

Money Mechanics

Strategic Financial Advice

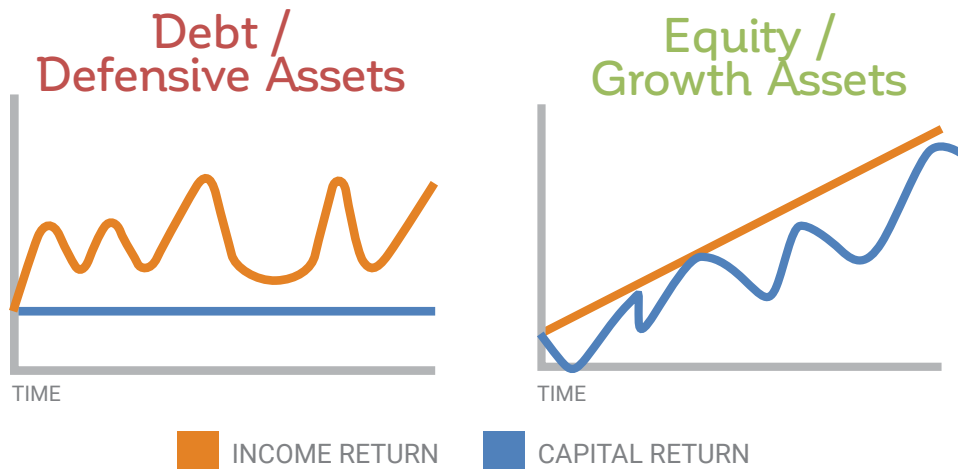


Your Wealth Creation & INVESTMENT 101!

Before getting started in any investment strategy, structure or product you should look at the context as to why you are investing and what risk you need to take to achieve your goals and outcomes. There are a number of types of investments and ways to invest that can provide you with a financial return over time but it is important to understand why you are investing and that it is linked to your values and outcomes.

Types of Investment Assets

We classify investment into three classes: **debt (defensive)**, **equity (growth)** and **alternative assets**. Each asset has some common features, a **capital return** (sometimes called growth return) and an **income return** (sometimes called interest, distributions, dividend or rental return) and a level of risk or volatility.



Life is full of risk and unknown factors. With all investments there is a risk associated with the return you are expecting to achieve or receive. **Understanding the investment and diversification into a range of asset classes and a range of investments within each asset class** are methods of reducing your investment risk.

*The percentage you have into each category: **Defensive** or **Growth** will depend on your **risk tolerance**. As a general rule we say use your age as a factor. If you are in your 20's have 20% into Defensive and 80% into growth. If you are in your 80s have 80% into Defensive and 20% into growth.*

Suggested Steps:

- 1 Clarify your Goals and Outcomes
- 2 Understand yourself and your tolerance to risk
- 3 Work out what strategies are going to be best
- 4 Select the product/s and do your due diligence
- 5 Ensure you review and track your progress

What Goes Where?

Goals Based Investment

Short Term Goals

Anything in the next 1-2 years

Cash / Cash Based
Term Deposits

Medium Term Goals

Anything in the next 3-5 years

Mostly Cash / Term Deposits
Maybe Blue Chip Shares

Long Term Goals

Anything in the next 5-10 years

Shares (Australian/
International) / Property

Extra Long Term Goals

Anything in the next 10-30 years

Mix of Defensive Growth
based on age and risk appetite

What Are Your Wealth Creation Strategy Options?

When putting together a plan for your wealth creation you have a number of options available to you.

What Is Your Risk Free Rate of Return?

Your 'risk free rate of return' is all about opportunity cost. If you did not invest and had the money doing something else what would you be missing out on as a return. This is the base return you need in order to be 'making money'. For example if the additional savings could be going into your mortgage at 4.5% interest rate for every dollar you put into a wealth creation strategy the opportunity cost is the rate reduction on your mortgage or if your money is in a cash account earning 3% this is your 'risk free rate of return'.

Investment Into a Portfolio of Investments:

See the following resources for further information on different types of structures and investment product which you could use to create your 'diversified portfolio'.

<https://www.moneysmart.gov.au/investing/managed-funds/peer-to-peer-lending>

<https://www.moneysmart.gov.au/investing/managed-funds>

<https://www.moneysmart.gov.au/investing/shares>

<http://www.asx.com.au/education/etfs-etcs-courses.htm>

<https://www.moneysmart.gov.au/investing/managed-funds/listed-investment-companies-lics>

<https://www.moneysmart.gov.au/investing/property/property-schemes>

<https://www.moneysmart.gov.au/investing/property>

With regards to use of managed investment approach or exchange traded funds it is important to blend different management styles together such as index and active investment approaches as well as take into account any ethical investment requirements you have and what risk tolerance or appetite you are willing to take on.

Using Borrowed Funds for Investment:

The use of someone else's money for investment is one option which can provide a taxation benefit with regards to the interest cost on a loan component. *Our advice to clients is always only buy an investment because it will be a good return, not because of a tax benefit.* You need to be aware of your breakeven point if you borrow to invest as this determines what rate of return you need to achieve to be making money.

You can use these strategies to purchase property or shares as the underlying asset and the risk associated is higher based on the borrowings you take on. If you went down this path you need to have a medium to longer term time frame (7-10 years).

See the following links which outline the pros and cons of positive, negative and neutral gearing and the various investment options.

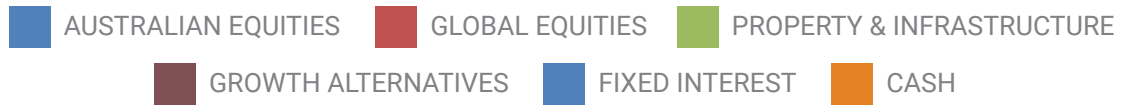
<https://www.moneysmart.gov.au/investing/invest-smarter/negative-and-positive-gearing>

<https://www.moneysmart.gov.au/investing/borrowing-to-invest>

<https://www.moneysmart.gov.au/investing/borrowing-to-invest/margin-loans>

<https://www.moneysmart.gov.au/investing/complex-investments/capital-guaranteed-and-capital-protected>

Your Asset Allocation



Secure
 You are a Secure investor seeking income or have some specific short term objectives. Security of capital is very important to you and you are not prepared to tolerate any capital volatility. You are prepared to accept lower returns in order to provide you with the capital stability you desire. The negative effects of tax and inflation over the long term do not concern you, provided your initial investment is protected.

Defensive
 You are a Defensive investor seeking income with the potential for some growth over the medium term. You are prepared to accept lower returns in order to provide capital stability. The negative effects of tax and inflation do not concern you, provided your initial investment is protected.

Conservative
 You are a Conservative investor seeking both income and the potential for some growth over the medium term. Capital stability is reasonably important to you however you are prepared to accept some capital volatility in the short term in order to protect your assets from inflation over the medium to long term.

Balanced
 You are a Balanced investor who is seeking both income and capital growth over the medium to long term in order to achieve your long term financial objectives. You are prepared to accept more capital volatility in the short term in order to protect your assets against the long term effects of inflation. Some tax effective income is desirable.

Growth
 You are a Growth investor seeking capital growth over the long term. You are comfortable with the volatility associated with investing in growth assets if it means you have the opportunity to maximise your long term growth potential. You are seeking a well diversified portfolio and the potential for some tax effective income.

High Growth
 You are a High Growth investor seeking to maximise capital growth over the long term. You are prepared to accept a high level of capital volatility in the short to medium term as a trade-off in achieving your long term investment objectives. You have little need for income and are prepared to invest for the long term.



The Principles of Time Management

1. Create a daily to do list
2. List goals and set priorities (A, B, C...)
3. Do A's first
4. Handle each piece of paper / email only once
5. Do it now!
6. What is the best use of my time right now?

Your Notes and Action Items:

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