



Guide To...

Assets: The Building Blocks for Wealth Creation

There are four main asset classes: cash, bonds, property and shares. These are the essential building blocks for wealth creation. A diversified investment portfolio should contain a mix of each asset class, in proportions that reflect your age, personal situation, financial objectives, investment timeframe and attitude towards risk. The right asset mix for you should be determined with the assistance of a professional financial adviser. Each asset class has its own unique characteristics as summarised below.

Cash

Includes bank bills, treasury notes, term deposits and cash management trusts. Most managed investments keep a small cash reserve to cover transaction costs and withdrawals made by unit holders.

Investment Time Frame

Short Term (1-3 Years)

Benefits

- Considered a safe investment, as there is little chance of losing your capital;
- Ease of access to your money;
- Provides a convenient transaction account or a transitional account to 'park' your money while you consider longer-term investments.

Risks

- Relatively low returns;
- Buying power of your money may be eroded by inflation in the long term compared to other asset classes;
- Sensitive to movements in interest rates;
- Not tax-effective.

Bonds

Issued by Governments and large companies to raise capital. When you invest in a bond you are lending money to the issuer in return for interest and your capital back at the end of the term.

Bonds (Continued)

Investment Time Frame

Short to medium term (3-5 years)

Benefits

- Relatively secure as your interest is fixed and your capital is generally protected;
- Less volatile than other asset classes.
- Capital gains can be made in a bond fund and these gains can be passed to you by way of higher income distributions.

Risks

- Relatively low returns;
- Buying power of your money may be eroded by inflation in the long term compared to other asset classes;
- Sensitive to interest rate movements;
- Capital loss may lead to no distribution of income.

Property

Includes residential, commercial, industrial and retail buildings and lands, as well as tourist resorts, farms, vineyards, roads and power stations.

Investment time frame

Medium term (5 years).

Benefits

- Generates stable income and capital growth. Historically, property has outperformed bonds and cash;
- Protects against inflation;
- Income from direct property may qualify for tax concessions (eg. depreciation);
- Income from property trusts may also qualify for tax concessions (eg. tax deferred income);
- In a managed investment (eg a property securities fund), risk is reduced as your money is spread across different property sectors. You also have ready access to your money.

Risks

- High initial costs and outlay;
 - High transaction costs (Eg stamp duty);
 - High maintenance.
- Many of these disadvantages can be overcome by investing in a property securities fund.

Shares

Buying a share in a company means you become a part owner of that company. Investing in shares indirectly through a managed investment gives you exposure to a portfolio of shares spread across different sectors and markets. Global share funds also give you exposure to larger overseas sharemarkets.

Investment time frame

Medium to long term (5 to 7 years).

Shares (Continued)

Benefits

- Best potential for long-term capital growth. Over the long term, shares have outperformed other asset classes;
- Can generate a growing income stream;
- Tax benefits through dividend imputation system (Australian shares);
- Relatively liquid as shares can be sold quite easily.

Risks

- Volatile in the short term;
- Uncertain income stream, as dividend payments can rise and fall over time;
- Risk of capital loss if the company's share price falls and you are forced to sell.

If you have any queries in relation to the content of this material, please do not hesitate to contact Kate Kimmorley the Principal Financial Adviser at Kimmorley Financial Management on (07) 5591 1725.

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