RJS WEALTH MANAGEMENT

7 TIPS FOR INVESTING

This RJS Wealth Management eBook will provide you with a better understanding of financial markets. With greater understanding of proven strategies, comes greater control and ultimately, opportunities for greater wealth.

TIP 1

DIVERSIFY YOUR PORTFOLIO

You can't control the markets but you can control where you invest. Through diversification you can spread your investments so that they do not always move in the same way at the same time. This means that while one investment might be losing value, it could be counterbalanced by another that is gaining.

There are a number of different ways you can diversify your portfolio.

Asset classes – the main asset classes are: cash, fixed interest, property and shares.

Market sector – you could spread shares across different industries; resources, banking, industrial, agricultural, pharmaceuticals, leisure – various industries perform differently under the same conditions.

Fund managers – different fund managers have a different investment approach that can produce different results during the various cycles of the market.

Geographic – by investing in different countries around the world you can take advantage of the varying economic conditions.

No need to pick winners

One of the advantages of diversifying your portfolio is that it can help take the guesswork out of which investments are going to perform well over different time periods and market conditions. With your investments spread across a number of different assets you don't need to pick winners. There's no reliable pattern of performance from one year to the next: past performance is not an indicator of future performance. Picking an asset simply because it performed well last year could lead to disappointing results next year.

"Investing successfully requires patience, clear goals, a long-term view and sound financial advice. When markets are volatile, it can be easy to forget the basics and make hasty decisions you may regret later."

TIP 2

EARN RETURNS ON YOUR INVESTMENT RETURNS

Compounding can be an investor's best friend. Simply put, by leaving returns in your investment you can then gain any potential returns on them as well. If you make small regular contributions to your investment, then you may have an even greater effect.

Case Study: Regular Savings Plan

Janet, Peter and Lynne all decided to invest $10,000 in the same fund for 10 years. Assuming over that time the fund returned an average of 8% pa. Janet made no additional contributions. Peter added $100 a month and Lynn contributed an extra $200 a month. The difference in results is dramatic.

Dollar Cost Averaging

By investing regular amounts over time you can also take advantage of Dollar Cost Averaging. This is based on the one absolute certainty about share markets: the price of shares go up and down.

With Dollar Cost Averaging you invest a set amount at regular intervals regardless of the unit price of your fund. In this way more units may be purchased when prices are low and less units may be purchased when prices are high. Over time this can even out the fluctuations of the market. It's one way of reducing your overall risk.

	Initial Investments	Monthly Contribution	Total Contribution	Average annual return	Value after 10 years
Janet	$10,000	$0	$10,000	8% pa	$21,589
Peter	$10,000	$100*	$12,000	8% pa	$36,589
Lynne	$10,000	$200*	$24,000	8% pa	$58,178

*Assuming that the contributions of either $100 or $200 is made at the start of each month for the 10 year period. This calculation is to illustrate the power of compounding and dollar cost averaging and does not take into account tax implications.

TIP 3

THE LONG TERM TREND IS UP

Markets move in cycles, they go down as well as up. All sorts of things can send jitters through world share markets causing prices to fall from time to time. World events do have an impact. However over the long term, the general trend of sharemarkets has historically been upward.

The chart below shows how the Australian sharemarket moved over a 25 year period from 30th June 1989 to 30th June 2014. Importantly, after every downturn the market has always recovered. Some recoveries have been faster than others – it depends on a number of factors including economic circumstances – but in every case a recovery has always followed a fall.

What is an index?

An index measures the change in value of a particular group of investments over time. For example, the S&P/ASX All Ordinaries Accumulation Index measures the share price movements as well as the dividends (assuming they were reinvested) of the largest 500 stocks listed on the Australian Securities Exchange (ASX).

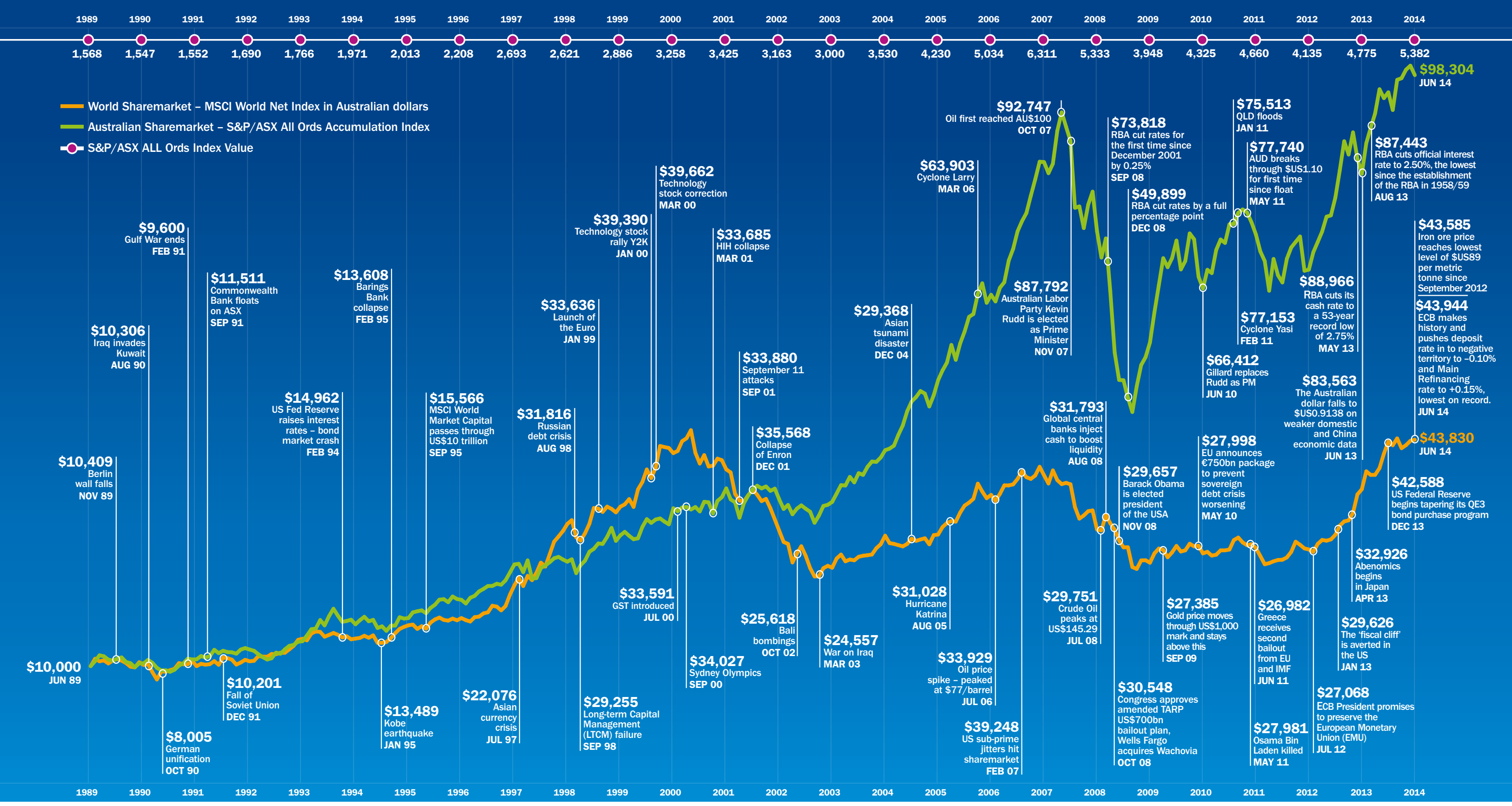
Think years and not days

Trying to time your entry or exit into an investment is a risky business, so the best idea is simply not to worry about the day you invest or sell on and focus on the years you invest in. In the 10 year period to 31 May 2008, the annualized return for the S&P/ASX All Ordinaries Accumulation Index was 12.28% pa. If you remove the five best performing days over that period that return drops to 9.98% pa. Remove the best 30 days over those 10 years, the annualized return drops to 3.53% pa. Nobody could predict when those best days were going to occur so the only way you could take advantage of them was to be invested in the market for the full 10 years.

Australian and global sharemarkets

Impact of major events 1989–2014

Value of $10,000[1] invested 30 June 1989 to 30 June 2014



1 Actual index returns: This chart is based on the standard indices used by investment professionals to measure performance of asset classes. S&P/ASX All Ordinaries Accumulation Index, MSCI World Net Index (A$). 'Net' denotes that the index is calculated gross of dividends, net of withholding taxes. All dividends reinvested excluding fees and charges. This chart provides general information only and is not advice. It does not take into account cost of transacting on the index, entry or exit fees, individual taxes, your individual objectives, financial situation or needs. You should consider whether the information is appropriate for you and consider talking to your planner before making an investment decision. Past performance is no indication of future performance. Source: IRESS, Morgan Stanley Capital International. Examples are used for illustration only. Value of $10,000 invested 30 June 1989 to 30 June 2014.

A bubble or a correction?

A "bubble" is where the share market, or a section of the share market, rises very quickly without any really sound business fundamentals supporting it. Something happens, the bubble "pops" and prices collapse. Historically, share markets have risen in line with company profits, as the chart along side shows. The chart also shows how market falls often bring Australian share prices more in line with corporate profits. This suggests it is a market correction – a correction which ensures shares are more accurately valued along traditional lines.

This graph uses an index starting at $1,000. The index compares Australian share prices (using the S&P/ ASX All Ordinaries Index) to corporate profits (data sourced from the Australian Bureau of Statistics – index constructed primarily from Company Gross Operating Profits, An Australia wide measure of profits.)

TIP 4

PLAN FOR THE LONG TERM - DON'T REACT TO THE SHORT TERM

Markets move in cycles; by moving in and out, you could miss out on a major gain. By taking a long-term view of investing you can ride out any short-term fluctuations in the market and take advantage of the potential growth over the long term. If you invest in a fund with a seven year timeframe but you decided to sell your investment after three years because of disappointing results you could lose out on four years of potential growth.

The crash of 1987 – a tale of two timeframes

The famous crash of 1987 had a devastating effect on some investors. For others it had little impact. These two case studies illustrate two possible extremes. Applying a different timeline would result in different outcomes.

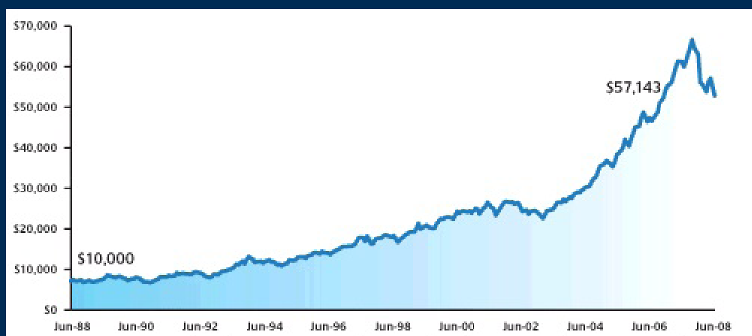
Case Study: Peter

Peter invested $10,000 in a fund in September 1987. The market suffered its crash in October of that year. After three years Peter thought the markets had been disappointing and decided to 'cut his losses' and sell out of his fund, thinking it would never regain all the ground lost in 1987. The fund matched the return of the ASX All Ordinaries Index which gave him a very disappointing result - an annualised loss over the three years of -10.36% pa.

Source: IRESS ASX All Ordinaries Accumulation Index. Data from 30 September 1987 to 30 September 1990. **Past performance is no indication of future performance.** This graph does not take into account any management fees or contribution charges.

Case Study: Maria

Maria invested $10,000 in the same fund in September 1987. The 1987 crash had exactly the same effect on her investment, however she took a long-term view and held on to the investment, as planned, until she retired in 2007. The chart opposite shows the overall impact of the 1987 crash was very minor on Maria's long-term investment. She received an annualised return over the 20.5 years of 8.80% pa.



Source: IRESS ASX All Ordinaries Accumulation Index data is used prior to March 2000, post March 2000 the S&P/ASX 300 Accumulation Index is used. Data to 31 March 2008. **Past performance is no indication of future performance.** This graph does not take into account any management fees or contribution charges.

TIP 5

REACT NOW AND YOU MIGHT REGRET IT LATER

It's common sense that before you make an investment you understand the implications, risks and costs involved. Exactly the same is true before you withdraw from an investment. It's vital to know what the implications and costs will be.

There are three major considerations which you should consider before you withdraw from a fund or other investment.

Crystallising losses

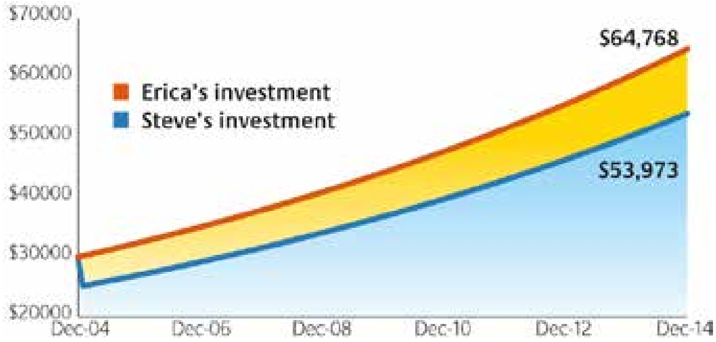
Selling as a knee-jerk response to market movements can create problems. If the value of your investment is falling, you are only making a loss on paper. A rise in prices could soon return your investment into profit without you doing anything. Selling your investment makes those losses real and irreversible.

Capital Gains Tax

Make sure you know what your Capital Gains Tax (CGT) position will be before selling an investment. CGT is payable on any gains made on an investment and is payable when you sell that investment. If you've had an investment for less than 12 months, CGT is payable on the full gain. If someone is selling an investment because of a short term loss after a long period of sustained growth (such as between 2004 and 2007) then they could attract a significant CGT liability because of the long period of growth. Which will be based on your marginal tax rate.

Losing the benefits of compounding

If you're thinking about making a partial withdrawal from a fund, remember you will lose the effects of compounding on that withdrawal. Take a look at this case study example where a $5,000 withdrawal results in a significant loss of earnings potential. It's not just the withdrawal you lose, but all the future earnings on that withdrawal.



This illustration does not take into account tax implications.

Erica and Steve both invested $30,000 in a managed fund. Steve was going on an overseas trip and needed to pay for it so he withdrew $5,000 from his investment. Steve enjoyed his holiday but lost the investment power of $5,000.

As you can see from the graph, after 10 years, assuming an average return of 8% pa for both investments, Erica's investment has grown from $30,000 to $64,768 whereas Steve's $25,000 has only grown to $53,973, which is $10,795 less than Erica's. Of course, for shorter periods, say six to seven years, the difference is less but the message is clear – staying invested can have positive results for your investment.

TIP 6

KEEP YOURSELF INFORMED

To be a sound investor you don't have to be a stockbroking hotshot, but it pays to stay informed about your investments and keep up-to-date with the latest developments.

TIP 7

GET SOME FINANCIAL ADVICE

When the sharemarket is going through periods of volatility your RJS Strategic Wealth Planner can offer a calm professional voice that will cut through what you hear in the media and ensure you make informed decisions based on your needs, objectives and personal circumstances. The best piece of advice you can get is often 'get some professional advice'. There are many examples that show how good advice from a well-informed RJS Planner can bring financial benefits that often far outweigh expectations.

NEED MORE INFORMATION?

Speak with an RJS Strategic Wealth Planner

Call 1300 27 28 29

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