Investment fundamentals

Welcome back to our 'better off with advice*' online video series.

This time, we look at the basics of investing.

Before you switch off because you don't think of yourself as an investor… remember your super and think again.

Unfortunately, the global financial crisis caused a lot of panic in investment markets, but it was also a timely reminder about the essentials of sound investing.

The fact is, investment markets go up and down.

But what's important to understand is that they are also cyclical… which means over time, they will recover. And history proves this.

It's also important to understand that investing is for the long term.

Hopefully it's a way for you to increase your wealth, but it's not a get rich quick scheme. As you can see from the graph, the longer your investment timeframe, the more likely you are to realise a gain. Panic selling not only locks in losses but also means you don't benefit from the recovery of the market.

Today, we are going to show you some of the strategies that can help iron out the highs and lows and help reduce the level of risk you take on.

To discover the eighth wonder of the world is to discover the magic of compound interest.

Compound interest is simply the interest you earn on your interest.

Let's look at an example. The orange line in the chart shows that you would have $48,000 if you were saving $200 a month over 20 years with no earnings or returns on your money. Not a bad sum.

But now let's look at the green line. This shows how much you would earn with compound interest at a rate of 8 per cent – a staggering $117,804 – almost two and a half times more, without really doing anything. Now that's magic!

This example is based on an investment with a set rate of return. But other types of investments, such as shares, offer variable rates of return.

So how do you know what's right for you?

Before you start to invest, one of the first things you need to consider is your investment goals.

- Are you trying to save a $20,000 deposit for a new home or planning to retire with a super balance of $300,000?
- The second thing you need to consider is the time frame over which you have to achieve your goals.
- And when you need to access your money, because some investments have access restrictions.

* You could be better off at any age. Financial Services Council research shows that a 30-year-old would save an additional $91,000, a 45-year-old would save an additional $80,000 and a 60-year-old would save $29,000 more than those without a financial adviser.

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We'll help you through these three simple steps and work out what type of investment would suit you best.

Now I'm sure we'd all like to double our money by next week, but unfortunately it doesn't work that way.

As a general rule of thumb, the higher the potential return, the higher the level of risk you must be prepared to accept.

If you look at the chart opposite, you'll see that different types of investments (or assets) have different levels of return and, therefore, different levels of associated risk.

For example shares and property are generally considered growth assets, and suit investors with a more aggressive risk profile, those that are prepared to take on greater risk for greater returns. Cash and fixed interest are more conservative assets and suit investors with a low risk profile who are prepared to accept lower returns but receive a lower level of risk.

Or maybe you're somewhere in between. In which case, a balanced portfolio, offering a mixture of both growth and conservative assets might be more your speed.

So, what type of investor do you think you are?

By investing across a range of different assets, you reap the benefits of diversification.

Diversification simply means not putting all your eggs in one basket. Instead, by spreading your investments across different types of investments (or assets) means you are spreading your risk, because different assets perform differently.

As you can see in the chart, cash, bonds, even Australian vs international shares all perform differently.

Unfortunately that's all we have time for today, but hopefully it's given you some insights into the world of investing.

As you can see, investing isn't just for the rich, there's something to suit everyone, even if it's simply your super.

To find out more about investing, download our fact sheet opposite call the number on screen now and make an appointment with a Bridges financial planner near you.

Alternatively, click the 'Make an appointment with a Bridges financial planner' button.

Call **1800 645 303** to book an appointment with your local Bridges financial planner today.

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