

The basics of investing

Different investment strategies and timeframes have different levels of risk. Understanding your tolerance for risk can help you feel more comfortable making investment decisions.



Use this five-step plan to get you on the way to achieving your dreams.

1. Create an investment plan.

Setting your financial goals is the most important part of your investment journey.

2. Start as soon as you can.

In general, the earlier you begin investing the better. That way, you give your investments more time to grow, thanks to the magic of compounding. With compounding, you earn money on your original investment and on any income you've received. Over time, that can really add up.

3. Budget.

Start with a clear view of your budget right now. That will help you make better decisions about your finances now, helping you meet your future goals.

4. Risk.

Investments are sorted into different categories or options, depending on their level of risk. Cash and fixed interest investments are considered lower risk, for example, while property and shares tend to be higher risk.

Know the risks involved in each type of investment and how much risk you're prepared to take.

Your age is an important factor as it affects your ability to stay invested and recover from market downturns.

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5. Asset types – Different investments have different risk and return profiles.

Investments are organised into asset types, which are groups of investments that have similar features, such as cash, term deposits, fixed interest investments, property, infrastructure, shares and alternative funds.

Cash means investing in currency – usually by putting money into bank accounts, term deposits or similar. It's low risk and usually has low growth potential.

Term deposits is money invested for a set period of time. They are generally low risk and provide a comparatively low but stable return.

Fixed interest investments are essentially loans issued by companies, governments or financial institutions to raise money. They come with a set rate of return.

Property includes houses, apartments, factories, warehouses, office spaces, shops and shopping centres. Investors earn income from rent and also make a capital gain if they sell the property for more than they paid for it.

Infrastructure means physical assets, such as public transport, toll roads or public housing. They require a lot of capital to get started but often have low ongoing operating costs and provide a reasonably stable return.

Shares allow you to own a part of a company. While they're considered higher-risk, they tend to outperform other asset types over time.

Alternatives are any other investments that fall outside the traditional asset classes above. They include a diverse mix of investments including hedge funds, commodities, private equity, art, cryptocurrency and venture capital. They can be high risk and complex.

Creating an investment plan: Five simple steps

1. Set goals

To set clear goals with achievable targets, ask yourself what's important to you and why you're investing. Think about your circumstances. How much money do you have to invest? How long you plan to invest for? What do you want to achieve at the end?

Write down your goal. For example, 'I want to retire at 60 with an after-tax yearly income of \$50,000 which will last at least 25 years' is a good goal because it states a measurable, specific target with a time frame.

2. Decide your risk appetite

Risk is the chance of losing money you've invested or it earning less than expected. Usually, the higher the risk, the higher the potential return. Your risk appetite simply means how much risk you're prepared to take on to achieve your goals.

3. Decide how much to invest

It's usually helpful to work backwards from your goal: take the final amount, the length of time between now and then and calculate how much money that is per week or month. Then, taking into account potential returns, the idea is that you'll need to invest at least that much to get to your desired end point.

4. Choose how to invest

Which asset types are right for you? How much money you have available to invest will affect your choice, as will your risk appetite and investment timeframe. It's also important to make sure your portfolio is diversified.

To diversify your portfolio, consider investing in different asset types, industries or geographic regions.

5. Decide if you need help from a financial adviser

It can be worthwhile getting an expert opinion before you start investing.

Further information

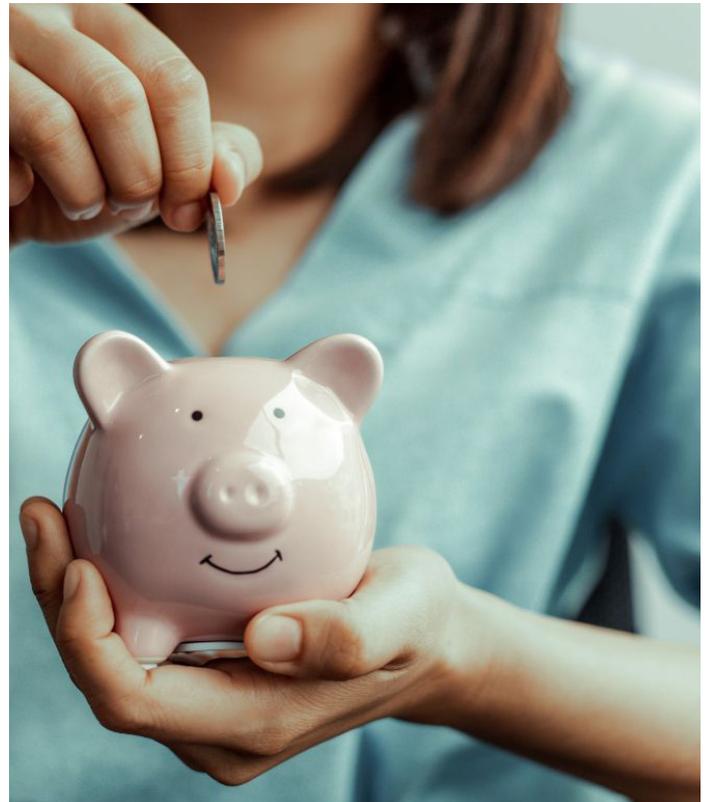
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Source: Colonial First State

Investing through super

The money in your super account is invested into a diversified mix of asset types to help grow your retirement savings. You can choose how your account is invested by changing your fund options.

You can also top up your super by making extra contributions. This lets you invest more money through your super and potentially leave you better off at retirement.



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