

Some golden rules

of investment

With managed funds, as with any sort of investment, there are some golden rules. A lot of them are just common sense, so here are some common sense rules that everyone should follow.

Choose the strategy that matches your goals

Before you invest you need to think about your personal circumstances and what your goals are. For example, are you mainly interested in generating extra income or is long-term capital growth more important to you?

If long-term capital growth is the priority, then a fund invested mainly in shares and property may be the most suitable.

If income is the priority, then you'll probably be better suited by a specialist income fund that pays a relatively high level of distributions and is backed by government bonds and maybe some high-yielding property securities and shares.

Remember, though, that if you want extra income over a long period of time you'll probably want that income to increase to help counter the rising cost of living. In that case, a fund that offers a balance of income and growth or an Australian share fund with an emphasis on income may be right for you. Not sure what is the right strategy for you? That's very common, and a financial adviser can ask you the questions you need to ask yourself!

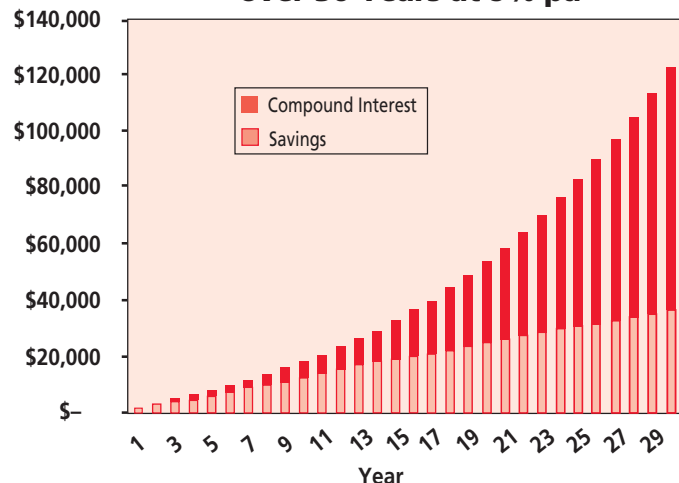
Start early to get time - and compound interest - on your side

The reason most people don't get wealthy is because they don't start investing early enough. The earlier you start, the longer you benefit from *the power of compound interest*.

Albert Einstein may have described it as the 8th Wonder of the World, but you don't have to be Einstein to get compound interest working for you. Time is all you need, because over time the "interest on your interest" is enough to grow your investment more than you ever thought possible.

Just look at the difference an early start can make.

\$2,000 initial investment plus \$100 per month over 30 Years at 9% pa



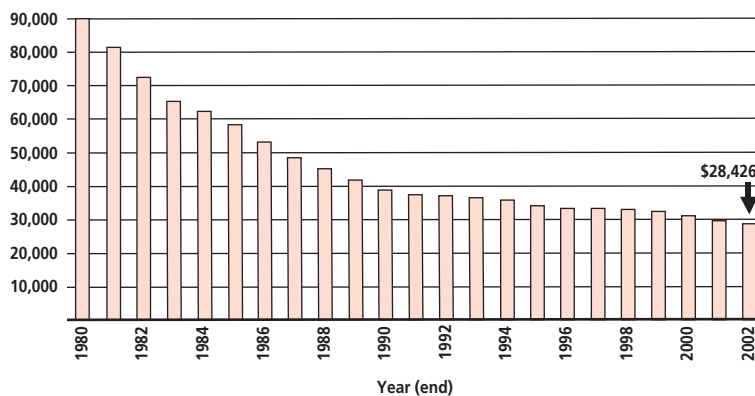
Note: These projections allow for an ongoing management fee of 1.95%, and are exclusive of tax.

Invest to beat inflation

The rising cost of living, otherwise known as *inflation*, is a sneaky enemy for investors. While it may not be obvious day to day, it steadily eats away at the spending power of your dollars.

Decreasing Purchasing Power of Capital

(\$100,000 Invested Start of 1980)

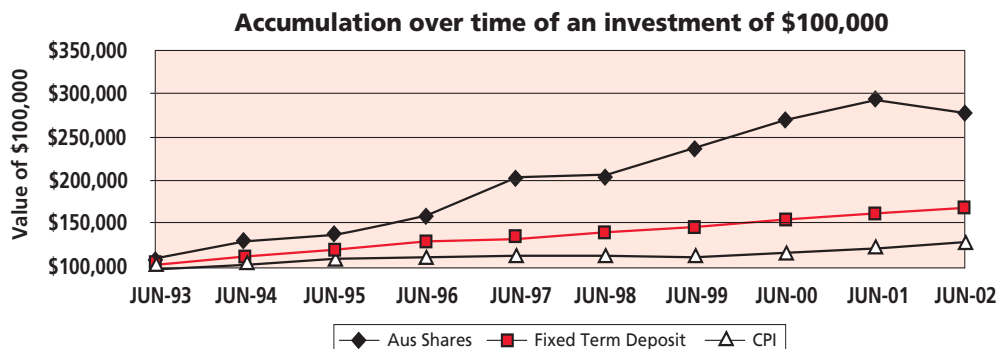


So while inflation may be lower than it has been at other periods of time, it hasn't gone away. You still need to grow your money to beat it, and the only sure way of doing that over the long term is to include at least some growth assets (that's shares and property mainly) in your investment mix.

Safety is fine, but the greatest risk to your financial security may be playing it too safe and not being invested in growth assets at all.

"The greatest risk to your financial security may be not being invested in growth assets at all"

Managed Funds can give you access to shares which can help you keep well ahead of inflation. The following graph shows an example of investing in growth assets (in this case Australian shares).



Note: All values are to 30 June each year and are exclusive of fees and taxes.

Source: Aus Shares: All Ordinaries Accumulation Index.

Fixed term deposit: Reserve Bank of Australia F4 Report "Retail Deposit and Investment Rates" (Term Deposit figures that apply for 1 year.)

CPI: Reserve Bank of Australia G1 Report "Measures of Consumer Price Inflation".

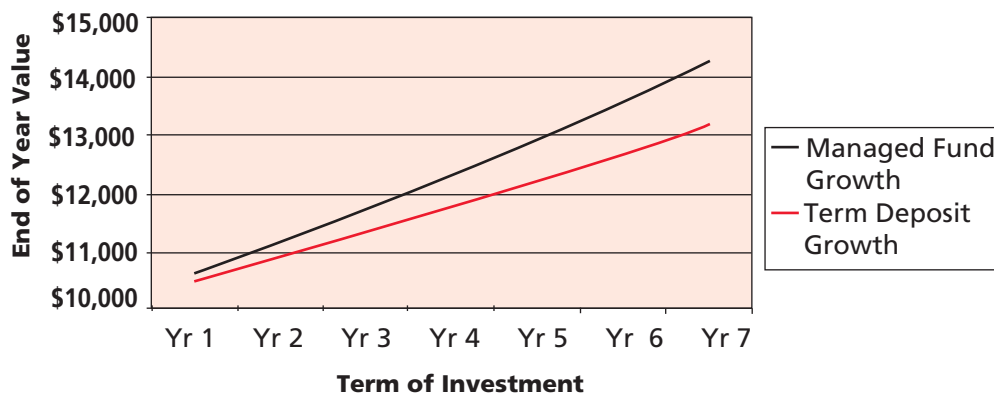
It's what you keep after tax that counts

Tax should never be the main influence on how you invest, but it's still an important factor. After all, you can't spend money you don't have, so when you're comparing investments it's what you keep after tax that counts.

The chart below illustrates the effect of tax for someone on average earnings. We've assumed they have a choice of 2 different investments, both of them with a total return of 6% pa. One is a term deposit, which produces a fully-taxable income-only return. The other is a balanced managed fund that returns 3% income (of which 1/3rd is fully franked dividends) and 3% unrealised capital growth.

If we assume inflation stays at 3% and that all after-tax income from both investments is reinvested, you can see how much better off the investor will be if they opt for the managed fund. It's far more tax-effective so they get to keep far more of the returns, and just look how the potential difference mounts up over time.

**Compound Growth of Investment After Tax –
Term Deposit Versus Managed Fund**



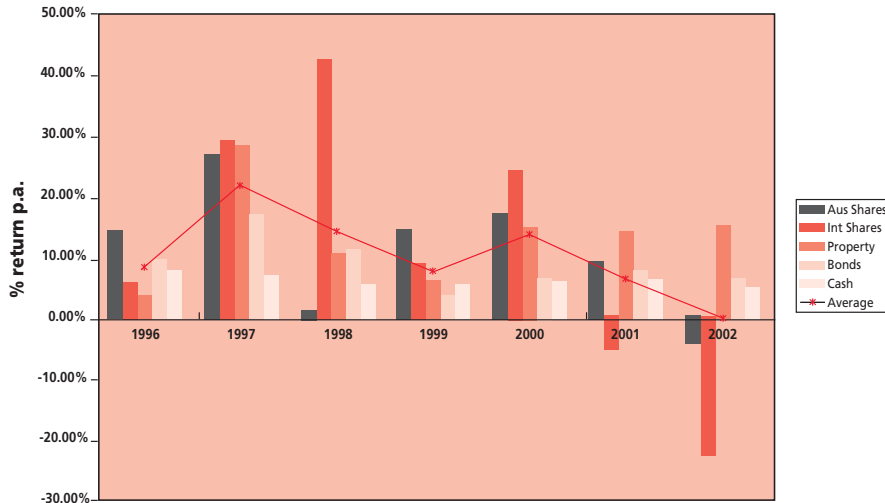
Assumptions: Marginal Tax Rate of 30% applies to all income. Medicare rate of 1.5%. Returns are net of fees.

Note: This example uses an assumption of even returns, but in reality returns will fluctuate from year to year.

Diversify for a smoother ride

One of the biggest mistakes people make is to put most of their money into just one or two types of investment. Or even worse, into only one or two properties or shares. You can see why that leads to such a bumpy ride when you look at the year by year returns for the main asset sectors.

Yearly returns of Asset Sectors



Periods are to 30 June each year.

Average is the average of returns of all sector returns for the given year.

Uses standard market indices:

- Aus Shares: S&P/ASX 500 Accum Index
- Int Shares: MCSI World Accum Index \$A
- Property: S&P/ASX 200 Property Accum Index
- Bonds: UBS Warburg Composite Index
- Cash: Bank Bills Index

All assets have their ups and downs, and if you were relying on just one or two types of investment you could have experienced considerable volatility in returns from one year to the next. But, as the 'Average' line shows, if you had invested equally in each sector from the outset the ride would have been a lot smoother.

Don't take the risk of trying to 'time' the market

It's tempting to wait to invest when the market's at the bottom and prices are at their lowest, but it's not that easy. In fact it's so difficult that most professional investors don't even try.

Trying to 'time' markets is also very dangerous, because they have a habit of bouncing back very quickly and, when they do, the rises tend to be much greater than the falls. Look, for example, at what happened the last few times the Australian sharemarket* had a year of poor returns.

Return for year ended 31 December 1987	-7.86%
followed next year by return of	+17.88%
Return for year ended 31 December 1990	-17.52%
followed next year by return of	+34.24%
Return for year ended 31 December 1992	-2.31%
followed next year by return of	+45.36%
Return for year ended 31 December 1994	-8.67%
followed next year by return of	+20.19%

* As measured by S&P/ASX 200 All Ordinaries Accumulation Index. Please note actual returns from managed funds will vary depending on the underlying investment.

If you were trying to pick the 'best' time to invest, the odds are you would have missed the low point and failed to enjoy much of the subsequent gain.

The best approach is not to try to out-guess the market. Instead, treat any time as a good time to invest. Because, in the end, it's time in the market, not timing the market, that counts.

"It's time in the market, not timing the market, that counts"

Regular investing can leave you better off

A good way of avoiding the temptation to 'time' markets is to set up a regular investment strategy. Many managed funds allow you to do this. With most Suncorp funds, for example, you can invest as little as \$100 a month.

Not only does this take away the guesswork of when to invest, it can also potentially leave you better off financially – especially when investment markets are going through uncertain times. That's because of the effect of **dollar cost averaging**.

Let's assume you invest \$100 a month into a managed fund whose unit price goes up and down over a period of 6 months and ends up at the same level as it started.

Dollar cost averaging at work			
	Monthly investment	Unit price	No. of units purchased
Month 1	\$100	\$1.00	100.00
Month 2	\$100	\$0.90	111.11
Month 3	\$100	\$1.15	86.96
Month 4	\$100	\$0.80	125.00
Month 5	\$100	\$1.05	95.24
Month 6	\$100	\$1.00	100.00
Total	\$600		618.31

At the end of 6 months, the \$600 you invested would have bought you a total of 618.31 units which, at the Month 6 price of \$1.00 a unit, would be worth \$618.31. So even though the unit price ended up exactly where it had started, you would still have made a return of just over 3% in 6 months.*

If you don't have a large amount to invest, or if you prefer to 'drip feed' your investment over time because of volatile markets, regular investing may be the best answer for you.

*Assumptions: Unit prices are net of fees and charges. Tax has not been allowed for.

Note: Dollar cost averaging does not guarantee a higher return. For example: Should the unit price fall consistently there would be a lower return than if you were to invest a lump sum up front.

Don't let today's headlines obscure the long-term view

It's good to take an interest in the latest financial news, but it's also easy to be distracted by the headlines. Newspapers, radio and TV will often dramatise a story to get your attention. If markets are doing well they're euphoric, and when markets fall they're full of gloom and doom.

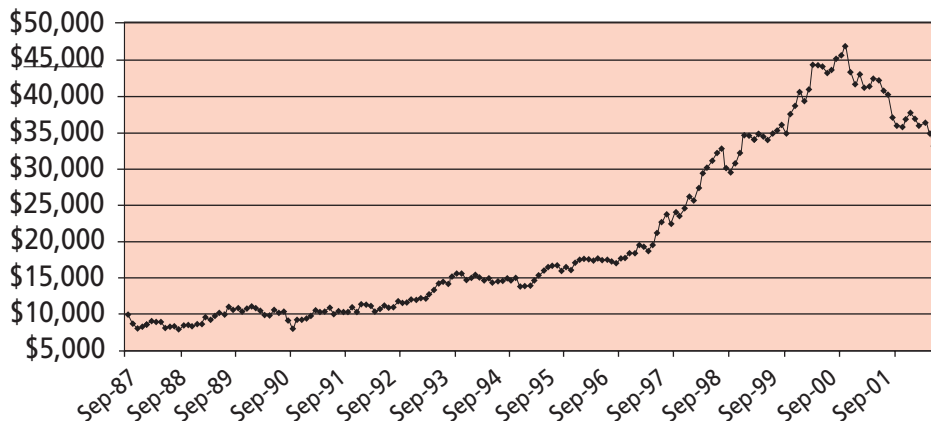
If you invested only according to news headlines, you'd almost certainly fail to reach your goals. You'd invest at all the worst times, when assets are at their highest price, and fail to invest when prices are at their lowest and there are bargains to be had.

"Investing according to news headlines is a recipe for failure"

A good example is the October 1987 sharemarket crash. In the months leading up to the crash, the news stories were all about the fortunes to be made from investing in shares. As a result, a lot of people invested at that time. When the market crashed, the news was full of tales of fortunes lost. Many of the same people panicked and sold at a loss. Others were put off investing in shares, and sat on their money instead.

The picture below shows what they missed out on. \$10,000 invested in international shares, even on the day before the crash (which must have seemed like the worst time possible) would have been worth \$31,563 at the end of June 2002. To have sold out meant missing out on all that growth.

Value of \$10,000 invested in International Shares



Source: MSCI World Accumulation Index in \$A

So by all means be aware of what's going on in financial markets, but don't let today's headlines make you lose sight of the long-term view.