

# The Synchron Guide to SUCCESSFUL INVESTMENT

*"Investment is your personal  
declaration of independence".*



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**Synchron**   
Securing your financial future



# Securing your financial future

## Money

Money has been described as minted freedom. With it you can do what you want, go where you wish. During your working years, and especially in retirement, you can enjoy the lifestyle of your choice. Without it, you are dependent on the government, your family and others, a constant blow to your self-esteem.

We can no longer rely on the government to provide a reasonable retirement pension. The combination of an ageing population and massive total social security budget has seen to that. Even in an era of comparatively low inflation the cost of living continues to rise and the cumulative effect is like that of compound interest.

The answer has to be personal investment, your own wealth creation plan. This paper has been written as a guide to the investment basics. Spend 15 minutes reading it and thinking about its implications for you and the return could be the best of all dividends, years of freedom.

## What is investment? The inflation factor

The answer may seem obvious but is not. Investment is not the same as saving. When you save you are just accumulating the money you put in, the principal, plus the interest you get less tax and the effects of inflation. Thus if you have saved \$1000 and deposited it at 5% a year, you have \$1050 after twelve months. But you may have to pay tax of 50c in the dollar. Your capital is then only \$1025. And if inflation has been only 3% its value has been eroded by another \$30.75. You have actually gone backwards. This is a simplified example of a real life experience.

Investment involves placing your funds where your principal or capital and the income derived from it will grow. Investment is all about growth. It involves assessing risks and spreading risks. It means thinking and planning ahead.

## Time is on your side

Retirement may seem a long way off, decades even. This is very much to your advantage because your capital compounds in value over time and risk usually diminishes with time. Your fundamental aim is to make your money last at least as long as you do. Your assets have to grow at a greater rate than inflation. You stop working but taxes and inflation continue. Time is one of the investor's three main allies.

Inflation is simply an official measurement of the cost of things, goods and services. In Australia it is a reliable statistic. But it is important to remember that there are two inflation rates, the government's and yours. The official rate is determined by the goods and services included in the cost of living index. But you may have a particular taste or need for things which increase at a greater rate, anything from foreign holidays to specialist treatments of your choice..



# The choice is yours

Choice and investment are the key words in this booklet. In making your investment choices you should begin by taking account of four factors. You need to know what your options are. You must have an appreciation of the time value of money. You need to understand how different types of investment perform over long periods of time. You need to know your end goal so that you can select the investment mix tailored to your objectives and the level of risk you are willing to tolerate.

## Where to go

***There are four main outlets for your investment dollars.***

You can keep your funds in cash, usually bank accounts at little or no interest, deposit them in fixed interest accounts for specified periods of time. You can buy property, generally real estate. You can invest in the share market.

Each has a value in dollar and personal terms and you need to create the mix which will get you what you want, when you want it and entail only that level of risk with which you feel comfortable.

Past Government privatisations and asset sales such as Telstra, Qantas and the Commonwealth Bank have given millions of

Australians a direct stake in the stock market. But it remains true that most people do not have the time and knowledge directly to invest their entire portfolio. Monitoring and adjusting an investment mix calls for time, attention and expert knowledge. Managed investments are designed to do this work for you.

## Spreading the risk

Managed investments, usually in the form of unit trusts, rest on two foundations. Funds are pooled with other investors so you have a stake in more securities than you could buy on your own. Professional managers use the money to buy shares, property and fixed interest securities in the proportions consistent with the particular fund's financial objectives. Your diversified funds are then constantly monitored by experts with access to information and research facilities enabling them to make knowledge based decisions on when to buy and sell. When you invest in a unit trust you buy units in the fund and the managers do the rest. Trusts exist for virtually all investment objectives. You pick those whose defined objectives fit your needs and risk spreading requirements.

## Which investments trust?

There are cash, property, share and fixed interest trusts together with those that have a mix of these. Cash trusts seek the best available rates for money available at call or demand. The

advantage is instant access; the price is the lowest return.

Property trusts are literally built on ownership of specific real estate such as shopping centres, office towers and hotels. They can provide very good returns but they entail exposure to the sometimes volatile and unpredictable real estate market.

Share trusts are based on ownership of a company through its issued shares. Returns are based on profits, usually in the form of dividend cheques, and capital growth. Selecting the right shares is the biggest area of research and analysis in investment markets. What managers seek, on behalf of unit holders, are companies with above average earnings or exceptional long-term potential and capital growth. They may be centred on a particular industry sector, such as mining or communications, on geography, domestic and international, or by their size. Some deliberately focus on income, others on long-term growth.

Fixed interest trusts are built on loans. The borrower promises to repay the loan at a specified time and until then will pay an agreed rate of interest. Maturity dates can range from a few months to as many as 30 years. Loans carry less risk, and therefore provide lower returns, than shares. Paper offered by corporations tends to be riskier, again with higher returns, than that of governments. Values rise or fall in line with general interest rates and other market conditions. They are particularly appropriate for retirees who need a regular income.

# SYNCHRON'S 9 STEPS TO PROSPERITY

- 1.** Learn about your investment. Read investment guides and get the details about your superannuation fund. You make the most of your investments when you know how they work.
- 2.** Set clear objectives. Calculate how much money you will need in retirement then factor in your age, the years you have for investment, the money you have and the amount you need to accumulate.
- 3.** Select investments with objectives that match your own. Hold them until your own objectives change.
- 4.** Spread your risk. No investment performs well all the time. Spreading your money reduces risk and increases potential returns.
- 5.** Invest regularly. This is another risk reducer. Consider the merits of dollar-cost averaging.
- 6.** Look for tax advantages. For instance, superannuation contributions are taxed at a lower rate than income freeing more money for investment. Consult your Synchron adviser specifically about this.
- 7.** Review your objectives. Your investment ability and needs change over time. Review your objectives every year.
- 8.** Hang in. Once you have a plan, stick to it. If you follow other guidelines about diversification and regular investment you can withstand market fluctuations.
- 9.** Start now. A 25-year-old investing \$100 a month in a superannuation account earning 8% will have about \$350,000 at 65. Someone starting at 35 must invest \$235 a month to achieve the same result. At 45 it becomes nearly \$600 a month.

## A PERSONAL STRATEGY

When devising your own investment policy it is a good idea to begin by looking at the past. History is no guarantee of future results but it is a guide. In doing so, look at long-term trends. The investments that traditionally have delivered the highest returns can often carry the greatest short-term risks. The trend is what counts.

Each investment entails risk. How much risk you assume is for you to determine. Your experienced Synchron adviser will help you to assess your "risk profile".

It is essential that you think in terms of years and long-term goals. Those who panic quickest, lose most. In building your portfolio, diversification should be one of the basics. Balanced funds, which themselves invest in a variety of assets, are a simple way of getting your own mix of growth, risk and diversity.

Consider the advantages of dollar cost averaging. This works like a superannuation scheme in which the same sum is allocated each week, month or whenever. This helps you take advantage of market fluctuations.

Within that long-term you can still be flexible. For instance as investors near retirement it can make sense to shift a higher proportion of total capital into fixed interest bond funds because they tend to preserve principal better than equity trusts.