INSIGHTS

AUTUMN 2017
FINANCIAL ISSUES AFFECTING YOUR LIFESTYLE

WHAT IS...? INVESTMENT TERMS EXPLAINED

Want to learn more about investing but you're not sure where to begin? Here are a few key terms every investor should know.

If you are looking to build wealth for the future, buying a lottery ticket probably isn't the way to go. A far more reliable option is to invest – but unlike hitting the jackpot, investing takes time, patience and know-how. For many of us though, trying to understand investment-speak is like trying to learn another language. If that's how it is for you, don't despair – once you get your head around a few basic concepts, you'll be on your way towards becoming a successful investor. Here are some simple definitions of a few common investment terms to get you started.

Portfolio

Your portfolio is the collection of assets you've invested in, which might include asset classes like cash, bonds, shares and property. You may hold different amounts of each asset and they're all likely to have different values. As an investor, you can manage your own portfolio and choose which assets to buy and sell at which time, or else you can hire a professional to manage it for you.

Cash

Cash refers to money you have that isn't tied up in other assets. It's easily accessible when you need it, and it has a clear, specific value. As well as the hard cash you have on hand, it may also include other forms of money that can readily be converted into cash if you need it, such as the balance of your savings account.

Bonds

Investing in a bond essentially means lending money to the government or a company for a period of time, at either a fixed or variable interest rate. When you buy a bond, you receive a contract stating the interest rate and the maturity date – in other words, the date when the bond expires and you get your money back with interest.

Also referred to as 'fixed income securities', bonds are generally considered to be a more secure investment than shares because you know exactly how much you'll earn and when, similar to a term deposit, the main risk to be aware of is if the issuer cannot pay you back.

Shares

A share or stock is a portion of a company that's available for investors to purchase. The amount of a company each investor owns is relative to the total number of shares available; for example, if a company has 100 shares and you buy one, then you become a shareholder who owns 1% of the company. So whenever the company returns a profit, you could be entitled to a dividend based on the portion you own.

Keep in mind that shares are a long-term investment that may carry a higher degree of risk than other assets in your portfolio. Because they're subject to stock market movements, they're also likely to go up and down in value over the short term – but they also have the potential to earn higher returns in the long run.

Property

The most direct way to invest in property is to buy residential or commercial real estate and rent it out to a tenant. Your investment can then pay off in two ways: firstly through the rental income, and secondly as an asset if you sell it for a profit down the track.

You can also invest in property indirectly through an Australian Real Estate Investment Trust (A-REIT). Like with a managed fund, A-REIT investors pool their money together in a shared portfolio of commercial and industrial real estate.

FINANCIAL WISDOM

Investment Risk

When deciding which investments are right for you, it is important to understand the trade-off between risk and return and how to manage investment risk. It is important to understand the different kinds of risk that may affect your investments. All investments carry some risk due to factors such as inflation, an economic downturn or a drop in a particular market. Even if you choose an investment traditionally considered 'safe', such as cash, there is still a risk of inflation eroding the value of your capital or falling interest rates reducing the level of your return. Every investment has the risk of not returning your investment due to market or manager risks and assets with greater changes in their capital value and pricing will move around a lot more especially in the short term. It is important to know and understand the risks of every investment you make.

Managed funds

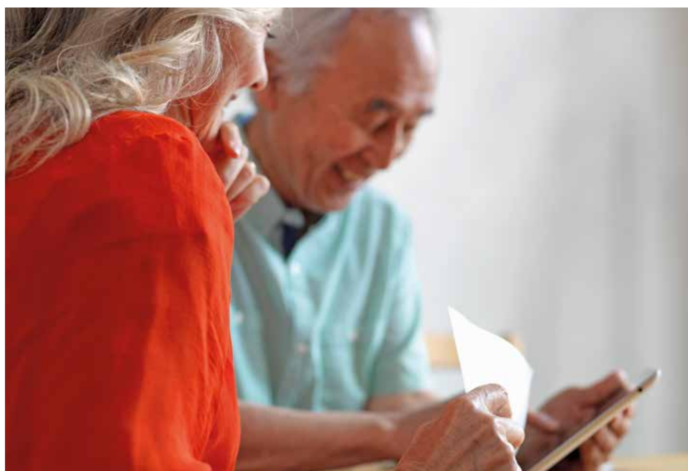
When you invest in a managed fund, your money is pooled together with the money of other investors. A fund manager is responsible for all the fund's investment decisions regarding buying and selling assets. The fund can pay a regular income, but the amount can increase or decrease according to the performance of the fund's assets.

Although investing in a managed fund gives you less control than if you were to invest directly in shares, it may also give you access to a wider range of investment opportunities than you would have as a sole investor.

Asset allocation

Asset allocation refers to the mix and value of the various assets in your portfolio. The key to getting the right mix is to weigh up your goals, your appetite for risk and the length of time you're planning to invest. These factors will be different for everyone, so there's no easy formula for asset allocation.

Different asset classes each carry their own levels of risk and return. Generally speaking, 'conservative' assets like cash or bonds offer a safer but lower return than the potential returns on 'growth' assets like shares or property.



Diversification

Diversification is a strategy for reducing risk in your portfolio. Since different assets are likely to perform better than others at different times, it's a good idea to invest in a range of assets to reduce the risk in your portfolio. That way, when one type of investment is underperforming, your other investments will likely still be earning returns.

For example, let's say you're only invested in shares. If there's a downturn in the stockmarket, your entire portfolio will be negatively impacted. On the other hand, if half of your portfolio is invested in other assets, then that half of your portfolio may not be affected.

Return on investment

Your return on investment (ROI) is the amount you earn from an investment relative to how much it cost you. By applying this simple formula, you can compare different investments and their profitability:

$$\text{ROI} = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

For instance, if you buy a house for $500,000 then sell it for $600,000, the gain minus the initial cost is $100,000. When you divide this by the cost, the ROI is $100,000 divided by $500,000, or 20%.

Capital gain/loss

Capital gain is the profit you make when you sell an asset – in other words, the increase in value between what you originally paid for the asset and how much it sells for. If you sell an asset for less than you bought it for, this is called a capital loss.

When you sell an asset, you generally need to report any net capital gains or losses in your tax return for that year. The net capital gain is the difference between the total capital gains for the year and the total capital losses less any relevant CGT discount or concession. Capital gains tax forms part of your income tax – any capital gain that is made is included in your assessable income.

Yield

The yield is the amount of income you receive from an investment, either as interest or dividends. Because yields can go up or down depending on how the market is performing, they're usually calculated as an annual percentage based on the cost or value of the asset.

But be warned: a yield isn't a guarantee of specific returns. It's simply an indicator of how a particular investment is currently performing or is likely to perform in the near future.

Need more guidance?

While it's good to understand the basics, it's important to be aware of just how complex these and other investment concepts really are. So if you're new to investing – or even if you're a seasoned investor – be sure to talk to your financial adviser. They can give you the right guidance to make sure your investments are in line with your lifestyle needs and goals.

SEVEN WAYS TO GET MORE OUT OF RETIREMENT

Leaving the workforce is just one step in your journey through life. And once the daily grind is over, it's time to figure out what you want to do next.

Retirement is something that most of us look forward to. But it can also be a challenging lifestyle adjustment, particularly if you're someone who's used to keeping busy.

On one hand, retirement gives you the chance to relax and slow the pace of living to a more enjoyable speed. But on the other, reaching the end of your work years can also raise the question: 'What am I supposed to do now?'

Retirement isn't just a long holiday, it's an opportunity to find a new vocation. So if you're looking for ideas on how to fill all the hours you used to spend at work, here are a few to get you started.

1 Lend a helping hand

Retiring usually means having more time on your hands, so why not give some of it back to the community?

There are plenty of ways you can help out – whether it's putting your professional skills to use or trying something completely new. For example, you might consider volunteering with a local charity, at a hospital or with an environmental organisation.

If you enjoy spending time with children, there are a range of great volunteering opportunities available. For instance, you could tutor or mentor kids from disadvantaged backgrounds, or teach music, ethics or craft at a local school.

2 Work your brain

Retirement is a wonderful chance to learn something new – from taking a community college or university course to learning a new language or trying out well-known brain-trainers like Sudoku, cryptic crosswords or bridge.

And while the research still isn't definitive, there is some evidence that staying mentally active in retirement can even help reduce cognitive decline and protect against the onset of dementia.

3 Stay connected

Once you get out of the habit of seeing your colleagues every day, it's easy to feel isolated. A great way to meet like-minded retirees is to join a local group that shares a common interest, whether it's a book club, bushwalking club or choir. That way you'll be able to learn and have fun, while staying connected with your community as well.

4 Keep fit

After you leave your job, your lifestyle may possibly become less active. That's why it's important to stay fit and healthy by getting in some regular exercise. Walking, golf, swimming and cycling are all good ways to get out and about while staying in shape. And if you're not really an exercise junkie, there are other ways to keep moving, like taking up dance, tai chi or yoga.

If you're already leading an active life, consider setting yourself a physical goal like completing an ocean swim, triathlon or hiking expedition. It will help motivate you to stay fit and keep your body and mind healthy.

5 Go on an adventure

After years of hard work, it's time for an escape. Retirement can be the perfect opportunity to embark on the adventure you've always wished for. There are holiday options for all tastes and budgets, from overseas package tours and all-inclusive luxury cruises, to DIY caravanning across Australia.

But before you pack your bags, check in with your financial adviser. They can help you put together a budget so your dream holiday doesn't break the bank.

6 Sow the seeds

If you've got a green thumb, then why not take up gardening and turn your own backyard into a lush paradise. It's easy to get started, with a range of information available online or at your library. And it doesn't just have to be flowers; you could grow fruit and vegetables and save some money on your grocery bills.

If you don't have a yard, you can still create a garden indoors. Simply put up some pots and hanging plants in a part of the house that gets lots of sunshine, like your kitchen or balcony.

7 Find a furry friend

Even if your kids have grown up and flown the nest, you can still find someone who needs your daily love and care. It may not have been practical for you to own a pet while you were working, but your retirement may be the perfect time to discover the joys of having an animal companion. And if you get a dog you'll need to walk it daily, which has the added bonus of helping you to stay fit and active.

But if you can't have a pet of your own – for instance, if your apartment building doesn't allow animals – why not offer to pet-sit for a friend or family member? Many people who are busy working or who travel a lot will appreciate someone else feeding and playing with their pet once in a while.

But first: future proof your finances

Whether you're just starting to think about retirement or you've already left the workforce, it's a good idea to get in touch with your financial adviser. They'll help ensure you have the income you need for your retirement years, giving you the financial freedom to enjoy your new interests and hobbies.

MARKET UPDATE

An economic update from Colonial First State Global Asset Management.

What have been the major economic events in the last couple of months?

1 US

Trump's inauguration speech sent a clear message that from now it would be 'America First' and a call to 'buy American and hire American'. While financial markets continued to react largely positively to President Trump, his protectionist and anti-immigration rhetoric and policies began to weigh on markets towards month end.

Annual growth for 2016 came in at 1.9% per year, up from 1.7% per year in Q3 2016.

Employment was a little weaker than expected in December, increasing by 156k (from a revised 164k in November). Inflation continued to increase at a moderate pace with headline CPI up 0.3% per month in December and the annual rate increasing to 2.1% per year (from 1.7%).

2 UK

The annual rate of inflation rose to 1.6% per year in December (from 1.2%), with the core CPI up 1.6% per year in November (from 1.4%).

Q4 2016 GDP came in at 0.6% per quarter, keeping the annual rate at 2.2% per year, in-line with the BoE's revised forecasts and significantly above pre-Brexit expectations.

Prime Minister Theresa May confirmed that the UK will take back control of immigration and will leave the single market but is hopeful that a free trade agreement can be reached with the EU and pledged to give both houses of Parliament a vote on the final deal.

3 Europe

The European Central Bank met on 19 January 2017 and left monetary policy unchanged. The next meeting is scheduled for 9 March 2017. EU growth remained robust in Q4 2016, coming in at +0.5% per quarter, with the annual rate increasing to 1.8% per year, well above estimated potential growth of 1% per year. The EU unemployment rate continues to decline falling to 9.6% in December, from 9.7%, the lowest rate since mid-2009. The first estimate of January Eurozone CPI showed inflation increased to 1.8% per year from 1.1% per year previously.

4 China

China showed a pick-up in growth in Q4 2016, GDP increased to 6.8% per year from 6.7% previously, well within the 6.5%-7% target for 2016. Other economic data over the month showed further stabilisation in the economy. Industrial production decreased to 6.0% per year, retail sales were up slightly to +10.9% per year and fixed asset investment fell 8.1% per year. Inflation remained moderate in December, decreasing to 2.1% per year from 2.3% per year.

5 Australia

The RBA kept interest rates unchanged at 1.5% at their 7 February 2017 meeting.

Q4 2016 CPI came in below consensus estimates. Headline CPI rose 0.5% per quarter and 1.5% per year, from 1.3% per year in Q3. Key drivers included increases in tobacco (+7.4% per quarter) and automotive fuel (+6.7% per quarter).

Underlying inflation, the RBA's preferred measure, rose to 0.4% per quarter, while the annualised rate rose slightly to 1.5% per year still below the RBA's 2-3% target band, and so are unlikely to lead to any change in policy or outlook.

The December terms of trade data showed an all-time record surplus of $AU3.5bn, significantly above the $AU2bn expected. The increase was led by a 5% increase in exports, driven largely by increasing prices for coal and iron ore over the month.

The Australian dollar was stronger with commodity prices over the month. The AUD ended the month up 5.02% against the USD at $US0.7570. The AUD continues to be supported by improvements in commodity prices and general expectations that the RBA interest rate cutting cycle is at an end.

SPEAK TO US FOR MORE INFORMATION

We are always available to discuss any questions or concerns you may have.

IMPORTANT INFORMATION

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