



## WEALTH CREATION

creating long term wealth

There are all sorts of reasons why you want to maximise your wealth – you might want to send your children to private school, regularly upgrade your car, or move to a bigger house. You might simply want to know that your money is working hard for you, even as you sleep.

Whatever your goals, optimising your wealth will help you to achieve them sooner.

There are lots of ways to build wealth, but which is best for you? Should you invest in more than one asset? When should you begin, and how long should you invest for?

There are so many options that most people are uncertain how to use their available funds or they can make mistakes or miss opportunities. With the help of your financial adviser, investing needn't be as complicated as it seems.

### What will work for you?

The strategy that's best for you will depend on your financial goals, the sum you have to invest and your attitude to risk. It might also depend on your personal values and attitudes to money. Here's a brief rundown of the pros and cons of some of the most popular wealth creation strategies.

#### Term deposits

Similar to a savings account, but you commit to locking your funds away for a set period, and the interest rate is fixed at an agreed level for the same period. Similarly to a fixed or variable rate mortgage, whether you end up getting a better deal with a fixed term deposit than a normal savings account depends on the activity of the market.

**Pros:** safe, reliable

**Cons:** slow growth, penalties for early withdrawals

#### Put more into super

Superannuation has always been a tax-effective vehicle for retirement savings, and now that retirement income is tax-free for the over 60s it's even more attractive for investors who are happy not to access their cash until retirement.

Your superannuation balance can be invested in various asset classes (most usually shares or property) depending on your risk preference. Bear in mind that there are now limitations on how much you can contribute, so now more than ever it pays to plan ahead.

**Pros:** very tax-effective, potentially high returns, long-term potential

**Cons:** it's locked away until retirement

#### Invest in property

Some swear by home ownership, arguing that borrowing to buy a home and then paying off your mortgage as soon as possible is the best option for secure wealth. Property has generally been a solid investment, but carries associated costs and upkeep.

**Pros:** Own more equity; savings discipline; property grows in value over the long term

**Cons:** Can't easily be converted back to cash; high transaction costs, large initial outlay

#### Shares

With direct shares you can invest in all the companies listed on the Australian Securities Exchange. Online direct broking services can provide a cost effective way to manage your own share portfolio. You can also opt for managed funds – where your money will be pooled with that of other investments to increase your buying power.

**Pros:** potentially high returns, tax advantaged income

**Cons:** carries moderate to high risk

*continued on reverse...*



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### Investment strategies

Strategies to maximise your income from share investment.

#### Dollar cost averaging

When you invest a set amount at regular intervals you may reduce the price you're paying for the investment in the long term, by automatically buying more when prices are low and less when prices are high. This helps to smooth your average purchase cost, which may reduce the impact of sharp market declines and regulate your returns.

**Pros:** takes the emotional element out of investment decisions

**Cons:** possibly miss taking full advantage of market low points

#### Compound interest

An important aspect of investing regularly is that you stay invested. By keeping your money in the market, you reduce transaction costs and minimise the risk that you'll miss out on gains. More importantly, you'll benefit from what Einstein famously called the 'most powerful force in the universe' – compound interest. This basically means that you gain interest on your interest, so you don't need a huge sum of money to start building wealth, and the length of time you're invested can be more important than the amount you invest.

**Pros:** can start with a small sum

**Cons:** not a short term win

#### Using debt to create long term wealth

Gearing (borrowing to invest, margin lending or leveraging) is simply borrowing money to multiply the amount you invest in shares or managed funds.

The main benefit of gearing is that your investment balance is bigger, so the potential returns should also be bigger. But this is a high-risk strategy which is only worthwhile if your returns are greater than the interest you pay on the borrowings. If the value of your investment falls, then gearing will magnify your losses. As such, it's not a short-term strategy, or one for the faint-hearted or those less disciplined with their cash.

Another reason to gear an investment is that the cost of investing (including interest) may be tax deductible. However, if the investments you choose don't perform, the losses you make will also be magnified. No tax deduction will make up for a bad investment.

**Pros:** Increases your potential returns; may reduce tax as the costs of investing are often deductible; access to your money prior to retirement.

**Cons:** If your investments go down then gearing will magnify losses.

Improving the quality of people's lives through a living financial plan. We assist people to manage their finances to achieve their lifestyle goals reliably, through well researched advice and effective implementation.

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