs. You should consider talking to a financial adviser and read the relevant Product Disclosure Statement (PDS) before making a financial decision. This document has been prepared by Lifestyle Financial Services, a division of Priority Advisory Group, which is a Corporate Authorised Representative of *Fortnum Private Wealth Ltd* (ABN 54 139 889 535), AFSL 357 306. Information in this document is based on current regulatory requirements and laws, which may be subject to change. While care has been taken in the preparation of this document, no liability is accepted by Lifestyle Financial Services, Fortnum Private Wealth, its related entities, agents and employees for any loss arising from reliance on this document.

For more information, please contact us.

1300 349 188
contact@yourlifestyle.com.au
yourlifestyle.com.au