# Making your money grow

Financial Planning

# Making dollars out of sense

Many people believe that investing is only for the rich. This is far from true – you don't have to be wealthy to be an investor. In fact, investing is an effective way to create wealth.

Put simply, investing involves putting your savings to work, thus helping you achieve your financial goals sooner. Wisely selected investments can help meet your financial needs by increasing your wealth, providing you with an income or both.

You've worked hard for your money. By investing it, you can make it work for you.

## What's wrong with leaving my money in the bank?

Keeping your money in a bank account is a good choice for emergency funds, but it may not be the best choice for long-term savings. Although they are secure, the real value of your money may decrease over time because inflation can erode its purchasing power. Your money needs to grow at a greater rate than inflation in order to resist erosion. That's why the careful investment of your money is so important.

## What other investment options are available?

If investing your money in a bank over the longer term isn't appropriate, what are the alternatives?

### Fixed interest

Many investors believe the fixed interest sector consists solely of investing in bank term deposits.

However, fixed interest investments actually come in many forms, including treasury notes, debentures and fixed interest trusts.

### Property

Investing in property isn't confined to owning your home or even a rental property. You can purchase directly or alternatively, invest in a property trust. Investment properties can include industrial, commercial, residential, retail, rural and tourist properties.

### Shares

Put simply, purchasing shares gives you part ownership in a company and the opportunity to benefit from its growth through the payment of dividends and increase in share price. As with property, you can purchase shares directly or through a managed fund.

## How can I invest directly?

Investing on your own means you have full control over your investment choices. However, to manage your investments properly, you need to keep up-to-date with market movements, legislative changes and all the paperwork. This can be very time consuming and requires a high level of financial expertise.

In addition, direct investment may also require you to have access to large sums of money.

### Managed funds

When you invest in a managed fund, you're issued with a number of units. These units represent your ownership in the fund.

The benefits of investing in a managed fund include:

- the opportunity to diversify your investments with a relatively small amount of money;
- access to assets which would normally be beyond your reach, such as an overseas company or a large shopping centre.

## Are there risks involved with investment?

There's no such thing as a risk-free investment; risk and return are always linked. As a rule, the higher the risk, the higher the potential return.

When selecting investments, you need to strike a balance between the risk you're prepared to accept and the return you want. This is a very personal decision.

## How can I minimise the risk?

There are ways of minimising the risk whilst still getting a good return on your investments.

Diversification, for example, is the technique of spreading your money across different investments in order to reduce risk – in other words, 'not putting all your eggs in one basket'.

## What about tax?

Income earned from your investments is usually included in your tax return. Additionally, when you sell your investment, you may be subject to Capital Gains Tax. However, some investment strategies may actually reduce your tax burden.

## Dividend imputation

If you receive a 'franked dividend' from your shares, it means the company has already paid tax on its profit. As a shareholder, you're entitled to claim a tax rebate (an imputation credit) which may reduce your overall tax bill.

## Income splitting

Income splitting involves dividing investments and the income which they generate. This strategy is commonly utilised by spouses and can lower one partner's taxable income.

## Gearing

Gearing typically means borrowing to invest. The costs and interest payable on your borrowings are tax deductible and may be offset against other taxable income.

Negative gearing is where the cost of borrowing is higher than the assessable income earned on the investment. You can negatively gear rental properties, direct shares and some managed funds.

## Which investment is best for me?

There's no single answer to this question – it all depends upon your individual needs and circumstances.

When selecting investments you must consider:

- How secure will your money be?
- What level of investment risk are you prepared to accept?
- What results can you expect?
- How readily accessible will your money be?
- What is your current financial position?
- Will your investment grow at a faster rate than inflation?
- What percentage will the tax office get?
- Will your social security eligibility be affected?
- For how many years are you planning to invest? and
- What are your short, medium and long term goals?

Investment markets are complex and ever changing. Getting professional advice from a financial planner could make all the difference.

## *Important information*

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*This brochure provides general information only. You need to consider, with your financial planner, your investment objectives, financial situation and particular needs prior to making an investment decision.*

Your financial planner:


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