

Where do

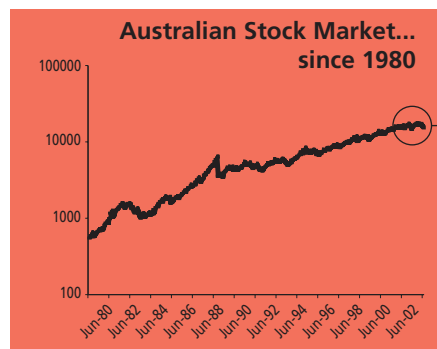
managed funds invest?

Managed funds invest in different assets, depending on their objectives. The most important assets to know about are Australian shares, international shares, property, fixed interest and cash.

How do different assets compare?

Let's start with **shares**, which are simply investments in Australian or overseas companies. Shares have historically produced higher returns over the long term. Over the shorter term (say up to 3 years), returns are less predictable and in some years can be negative (which, incidentally, may be a good time to top them up at a lower price).

You can see the real value of shares from this chart. It shows how resilient sharemarkets have been regardless of wars, natural disasters and economic crises. In the short term the ride may have been a little bumpy, but this is put into perspective when you look back over the medium to long term and see just how far the value of shares has grown.



Source: Datastream

At the other end of the spectrum is **cash**. Cash, which in this sense means bank bills and deposits, is seen as the ultimate low risk investment. Returns are predictable but they're also lower compared with what can be achieved with shares over the longer term. So low, in fact, that an investment in cash is unlikely to keep pace with inflation after tax, let alone increase the spending power of your money.

In between cash and shares are the other main asset sectors, namely fixed interest and property.

Fixed interest – mainly government bonds and the like – generally produces better returns than cash but with more fluctuations. It's possible (but quite rare) for fixed interest to produce a negative return over a year.

Property – and we’re talking here about very large properties like office buildings, shopping centres and industrial estates – is a growth investment not unlike shares. Just as shares have a capital growth and dividend component, good property has growth and also income through agreed rental yields. Property can go through periods of negative returns but over the long term it tends to produce better returns than fixed interest, though lower than shares.

The relative risk and return of these different types of asset are illustrated in the panel below.



You can decide your own investment mix.....

Some funds just focus on a single type of asset. These are useful if you want to build up your investments in that area, perhaps because you already have enough invested in the others.

Wayne and Allison are looking to broaden their mix of investments. They're working full-time and own their own home. They have enough in savings to cover any major expenditure or emergencies. With significant money tied up in property and superannuation, they are now looking to diversify their investments into other areas.

With \$40,000 to invest, they decide to split it between an Australian shares fund and a global shares fund. They plan to top up those funds out of future savings. As they see it, "We're still only in our 40s, but the more we can put away into growth investments like shares, the sooner we should be able to retire in comfort."

.....or you can invest in a ready-mixed fund

Other funds include a broader mix of investments, usually covering all the main asset sectors. These include:

income funds, that aim to deliver a relatively high and stable level of income, and may include the potential for a small amount of capital growth.

growth funds, that pay relatively low income and focus mainly on growing the value of your investment; and

balanced funds, that put roughly equal emphasis on income and capital growth.

These multi-sector funds save you having to decide what asset sectors to invest in, so you only have to think about your time horizon and the balance you want between income and growth.

Matching the fund to your time horizon

When you're looking at any investment it's important to keep in mind your **time horizon** – in other words how far ahead you're planning for and how long you expect to keep the investment.

Managed funds are best thought of as medium to long-term investments, so the minimum timeframe for different types of fund are:

Type of fund	Plan to invest for at least
Income funds (including specialist fixed interest) and cash funds	Up to 3 years
Balanced funds	5 years
Growth funds	5-7 years
Specialist share funds (including Australian, international and property securities)	5-7 years

These are useful guidelines, but remember that all investments – and growth investments in particular – will reward you best if you're patient.