Investing between the flags

A practical guide to investing

ASIC's MONEYSMART

Financial guidance you can trust

AUSTRALIA

ASIC

Australian Securities & Investments Commission

About ASIC

The Australian Securities and Investments Commission (ASIC) regulates financial advice and financial products (including credit).

ASIC's MoneySmart website helps you make smart choices about your personal finances. It offers calculators and tips to give you fast answers to your money questions.

Visit **moneysmart.gov.au** or call ASIC on 1300 300 630.

About this booklet

What's the secret of investment success? Instead of relying on good luck, the wise investor takes time to understand the basic principles of investing, then develops and sticks to a sound investment plan.

Reading this guide will put you on the path to investing wisely. However, the guidance we offer is general in nature. Working out a detailed strategy that meets your individual needs may require the help of a licensed financial adviser.

Contents

What is investing?

Investing is putting your money to work to help you achieve your personal goals. It is like a lot of things in life – rewarding but not free of risk. When you go swimming at the beach, you reduce the risk of drowning if you swim between the flags. When you invest, you reduce the risk of losing your money if you invest 'between the flags'.

We all have different experiences and goals, so your decisions about investing may be different to those of your parents, children, workmates or friends.

The key to deciding what's right for you is knowing your own circumstances and goals.

Questions to ask yourself

Why	▶ What are your reasons for investing? ▶ Is what you hope to achieve realistic?
When	▶ Are you ready to invest? ▶ What is your timeframe for investing based on your goals?
Where	▶ Where will you invest? ▶ Have you considered current market conditions and your tolerance for risk?
What	▶ Do you understand what you are investing in and is it appropriate to your needs? ▶ Have you checked the terms and conditions of the investment and any fees or commissions you'll pay?
Who	▶ Will you invest on your own or use an adviser? ▶ Who is selling this investment?

Don't rush into investing. Think about what it would be like to lose all your money. Make sure you're clear about why you're investing and only invest in products you understand.

Investing 'between the flags'

When you see the 'between the flags' symbol in this booklet, it's a sign that the guidance we're offering will help you reduce the risks associated with investing in general.

However, like swimming, investing is never going to be risk-free. Even with careful planning, you can still get caught out – for example, if economic conditions change or a company goes out of business. Taking care with your decisions and choices is your best protection.

Wise investing behaviours: 'between the flags'

- You have **control of your debts**, enough insurance coverage and money for emergencies.
- You've **identified your goals**, values and circumstances. Your goals are realistic given your **timeframe for investing**.
- You're aware of your **investing style** and **tolerance for risk**. You've sought personal financial advice where you don't understand something or feel you need it.
- You understand **how the investment works**. You're **aware of the risks** involved and have weighed these up against the **potential returns**.
- You have a **mix of investments** to help control the total risk of your investment portfolio.
- You **monitor your investments** and adjust them if conditions or your circumstances change.

Unwise investing behaviours: 'outside the flags'

- You've **borrowed to invest** even though you're having trouble paying off your current debts.
- You're not sure exactly what you're investing for but just want to make the **most money** in the **shortest amount of time**.
- You invest in a product you hear advertised on the radio, but **don't understand how it works** or **what the risks are**.
- You send money overseas based on a phone call from a foreign 'trading company' offering you a **special deal** and **promising big returns** if you act quickly.
- All your money is tied up in **one type of investment**.
- You **ignore your investment statements** and have no idea how your investments are performing.

Getting ready to invest

If you're going to the beach, you know to 'slip, slop, slap' and check the conditions are safe for swimming. If you're planning to invest, it's best not to jump in until you know you're ready.

Are you an investor?

Maybe you think of an investor as someone rich enough not to have to work, who just lives off the income from their investment portfolio. Maybe you see an investor as someone who trades shares every day.

Portfolio owners and share traders certainly are investors. But you are probably an investor too. An investor is someone who puts money (capital) into an investment product or an asset in the hope of increasing their capital or getting an income – or better still, doing both. That means just about everyone invests, even if it's money in your bank account or your superannuation (super) fund.

You may start thinking about investing because you've come into some money – from a redundancy or compensation payout, an inheritance or gift or a lottery win. Or you may have a specific goal – to build a deposit for a home, to take an overseas holiday or to help someone through a tough patch.

Either way, make sure you're ready to invest by checking you have:

- your debt under control
- enough cash for emergencies
- adequate insurance protection.

You can also think about getting personal financial advice (see pages 9–11).

Are you ready to invest?

Debt

Is your debt under control – for example, are your monthly repayments comfortably less than your monthly average household income? Do you have a problem paying your credit cards, mortgage or other personal loans?

It's important to get these debts under control before you think of investing. You can't invest money you need to live on.

> Careful budgeting is the first step to reducing debt. But remember to give yourself flexibility to meet unexpected expenses or lifestyle opportunities. If you feel like you're drowning in debt, speak to a financial counsellor.

Emergency funds

Do you have cash savings you can draw on in an emergency?

> A good rule of thumb is to have ready access to cash equal to 3 months of household expenses.

An easy way to save is to set up an automatic deduction from your pay to a higher interest savings account (either directly from your employer or from your transaction account on the day after you get paid).

Insurance

Have you arranged protection for yourself, your family and your home or other property? What about your car? Your income? If your property is stolen or damaged and you don't have it insured, it will cost you money to replace it.

If you or another income earner in your family gets seriously ill, has an accident or dies, you'll have less income to meet normal expenses – and you may have extra costs. The sick pay you get from your employer may not be enough to protect you and those who depend on you. If you have to sell investments quickly to cover these costs, you may not get a good price.

You may have some personal insurance cover through your super fund – check to see what it offers. Talk to a licensed adviser or insurer about how to get an income even if you can't work and how to meet the costs of traumatic personal illness. Sufficient cover may cost a lot less than you think.

Find out more

See our booklet *Credit, loans and debt: Stay out of trouble when you borrow money* at **moneysmart.gov.au**.

For information about financial counsellors, go to **moneysmart.gov.au**.

How do I get personal financial advice?

You may wish to seek professional advice to set up an investment plan. Choose an appropriately qualified adviser rather than seeking advice from family members, friends or colleagues. Sometimes your interests and those of others are not the same.

Ask a potential adviser lots of questions until you are satisfied they have the right experience to help you, and that you feel comfortable dealing with them.

If you're not ready to get personal financial advice, the Department of Human Services Financial Information Service (FIS) can help you with free and independent seminars and information about investing.

About personal financial advice

Only someone who works for or represents a business that holds an Australian financial services (AFS) licence can give you personal financial advice.

A licensed financial adviser should consider your objectives, financial situation or needs, and then recommend strategies and one or more financial products to suit you.

At the end of the process, you'll get a written Statement of Advice (SOA) – a personalised, carefully structured plan to meet your goals, needs and timeframes.

Take time to understand any recommendations and why the adviser thinks the plan is right for you.

Your questions answered *(continued)*

Choosing an adviser

Choosing a financial adviser is an important personal matter. Do some research and talk with a few advisers before you decide. Some will do a better job than others. Look for someone who:

- will put your needs first
- works often with people in your situation
- will fit in with you personally.

Only talk to advisers who are employed by or who are authorised to represent a licensed advisory business.

ASIC licenses and regulates the financial advisory industry so that it operates efficiently, honestly and fairly. Licensing means you have more protection if something goes wrong, including the right to a free and impartial hearing of consumer disputes.

You can check details about financial advisers on ASIC's financial advisers register at **moneysmart.gov.au**.

Benefits of personal financial advice

When you get a financial plan from a licensed financial adviser, you get the chance to discuss your situation in detail. Good advice from an experienced, well-informed financial adviser can help you save money and become more financially secure.

When you deal with a licensed financial adviser, you can complain if something goes wrong. Advisers who are members of a professional association are subject to member standards, operating guidelines and disciplinary procedures.

Cost of personal financial advice

The Financial Services Guide that your adviser gives you will say how your adviser is paid. Specific amounts will be shown in your Statement of Advice (SOA).

Advisers are usually paid:

- A fee to formally document the advice, strategies, and any financial products recommended. Even if you decide not to proceed with the recommendations in the SOA, you will generally be expected to pay for it to be prepared.
- A fee to cover the administration work required to implement the advice.
- An ongoing advice fee if you have agreed to pay for an ongoing service. This may include an annual review with your adviser, regular reports on your investments, newsletters and invitations to seminars.

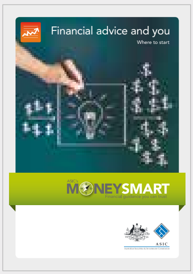
Commissions

Commissions and volume-based payments for recommending financial products can influence the advice given by financial advisers. Many of these payments were banned from 1 July 2013 but some commissions can still be paid, such as on life insurance products. You should ask the adviser about any conflicts of interest, such as commissions or other payments that they may receive.

Find out more

To find a licensed financial adviser, visit **moneysmart.gov.au** for a list of professional associations you can contact.

For more about how to choose an adviser, see our booklet *Financial advice and you.*



Step 1 Know your goals and risk tolerance

What's on your investment horizon? Take time to think about yourself, your values, your dreams and aspirations. Where do you want to be in 5, 10 or 20 years?

Your investment goals

Think about yourself and your goals before you choose any investment.

Some people have a very simple investment goal: get rich quick. Some succeed – though more by good luck than good management.

Others get hooked into schemes 'outside the flags' that promise the world but deliver a very different outcome: get poor quick. They may think it's safe to swim, but they soon get out of their depth.

A sound approach to investing starts by identifying what you want to achieve by when. The good thing about setting goals is it forces you to plan. Having a plan – ideally written down – helps motivate you to stick to it. You may want to start with an easy goal such as taking a trip or paying for some extra study.

Then, once you've achieved that goal, you'll feel more confident about going after your longer-term goals.

Example plan of goals and investment

My goals	Short-term (1–2 years)	Medium-term (3–5 years)	Long-term (over 5 years)	By the time I retire
Short holiday	$3,000			
Bathroom renovation		$20,000		
Study overseas			$80,000	
Extra to cover health bills				$100,000
Amount invested now	$2,000	$10,000	$20,000	$5,000
Extra amount needed	$1,000	$10,000	$60,000	$95,000
Sample monthly investment*	$30/month	$130/month	$400/month	$60/month

* Use the compound interest calculator at **moneysmart.gov.au** to help you work out the exact amount you need to invest. See pages 36–37 for examples of typical investment portfolios.

While your investment goals are very important, there are some other things to think about that will help shape your financial plan.

Your timeframes

Setting a timeframe for each of your goals will help you stay motivated.

You may want to achieve some goals in the short term – say within 2 years – such as a holiday, a car or elective surgery.

You may have other goals for the medium term, say 3–5 years, as well as some for the longer term – over 5 years.

You'll also want to maximise your retirement income. For most people, the super guarantee contributions paid by your employer may not be enough to support the kind of retirement lifestyle you're dreaming about. That means you'll have to plan to supplement your super and ensure that your investments work hard for you until you're ready to retire.

Think about how much you can afford to invest and for how long. Some investments can be cashed in easily, like shares in publicly-listed companies. If you invest in term deposits or super, you can't readily access your funds.

Your appetite for risk

Where do you fit on the risk-taking spectrum? Some people are naturally more cautious than others. Some are naturally more confident and prepared to take a calculated risk. Some people are up for almost any challenge – beating the market is just one more trophy in the cupboard.

Different investments carry different levels of risk. To sleep easy at night, be clear about what the likely risks are before you invest.

Your style

Some people like to be in control and do things for themselves. They are confident they have the knowledge and experience that decisions about investing require. If that's your style, you may want to develop your own portfolio of investments or set up a super fund you manage yourself (see page 32).

On the other hand, you may prefer to invest through professionally managed investment and super funds.

Your values

Your investment goals will reflect your values – what you feel is important in life. But your values may also affect what you decide to invest in.

These days many people want to take a socially responsible approach to investing. They look for investments that achieve good outcomes as well as good returns – for example, industries that produce 'clean' energy or that promote sustainable development.

Find out more

To find 'ethical investment' resources, visit the Responsible Investment Association Australasia website.

responsibleinvestment.org

For more about investing, see the booklet from the Australian Bankers' Association (ABA), *Smarter Investing*.

bankers.asn.au

Step 2 Understand how investments work

Having different types of investments, not just one, can help you reduce the risk of any profits you may have built up over time getting washed away by the changing tide of economic news and market sentiment.

When you look at the financial pages of the newspaper or a financial provider's website, the choice of investments can be overwhelming. Many financial products have similar sounding but subtly different names. How do you know which one is right for you?

The first thing you need to know is that there are basically two types of investment – debt and equity. If you're planning to invest, you should understand the difference (see the table on the next page).

The second thing is that no single investment is likely to meet all your needs. You're better off having a mix of investments that work together as a team. The trick, of course, is getting the right mix to match your needs and the risks you're comfortable with.

Debt investments You lend money	**Cash investments** ▶ direct – savings accounts (including cash management accounts, online savings accounts and term deposits) ▶ managed – cash management trusts
	Fixed interest ▶ direct – corporate or government bonds ▶ managed – bond trusts
Equity investments You own part or all of a property or company	**Property investments** ▶ direct – investment properties (usually residential property) ▶ managed – property trusts (usually commercial property)
	Share investments ▶ direct – Australian and overseas shares ▶ managed – share trusts

Cash and fixed interest (debt investments)

How they work

Cash and fixed interest investments are called 'debt' investments. This isn't because you owe the debt but because you own the debt. You are lending your money to someone else – a bank, company or government – and getting interest (income) in return.

Depending on the type of debt investment you choose, the interest you receive can be at a fixed or floating (variable) rate.

How they meet your needs

Debt investments are suitable for meeting short-term investment goals. Even though the returns may not be high, your capital is safer than for equity investments. Currently, some investments are government-guaranteed.

With cash investments (except term deposits), you can usually get your money back straight away if you need it.

Find out more

Technically, unlisted debentures and mortgage schemes are debt investments, but they can be much riskier than other fixed interest products.

For more about the risks of debentures and mortgage schemes, see our booklets *Investing in unlisted debentures and unsecured notes* and *Investing in mortgage schemes*.

moneysmart.gov.au.

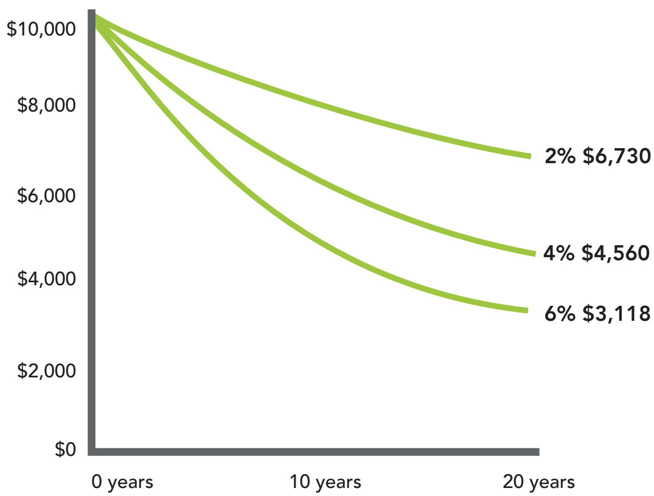
What you need to consider

Most investors choose debt investments because they give a regular income, rather than for capital growth. (You may get some capital growth if you invest in bonds and your bond's price rises because of a fall in interest rates.)

Interest rates vary over time depending on decisions made by the Reserve Bank of Australia and your financial institution. If interest rates drop, your income from cash investments will also drop.

Over the long term, you also need to think about the effect of inflation on your capital. For example, if you invest $10,000 for 20 years without reinvesting any interest you earn, you'll still have $10,000 at the end – but it will be worth less because of inflation (see graph below).

Keep ahead of inflation



If you have a term deposit, your funds may be automatically 'rolled over' into another term deposit when the specified 'term' expires. Check that the new interest rate isn't lower than the original rate.

Property and shares (equity investments)

How they work

Property and shares are called 'equity' investments. This is because you become a part or full owner of the company or property in which you invest.

With equity investments, you may receive income as rent or dividends. The value of your investment may also rise over time if the value of the company or property increases.

You can invest in property directly – houses, home units, shops, factories, warehouses and offices in Australia or overseas. Or you can invest indirectly in professionally managed property schemes.

These schemes typically invest in a range of large commercial and industrial property (shopping centres, resorts and office blocks) or in mortgages over these types of assets.

Property trusts that are 'listed' – known as Australian Real Estate Investment Trusts (A-REITs) – can be bought and sold on the Australian Securities Exchange (ASX) like shares.

How they meet your needs

Equity investments are suitable for building wealth and meeting longer-term investment goals. These investments are sometimes referred to as 'growth' investments because both the income you receive and the value of your capital can grow over time.

On average, over the long term, the returns from equity investments are higher than those from debt investments, and the total return (income plus capital growth) can exceed the negative effects of inflation.

Equity investments can also be tax-effective (see page 24).

What you need to consider

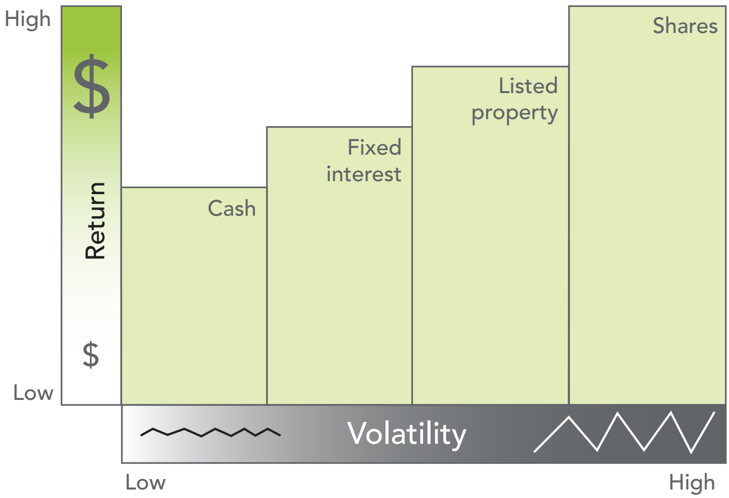
Over the shorter term, equity investments can rise and fall in value significantly (this is called volatility). Generally, the higher the return, the higher the short-term volatility.

You need to take a long-term perspective and not be dismayed by the inevitable ups and downs of the market, especially for shares and listed property.

You also need to look for growth that outperforms inflation with these investments.

Weighing up risk and return

Generally, the higher the return, the higher the short-term volatility.



Even though long-term returns may be higher on average for equity investments, there is a risk that the value of equity investments might fall at any time so your investment is worth less than the amount you paid for it.

In other words, you could lose some or all of your money. To reduce the risk of this happening, use diversification (see pages 33–34). For example, having around 10–15 share holdings across different sectors of the market (financials, industrials, agriculture, energy, health, tourism, telecommunications) will help reduce your risk.

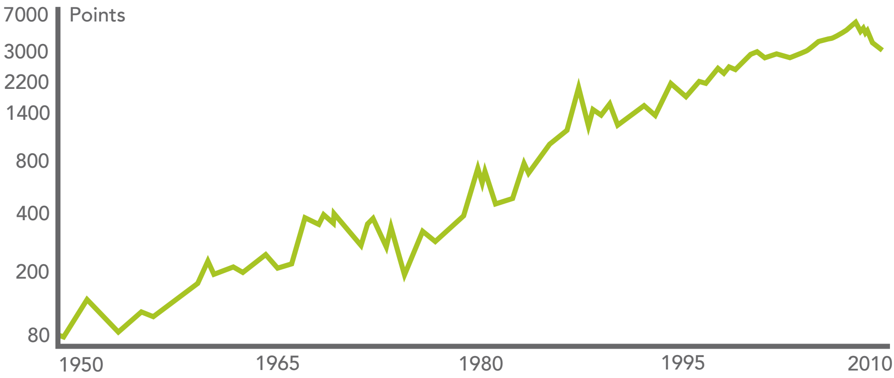
With a direct investment in property, you will need to meet initial and ongoing costs – for example, legal fees, insurance, maintenance, rates, stamp duty, strata fees. The value of the property can also fall, you may not be able to rent or sell the property when you need to, or you may not be able to pay the mortgage if interest rates rise or you lose your job.

If you invest in a listed property scheme, the value of the units may go up or down in line with the sharemarket or for reasons specific to that scheme. You can lose some or all of your money.

If you need cash in a hurry and all of your money is invested in property or shares, you may be forced to sell at a loss.

Shares are a long-term investment

Share returns could be volatile in the short and medium term. But if you hold your shares over a longer period, the risk of ending up with less than you invested decreases.



(Source: Standard & Poor's, ASX)

Find out more

Unlisted property schemes have particular risks – see our booklet *Investing in unlisted property schemes?*

moneysmart.gov.au

For more information about A-REITs, see:

asx.com.au

What are the risks of investing?

Here are some of the risks you could encounter when investing.

Mismatch risk	▶ The investment opportunity may not suit your needs and circumstances.
Inflation risk	▶ The risk that the purchasing power of your money may be eroded by inflation.
Interest rate risk	▶ The risk of changing interest rates that may reduce your returns or cause you to lose money.
Market risk	▶ The risk of movements in asset markets (share markets, bond markets, etc) reducing the value of your investment or returns.
Market timing risk	▶ The timing of your investment decisions exposing you to the risk of lower returns or loss of capital.
Risk of poor diversification	▶ The poor performance of a small number of asset classes can significantly affect your total portfolio.
Currency risk	▶ The risk that currency movements can affect your investment.
Liquidity risk	▶ The risk of not being able to access your money quickly or cheaply when you choose to.
Credit risk	▶ The risk that the institution you invest with may not meet its obligations (e.g. default on interest payments).
Legislative risk	▶ The risk of losing your capital or suffering reduced returns due to changes in laws and regulations.
Gearing risk	▶ The risk involved in borrowing to invest.

(Source: *The trade-off: Understanding investment risk*, FPA, February 2008)

What are complex investments?

Complex investments include futures, options, stapled securities, warrants, contracts for difference (CFDs), and collateralised debt obligations (CDOs).

We consider these investments 'complex' because they involve complex financial risks, complex ownership arrangements or complex rights and obligations.

Complex investment products can be designed so that the value of your investment moves up and down more suddenly and drastically than it does with investments like shares or simple managed funds.

For this reason, take extra care to ensure that you understand the nature of the investment and the risks involved if you're considering complex investments.

Remember, if you don't get it, don't buy it.

What are tax-effective investments?

Shares and property

An investment is tax effective if you end up paying less tax than you would have paid on another investment that gives you the same return.

Generally, any income you receive from these investments will be taxed at your marginal rate. If the income is from 'franked' dividends – that is, dividends paid by an Australian company out of profits on which it has already paid tax – it will come with a credit for the tax already paid, called an 'imputation credit'.

If your marginal tax rate is the same as or lower than the imputation credit, the income from the investment will be tax-free. Even if your tax rate is higher than the imputation credit, you will pay less tax on the income than you would have without the credit. In all cases, the investment is tax-effective.

If you borrow to invest, you may be able to 'negative gear' the interest on your loan as a tax deduction. To do this, what you pay in interest must be more than what you earn from the investment.

Tax concessions from your super

The government gives incentives through the tax system to encourage people to save for retirement. These include:

- taxing investment earnings at 15% or less if offset by imputation credits
- tax deductions for contributions if you are self-employed (up to certain limits)
- tax-free benefits for most people over 60
- special tax rates on salary sacrificed super contributions (up to the contribution caps).

Cash and fixed interest investments

You will pay tax on any income you receive from these investments.

Watch out for 'tax-driven' schemes

Tax schemes generally let you postpone your tax, but you'll still have to pay tax in the end. They offer tax deductions for investing in assets that produce an income. As an investor, you need to be aware that agribusiness schemes usually take a long time to earn any income (as long as 5 to 20 years).

If there is no income from the scheme, the ATO can decide that a scheme isn't really intended to be an 'income producing asset' – if this is the case, the ATO can disallow any tax deductions, and these need to be paid back. On the other hand, a successful tax scheme can result in a large unplanned tax bill.

Another issue for investing in agribusiness schemes is that crops can fail and plants and animals can lose value, so you can lose some or all of your money – for example, several forestry schemes failed in 2009.

If you are being advised to invest in a tax scheme, check the amount of commission your adviser will receive before deciding to invest, and compare it to the commissions paid for other investments, such as a managed fund investing in Australian shares.

Find out more

Tax rules can change. For the most up-to-date information, go to the Australian Taxation Office's website: **ato.gov.au**.

Step 3 Develop an investment plan

Developing an investment plan is a crucial step on the pathway to a secure financial future.

If you get personal financial advice from a licensed financial adviser, you'll get a written Statement of Advice (SOA) – a carefully structured plan, personalised to meet your goals, needs and timeframes. Take time to understand any recommendations and why the adviser thinks the plan is right for you.

If you want to develop your own plan, start by writing down your goals or setting up a simple spreadsheet. Think about what you want, when you want it and why. Work out how much you need to reach your goals and how much you need to set aside each pay period (for an example, see page 13).

Whether you've seen a financial adviser or are developing your own plan, you'll need to carefully read the information you get in the Product Disclosure Statement (PDS) or prospectus to assess the risks, benefits and costs of including a particular financial product in your plan.

A good financial plan will:

- outline your personal financial goals, your financial position and needs
- explain the investment strategy to achieve your goals
- explain the risks and how best to deal with them
- recommend investments to manage your money
- set out all the costs, including any commissions or bonuses

Planning for short-term goals (1–2 years)

Typical goals	Your 'between the flags' strategy
▶ short holiday ▶ education course ▶ elective surgery ▶ wedding ▶ minor home renovation	Save a fixed amount each pay period and/or invest a lump sum. Choose a cash investment – for example, a high interest savings or cash management account with a capital guarantee, or a term deposit. With term deposits, watch out for automatic rollovers when the term expires. The new interest rate may be lower than the original rate. Many people use credit cards to meet short-term goals but this can be very costly and keep you in debt instead of helping you build wealth. Paying off credit cards and personal loans first will free up additional cash to save for things you need. Start with debts that have the highest interest rates.

Case study: Carissa

Carissa is studying, working part-time and saving for a post-graduation trip. She is extremely cautious in her approach to investment.

Carissa likes the certainty of a secure return, with no risk of losing her capital. Saving through a bank account suits her just fine for the moment.

'I know I'm not getting much in the way of interest but preserving my capital is my main concern. The sharemarket? No way. It's far too scary.'

Carissa is investing 'between the flags' for her current situation. Her investment matches her goals and timeframe.

But when she gets a bit older and works out what she wants later in life, her investment approach will need to change. She'll need to think about investments such as property and shares which can offer her both capital growth and tax-effective income.

Planning for medium-term goals (3–5 years)

Typical goals	Your 'between the flags' strategy
▶ extended holiday ▶ car ▶ boat ▶ home deposit ▶ major home renovation	Save a fixed amount each pay period and/or invest a lump sum. Choose a mix of investments that will help grow your capital as well as give you regular tax-effective income that you can reinvest. Decide whether to invest in each of these asset classes separately yourself or choose a managed fund that offers a ready-made portfolio (see pages 36–37). Avoid borrowing to invest because, over this timeframe, you cannot reasonably accept the extra risk involved.

Case study: Tom

Tom's goal is to expand his farm by buying the adjoining property when it becomes available in a few years time. In the meantime, he wants to supplement his farm income.

Tom put some money from an inheritance into an investment property on the coast but had trouble renting it. Eventually, he was forced to sell the property at a loss.

'I'm looking for a regular income, but I'm keen to preserve my capital if I can. I'm not against putting some money into shares but I'd probably play it safe by going for one or two "blue chips" like the banks and big retailers.'

Tom has already learned one of the key things about market-related investments: they all carry some level of risk – and circumstances can change. However, experiencing one loss did not mean he gave up investing altogether.

To preserve his capital, he needs less exposure to growth assets such as property and shares. His plan to invest in shares paying franked dividends will meet his need for tax-effective income but only 'one or two blue chips' puts his goals at risk. He needs to diversify.

Planning for long-term goals (over 5 years)

Typical goals	Your 'between the flags' strategy
▸ build wealth outside super ▸ pay for child's education ▸ grow trust fund for your beneficiaries to inherit ▸ a weekender property ▸ a new business	Save a fixed amount each pay period and/or invest a lump super sum. Add to your investment from extra income at any time. Choose a mix of investments that will help grow capital as well as giving you regular tax-effective income that you can reinvest. Decide whether to invest in each of these asset classes separately yourself or choose one or more managed funds that offer ready-made portfolios (see pages 42–43). Seek personal advice about the opportunities and risks of adding some exposure to international bonds, property and shares, including the extra risks of fluctuations in currency exchange rates. If you are thinking about borrowing to invest, seek personal financial advice, so you can weigh up the risks.

Case study: Carly

Carly's aiming to buy a waterview apartment in a ritzy part of the city – all before she's 35.

To that end, she is an aggressive saver and investor. She has a share portfolio and monitors its performance daily. To increase her returns, she has taken out a loan to buy shares in small companies that look like the next big thing. 'Investing's fun,' she says, 'and so far I'm winning.'

Carly needs to think about the importance of diversification in her portfolio in case she takes on too much risk. If there is a severe market turnaround, the smaller company shares may not recover their value as quickly as she might hope.

Because she has a loan, she has more at stake and might need to sell some of her shares or pay more money into her margin loan to meet loan obligations if the sharemarket falls.

Carly also needs to think about income protection insurance as her whole strategy depends on maintaining her current high level of income.

Planning for retirement

Even if you don't have other investments, you'll almost certainly have money in super. Super is generally the most tax-effective way to save for your retirement.

If you're working, super is a painless way of saving and investing because your employer makes regular payments for you. But you still need to monitor your investments. And you need to know that investments in super are usually locked away until you are at least 55 years old (the minimum 'preservation age').

Case study: Dominic

Dominic has his own small business and likes the independence this gives him. He invests the profits of his business in his self-managed super fund (SMSF).

Dominic is focused on the long term and understands that he'll see the market rise and fall. He's set up his fund to have about 60% in shares, 25% in property, 10% in bonds and 5% in cash. He likes to do his own research and share trading online.

'If you're prepared to do your homework, there are often opportunities to do well.'

Dominic is a confident, well-informed investor. In keeping with his trustee obligations, he has a clear investment strategy for his SMSF that shows he understands the value of a spread of growth assets in building wealth for retirement.

Still, he needs to be wary of getting carried away by his own success. If he makes good profits from share trading, he'll need to rebalance his portfolio so that it doesn't become too heavily weighted towards one asset class (such as shares), which would mean he had taken on more risk than he originally planned.

Riding the wave to retirement

If you're planning on investing for retirement, super is the perfect place. It offers:

- your choice of fund
- the option to contribute extra at any time
- tax advantages
- time to ride out the ups and downs of the market
- extra life and disability insurance at low cost.

Remember that:

- tax penalties apply if you contribute more money than you are allowed to in any year
- your super is generally locked away until you retire (or reach your preservation age) – don't be scammed into thinking you can access your super early.

Optimising your super benefit

As well as investment performance, three things will affect the size of your super retirement benefit:

- how much you put in (contributions)
- your investment strategy and the impact of any movements in financial markets on it
- the fees you are charged.

Contributions

- For many people, making extra contributions to super can be the best way to invest. For retirement, your super fund gets tax concessions on investment earnings, so you usually save more by investing through super than by investing the same amount outside super.
- Before deciding on how much and how to contribute, explore your options and the current tax rules. Higher and middle-income earners can benefit from extra contributions made from pre-tax income (salary sacrifice) if their employer allows it. Lower and middle-income earners can benefit from government co-contributions by making after-tax contributions.

Your investment strategy

- Most super funds let you choose an investment strategy. You should choose the strategy that best matches your timeframe and appetite for risk.
- You also need to review, though not necessarily change, your strategy when the investment climate changes and you approach retirement.
- Make sure that the strategy for your super investments will still help you achieve your overall investment goals.

The impact of fees

- Every dollar you pay in fees reduces the money available for investment and ultimately your final benefit. If you pay an extra 1% each year in fees, you could lose up to 20% from your retirement benefit over 30 years.
- More services can mean higher fees. Having more than one account may mean you are paying double the fees. Out-of-date or lost accounts can also cost you money. To check whether or not you have lost super accounts, go to **ato.gov.au**.

Self-managed super funds

- If you're thinking about a self-managed super fund (SMSF), be aware of the costs, legal duties, and the restrictions on how money in these funds can be used. Be realistic about the time you have available to manage your fund, and the expertise you have to do this.

Find out more

Our booklet *Super decisions* answers all your questions about super (including your preservation age and when you can access super early).

For more information about SMSFs, see **moneysmart.gov.au**

What is diversification?

'Diversification' means spreading your investments so you can help control the total risk of your investment portfolio.

The aim of diversification is to hold assets that perform differently to each other so that any losses made on some investments will be balanced by what you gain on others.

Spread your assets

To benefit from diversification, invest across the major 'asset classes' – cash, fixed interest, property and shares.

You should follow this principle in developing your financial plan – and with your super as well (most super funds offer different options for your investments).

Spread your fund managers

Different fund managers have different styles of investing (see page 42). Relying on one fund manager for all your investments may be placing too big a bet on that manager's success.

Some providers offer multi-manager funds. These allow you to benefit from the expertise of a number of managers, but still have only one product to manage.

Your questions answered *(continued)*

Spread your markets

The Australian market may not always offer suitable investments at suitable prices. Investing some of your money overseas may help reduce the risk of being in only one market. It can also provide higher returns.

For most investors, investing through a managed fund is the easiest way to access foreign investments. Investing overseas is generally more expensive than investing in Australia.

Swings in the value of the Australian dollar against other currencies may also increase or reduce your investment return. Get personal financial advice about how to manage these risks.

Spread your timing

Because prices of investments can rise and fall, it can be hard to pick the right moment to buy or sell.

Even professional fund managers sometimes have trouble knowing the right time to enter or leave the market.

To reduce the risk of bad timing, invest at regular intervals – say, every 1, 3, 6 or 12 months.

In this way, sometimes you will pay more, sometimes less for your investments. The swings in price basically even out over time, so this practice is called 'dollar cost averaging'.

An easy way to do this is to set up a regular debit from your cash account to a managed fund.

Chasing last year's winner is difficult and risky

Past performance is not necessarily a guide to performance this year or the next. This rule applies to individual shares, asset classes, managed funds and the investment options offered by your super fund.

(Sources: Bloomberg, RBA, UBS Warburg)

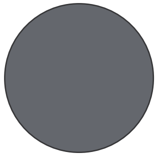
Typical investment portfolios

A diversified investment portfolio has a mix of different investment types or 'asset classes'. Some common labels for investment mixes include 'conservative', 'balanced' and 'growth'. But the mixes can vary (even if they have the same label) so you need to check exactly what you're getting.

In principle, you should choose your asset allocation mix based on what returns you are looking for, over what timeframe and at what level of risk.

As the value of investments in your portfolio changes over time, you will need to rebalance your portfolio to preserve your original investment mix.

Cash



Mix of investments
100% in deposits with Australian deposit-taking institutions

2.9%

Expected return[1]
rate is determined primarily by the cash rate[2]

Volatility
very low

Expect a loss
0 years in 20

Value of investing $10,000 after 5 years[3]

$11,500

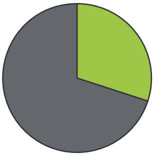
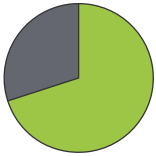
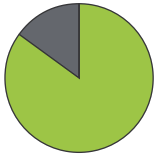
[1] Yearly return, averaged over the long term. **Please note that these returns are indicative and highly dependent on changing market conditions.**

[2] The cash rate is determined by the Reserve Bank of Australia.

[3] Expected value is before fees, taxes and any interest costs from borrowing are deducted and assumes all income is reinvested.

Typically, 'cash' and 'conservative' portfolios would be suitable for building your wealth over the short term, either within or outside superannuation.

Your choice would depend on your goals, timeframes and willingness to accept the risk of a negative return.

Conservative	Balanced	Growth
		
Mix of investments Around 30% in shares and listed property with the rest in cash and fixed interest	**Mix of investments** Around 70% in shares and listed property with the rest in cash and fixed interest	**Mix of investments** Around 85% in shares and listed property with the rest in cash and fixed interest
4.2% **Expected return**[1]	**5.7%** **Expected return**[1]	**6.2%** **Expected return**[1] allows for typical losses in bad years
Volatility low	**Volatility** medium	**Volatility** high
Expect a loss 1–2 years in 20	**Expect a loss** 4 years in 20	**Expect a loss** 4–5 years in 20
Value of investing $10,000 after 5 years[3] **$12,300**	**Value of investing $10,000 after 5 years**[3] **$13,200**	**Value of investing $10,000 after 5 years**[3] **$13,500**

Typically, 'balanced' and 'growth' portfolios would be suitable for building your wealth over the long term, either within or outside superannuation.

Your choice would depend on your goals, timeframes, willingness to accept the risk of a negative return and your tolerance for asset price volatility.

Is this a good time to invest?

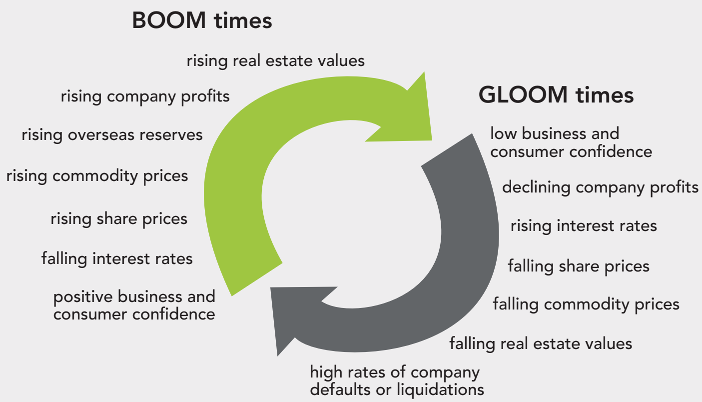
If you're thinking of investing, chances are you'll be wondering 'Is this a good time to invest?'

Many investors think that if the sharemarket is booming (a 'bull' market), it must be a good time to buy shares, but if the market is falling (a 'bear' market) they should stay away or sell out.

These investors could be right – buying shares on the up is generally a good idea, and so is minimising losses. However, depending on the precise timing of the trades, they may be making a mistake.

If you buy at the top of the market and sell out when the market bottoms, you stand to make significant losses.

If you stay away when prices are at rock bottom, fearing further falls, you could miss out on potential gains when the market rises.



The investment cycle

Wise investors understand that the market goes through cycles.

Understanding market cycles can help you manage the timing of your investments and re-adjust your portfolio to minimise risk and take advantage of opportunities.

For example, when interest rates rise, you may want to put more money into cash or other 'defensive' assets such as high quality bonds.

Remember that market movements can affect even high quality investments. For example, if you buy a bond and interest rates rise, you may incur a loss if you need to sell the bond before its maturity date.

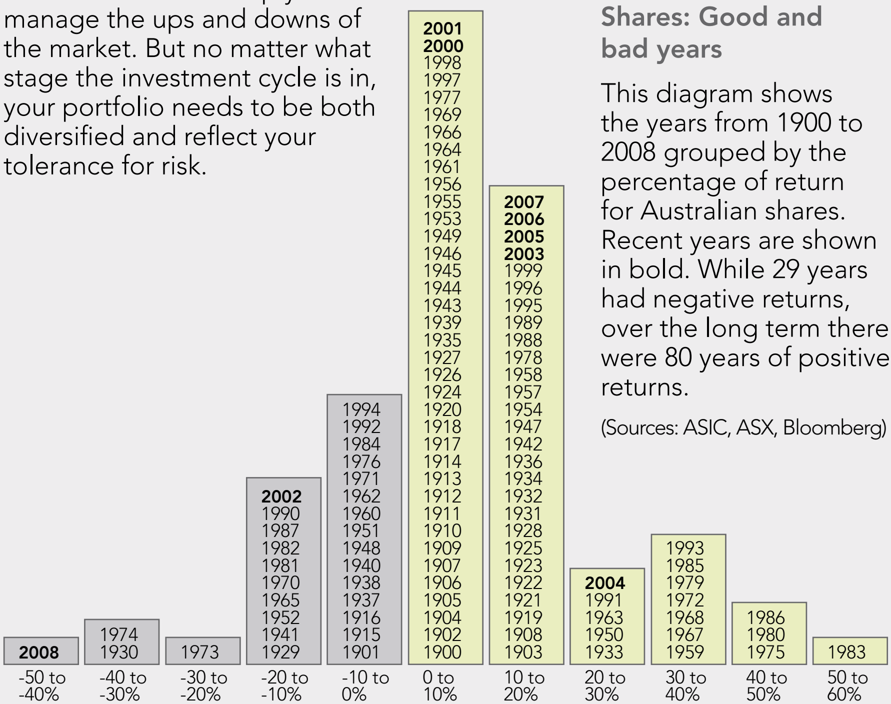
As interest rates fall, it may be time to move more funds into growth investments – especially if the return from shares in 'blue chip' companies exceeds what you can get from cash accounts.

Diversification can help you manage the ups and downs of the market. But no matter what stage the investment cycle is in, your portfolio needs to be both diversified and reflect your tolerance for risk.

Shares: Good and bad years

This diagram shows the years from 1900 to 2008 grouped by the percentage of return for Australian shares. Recent years are shown in bold. While 29 years had negative returns, over the long term there were 80 years of positive returns.

(Sources: ASIC, ASX, Bloomberg)



How do managed funds work?

Managed funds

In a managed fund, your money is pooled with money from other investors. A professional investment manager uses the money to buy and sell assets on your behalf.

Some funds invest most of their money in a traditional asset class, such as cash, fixed interest securities, property securities or shares (Australian or international). Others invest in a mix of these. A roughly equal mix will result in a 'balanced' fund. Specialist funds invest in a narrower range of assets such as infrastructure, natural resources, clean energy, emerging markets or private equity.

Taking fees and costs into account, you receive the benefit of any income earned and the value of your investment rises or falls with the value of the underlying assets.

The manager keeps you up to date with regular statements – for example, monthly, quarterly or annually – and a guide to completing your tax return.

Unit trusts

Most managed funds are unit trusts. When you invest, your money buys units in the trust. How many units you get depends on how much you invest and the unit price at the time.

Say you had $10,000 to invest and the unit price was worth $2: you would get 5000 units – or fewer if there's an entry fee.

The unit price reflects the value of the fund's assets so it generally changes every day. Daily unit prices are available over the phone or from the fund's website.

You can check the value of your investment in a unit trust at any time by multiplying the number of units you hold by the daily (exit) unit price.

Step 4 Decide how to invest

In the surf, some people are prepared to back their own skill, fully aware of the risks involved. To decide how you want to invest, rate your own expertise – then check your judgement with someone you trust.

When it comes to investing, you need to decide whether you want to take a 'do-it-yourself' approach or get a professional to do it for you.

Each method has its pros and cons – and you can, of course, do both. Ultimately, the right approach is the one you feel most comfortable with.

Managed funds

Pros

- You benefit from the skills and knowledge of investment professionals who make the investment decisions
- It's easy to diversify
- You get access to hard-to-get asset classes such as property or infrastructure and different investment styles
- You have access to external dispute resolution schemes

Cons

- You'll pay fees and charges – even if your investments fall in value
- You'll still need to do some homework – for example, there is no standard formula for a 'balanced' fund so you'll need to check what's included in each investment mix

Buy and sell direct

Pros

- You're in control – you decide when and what to buy and sell
- If you know what you're doing, you may be able to reduce your costs
- If you're buying and selling assets such as shares, prices for these are published regularly, making it easy for you to track how your investments are performing

Cons

- You may overrate your expertise
- It takes time to do your own research
- You may be too casual in your approach
- You may not diversify your investments enough

Investing in managed funds

Many people feel they don't have the expertise or the time to spend deciding which investments to choose.

Managed funds are a simple and convenient way to invest. You benefit from the specialist investment knowledge of those who research and monitor the markets all the time. And you get access to investments like international shares and property that you'd find hard to buy yourself.

Managed funds can help you reduce the risk of losing money if you put too much into one investment. A share fund, for example, invests in many shares. A balanced fund invests in many shares, bonds, property and cash securities. This diversification reduces the risk of them all going bad at once (although it's not removed altogether).

Find out more

To compare the features of managed funds, use the managed funds fee calculator at **moneysmart.gov.au**.

Different fund, different style

One advantage of investing in managed funds is that you can choose funds that have a specific investment approach or style – another way to diversify.

Index (or 'passive') funds

In these funds, the fund manager buys and sells shares to match the performance of shares in a specific category or index. The index could be the 'ASX 200' index or that of a specific sector, such as energy, financials, industrials or health care.

Because the management style is relatively 'passive' (the aim is to follow the index), the fees are generally lower than for actively managed funds.

And because the fund trades a lower proportion of its assets, you may pay less in capital gains tax on any distributions.

Actively managed funds

In these funds, the fund manager tries to outperform the relevant index.

The philosophy is that while markets are efficient over the long term, in the short term they do not always behave 'rationally', which opens up opportunities.

Because the management style is 'active', the way the investments are managed will vary from fund to fund. Fees may also be higher than for index funds.

If an actively managed fund turns over a high proportion of its assets, you will probably pay more capital gains tax on any distributions.

Value funds

These funds focus on companies that, for reasons other than the nature of the business and quality of management, are underpriced. The idea is that because the current market price is lower than is really justified by their earnings, the market will re-rate its view of the company, and the company share price will rise.

Growth funds

These funds invest in companies that are likely to prosper because there may be strong demand for their product or because the economic climate is favourable. Growth funds tend to be more volatile – up one day and down the next – so investors should take a longer investment horizon. They tend to do well when market trends are moving up.

Buying and selling property

Most people who buy residential or commercial property do so through a real estate agent. Real estate agents are licensed by state and territory agencies. The transaction itself should be done through a solicitor or licensed conveyancer.

Find out more

The Real Estate Institute of Australia offers tips on buying, selling and managing property at **reia.asn.au**/

For more about investing and direct property investments, see the Australian Bankers' Association booklets *Smarter Investing* and *Home Ownership* at **bankers.asn.au**.

Buying and selling shares

Maybe you're a person who doesn't like having to pay others to do things for you – you'd rather do it yourself. To buy and sell shares, property securities and other investments on the ASX, you have two options.

You can use a full service broker who will place your buy and sell orders and give you access to a range of research, analysis and advice.

Or you can use an online broking service, generally for a lower fee. While you may have access to a range of investment information online, you don't get what the full service broker provides – advice that is tailored to your personal situation and needs.

If you're a first-time share investor, check out the various 'how to' products on the ASX website **asx.com.au**. A good way to start is to set up a 'virtual' or pretend portfolio and manage it until you are confident about investing real money – or decide this isn't for you.

Find out more

The ASX website has a list of stockbroking firms registered in Australia, and overseas brokers who can deal in Australian shares. It tells you about the different types of stockbrokers and how to choose a broker to meet your needs. Visit **asx.com.au**.

Should I borrow to invest?

There is no way to answer this question without knowing your specific circumstances and needs. On this question, you must seek personal financial advice – not advice from a real estate agent, financial planner or stockbroker keen to make a sale.

While borrowing to invest (gearing) can be an attractive strategy for some investors, it also adds another layer of complexity and risk to your investment strategy. The more you borrow, the more you stand to lose.

If there are good reasons to believe that the value of the investment and the income it provides will rise, then borrowing money to buy shares (a margin loan), managed funds or a rental property may increase your total return.

Part of the benefit may arise because the costs of borrowing are generally tax deductible.

However, be aware that if you borrow to invest, you have more money at risk over the short term. You could end up with an overall loss rather than a gain.

If you feel uncomfortable about borrowing, do not let anyone talk you into taking the extra risks. Safer alternatives to borrowing include saving more or giving yourself more time to achieve what you want.

Before you decide to borrow to invest, ask yourself:

- Do you have a reliable income with a safety net of cash and insurance?
- Will you be able to repay the loan even if your investments perform poorly?
- Can you handle increased interest rates or market downturns like the global financial crisis?
- Have you invested in this sort of asset before and do you understand its risks?
- Do you understand what a margin call is and the implications for the investment?
- Can you afford to lose whatever you are using as security for the investment?

If you answer NO to any of the above questions, you should avoid borrowing money to invest.

Step 5 Implement your plan

You're clear about your goals and values, you have a strategy that matches your timeframe and you've carefully considered the risks. Now you can put your plan to work.

Statements of Advice, Product Disclosure Statements, application forms, contracts, leases...

Like it or not, investing 'between the flags' means paying close attention to paperwork. Sadly, it's often only when something goes wrong that an investor goes back and reads carefully something they were happy to put their signature to. 'I didn't realise that at the time' is often the painful proof of 20/20 hindsight.

To help get your investment off to a good start, go through the checklist below for any product you're thinking of investing in. Don't sign anything until you've ticked every box.

'Between the flags' product checklist

- ☑ Get expert advice if you need it
- ☑ Check out the provider
- ☑ Check out the product
- ☑ Assess the risks
- ☑ Check the suitability
- ☑ Check the fees and charges
- ☑ Check legal and tax issues
- ☑ Consider estate planning
- ☑ Understand your exit strategy

‘Between the flags’ product checklist

Investing ‘between the flags’ means making the following checks before you commit to buying any specific investment product.

Remember, never invest in anything that seems illegal or dodgy.

No exceptions, ever! You could lose all your money. You could risk tax penalties and even prosecution. You might not be able to get out of the so-called ‘investment’ or complain or get help.

☑ Get expert advice if you need it

Have you got personal financial advice? You may not need this for every investing decision. But you might be uncertain about the right thing to do or not understand the product you are thinking of investing in. In this case, we recommend that you seek personal financial advice from a licensed financial adviser that you have checked on ASIC’s financial advisers register at **moneysmart.gov.au**.

☑ Check out the provider

Are you comfortable with the product issuer? Search the internet and media about the company and people involved. In many cases, the issuer must hold an Australian financial services (AFS) licence issued by ASIC.

Check to see if the company belongs to an association with strong member standards, operating guidelines and disciplinary procedures.

Did the product issuer approach you, and if so, why? Beware of any offer that is marketed as a special deal ‘just for you’, especially if you have only a short time to decide.

☑ Check out the product

Do you have enough information to understand how the product works and the associated risks?

Read carefully the Product Disclosure Statement (PDS), prospectus or terms and conditions and any other information that you receive.

You should be able to describe to a friend or partner how the product works – how your money will be invested, how the product will generate returns, and how these will be paid to you.

Ask about anything you don't understand. Make sure you're 100% satisfied with the answers.

☑ Assess the risks

What risks do products like this generally involve and are there extra risks with this product? Will your investment be affected by a major shift in the economy or market sentiment? Recessions, business failures and gloomy markets do happen, and experienced investors are properly prepared for them.

What are the potential losses? Are they limited to the amount of your investment, or could they be even greater? With products such as contracts for difference (CFDs), your losses (as well as any gains) could be more than the amount you originally invested. You could put at risk money you never intended to gamble with.

☑ Check the suitability

Does the product suit your needs? Only buy a financial product if it's going to meet your needs and fit in with your own knowledge and experience with money.

Are you at a stage in life when you are confident in your ability to recover from any financial losses you may suffer? For example, do you have people relying on you for financial support or are you investing money you may need in retirement?

☑ Check the fees and charges

What are the commissions, fees or other charges (including interest if you're borrowing to invest)? All costs (even small costs spread over time) reduce the return on your money.

Know what you're buying and how you're paying for it. Make sure you only pay for things that you need or are useful such as personal financial advice and management.

☑ Check legal and tax issues

Everyone has a unique financial and tax situation. You may need to get professional advice about how an investment will affect your particular situation.

A solicitor can explain your legal obligations under any contract. An accountant can explain any tax benefits which might help offset costs.

☑ Consider estate planning

What will happen if you die or get incapacitated? Do you have a will in place? If you're going to give power of attorney to someone, make sure you trust them to act in your best interests.

☑ Understand your exit strategy

Can you get your money back out of this product if you need to? Are there any fees if you take it out early? Can you easily sell your product if you need to?

Some products can be traded readily on the ASX but for other products you have to wait until they mature. You may have to pay penalties to get your money back earlier – for example, with a term deposit, your financial institution can charge you if you want your money back before the 'term' is up.

Find out more

See our booklet *Financial advice and you* at **moneysmart.gov.au**.

Please keep in mind that the guidance we offer is general in nature. Working out a detailed strategy that meets your individual needs may require the help of a licensed financial adviser.

Questions to ask yourself

Why	▶ What are your reasons for investing? ▶ Is what you hope to achieve realistic?
When	▶ Are you ready to invest? ▶ What is your timeframe for investing based on your goals?
Where	▶ Where will you invest? ▶ Have you considered current market conditions and your tolerance for risk?
What	▶ Do you understand what you are investing in and is it appropriate to your needs? ▶ Have you checked the terms and conditions of the investment and any fees or commissions you'll pay?
Who	▶ Will you invest on your own or use an adviser? ▶ Who is selling this investment?

Don't rush into investing. Think about what it would be like to lose all your money. Make sure you're clear about why you're investing and only invest in products you understand.

Quick investing tips

What's the secret of investment success? Instead of relying on good luck, the wise investor takes time to understand the basic principles of investing – then develops and sticks to a sound investment plan.

Investing is like a lot of other things in life – rewarding but not free of risk. Even with careful planning, you can still get caught out – for example, if economic conditions change or a company goes out of business. So taking care with your decisions and choices is your best protection.

Six steps to investing 'between the flags'

Following these 6 steps will put you on the path to investing wisely:

- **Step 1: Know your goals and risk tolerance**
  Know your goals, timing and your appetite for risk before you choose any investment.
- **Step 2: Understand how investments work**
  Learn how different investments work and only invest in what you understand.
- **Step 3: Develop an investment plan**
  Create a realistic plan that meets your needs and spreads your assets.
- **Step 4: Decide how to invest**
  Choose whether to take a 'do-it-yourself' approach or get a professional to do it for you.
- **Step 5: Implement your plan**
  Put your plan into action and pay close attention to paperwork
- **Step 6: Monitor your investments**
  Keep an eye on your investments rather than adopting a 'set and forget' approach.

Investing 'between the flags' checklist

Make these 'between the flags' checks before you commit to buying any specific investment product:

Get expert advice if you need it	Yes/No
Have you got personal financial advice, if you need it?	Y / N
Do you have enough information to make an informed decision about the product you're thinking of investing in?	Y / N
Check out the provider	
Are you comfortable with the investment product issuer?	Y / N
Is the product issuer registered or licensed by ASIC?	Y / N
Is the product issuer a member of a professional association that sets industry practice standards?	Y / N
Did the product issuer approach you? If so, why?	Y / N
Check out the product	
Do you have enough information to understand how the product works and the associated risks?	Y / N
Could you explain to someone else how the product works?	Y / N
Have you read the Product Disclosure Statement (PDS), prospectus or terms and conditions?	Y / N
Are the returns being offered realistic?	Y / N
Assess the risks	
Do you know the risks associated with the investment?	Y / N
Are there any extra risks with this product?	Y / N
Are you aware of the potential losses?	Y / N
Have you spread your investments to manage the risk?	Y / N

Your notes

Check the suitability

Does the product suit your needs?	Y / N
Does the investment match your goals and timeframe?	Y / N
Is the investment consistent with your personal values?	Y / N
Are you at a stage in life where you are confident you can recover from any financial losses you may suffer?	Y / N

Check the fees and charges

What are the commissions, fees or other charges (including interest, if you're borrowing to invest)?	Y / N
Do you know exactly what you're buying and how you're going to pay for it?	Y / N
Are you paying for things you don't need?	Y / N

Check legal and tax issues

Do you know how the investment will affect your individual financial and tax situation?	Y / N
Do you understand your legal obligations under any contract?	Y / N
Are you aware of any tax benefits which may offset investment costs?	Y / N

Consider estate planning

Have you thought about what will happen if you die or get incapacitated?	Y / N
Do you have a will in place?	Y / N

Understand your exit strategy

Can you get your money back out of this product, if you need to?	Y / N
Are there any fees if you take your money out early?	Y / N
Can you easily sell your product again, if you need to?	Y / N

Never invest in anything that seems illegal or dodgy.

No exceptions, ever.

You could lose all your investment money.

You could risk tax penalties and even prosecution.

Step 6 Monitor your investments

'Set and forget' is not a 'between the flags' approach to investing. Market and economic conditions, like those at the beach, can change rapidly – but a panicked reaction can often make things worse. If your strategy is sound, stay with it.

Think you can just invest and forget? Think again!

It's important to keep track of your investments – even if you have a professional adviser. When monitoring your investment portfolio, remember your investment goals, timeframes and willingness to accept risk (see pages 36–37).

Keeping track of performance

Record keeping is an essential part of investing. You need records for accounting and tax purposes and to assess the performance of your investments. Records will also help you if you need to make changes to your investment portfolio.

At the end of each financial year, your super fund(s) will send you a fully itemised benefits statement. If you invest with a full service stockbroker, managed fund master trust or a 'wrap' provider, you'll get transaction statements and periodic reports showing the value of your investments and any deductions for fees and tax.

For managed funds, you'll also receive an end-of-year tax statement to help you fill in your tax return. For other investments, you need to keep track of interest and dividends yourself for tax purposes.

You can monitor your investment portfolio at financial websites (such as those for the major daily newspapers). You can track the daily price of shares and units in managed funds and super funds.

Find out more

For market information and company announcements, go to **asx.com.au**.

Looking out for warning signs

Sometimes there are warning signs of unhealthy investments. When a warning sign is posted, you may need to act quickly to avoid unacceptable losses. However, there's no guaranteed method to spot losses in advance. Even the most experienced investors make mistakes.

Published statements

Sometimes ASIC and ASX require issuers of investment products to publish statements clarifying or correcting information given to investors. The investment may still be suitable, but these warnings may signal that the investment involves more risk than you want to take. The problem may have been a genuine oversight but you need to be sure.

Advertising by celebrities

Don't let the use of celebrities in advertising distract you from the real and important information. Always do your homework and check the fine print.

Repeated over-promising and under-delivery

While even the best managers make mistakes, ongoing disappointing results, lack of communication and falling service standards may indicate that something is seriously wrong.

Accounting problems

Mistakes, delays, audit qualifications and controversy over accounts could be warning signs. Accounting rules can be complex and genuine errors or differences of view do occur. However, repeated issues may indicate deep-seated problems.

Management problems

Director and senior management in-fighting, resignations, breaches of the law or unethical conduct are sometimes warning signs. Changes in management may be necessary, but could take attention away from responsibilities to investors.

Avoiding financial scams

Anyone who ignores danger signs at the beach does so at their own peril.

You need to recognise the danger signs of financial scams – then look for safer investment waters for your savings.

If you swim between the flags, you'll avoid rips – dangerous currents that can drag you out to sea. If you invest 'between the flags', you'll avoid rip-offs – scams that can suck you in to your financial ruin.

Invitations to invest in financial scams come in many different forms. Some are advertised in newspapers and magazines. They can also come by email, by phone, on internet sites, chat rooms, by text message, by post, in seminars or in person.

Unfortunately, scams will always exist as long as there are people who think there is a fast track to wealth or who fail to read the 'danger' signs. That's why it's important to know what a scam might look like. You'll find some key distinguishing features on the next page.

Case study: Malcolm

Malcolm lost $30,000

'I received an unexpected phone call from London and took up an offer to invest in offshore options trading for 2 months.

'The caller explained the details and led me to an official-looking website. *It just didn't occur to me that I could be the target of a scam.*

'If you are cold called (contacted out of the blue), my advice is that you shouldn't feel pressured into making a rushed decision and sending any money.

'Step back and take your time to do your homework – don't rely on glossy brochures, websites, or the assurances of a smooth-talking salesperson.'

How to spot scams

It looks real

Scams that catch people often look realistic and are presented professionally. They have attractive documents, a business-like website, and names that sound like reputable companies.

It pressures you to invest

Scammers often say 'don't miss out' and 'act quickly before it's too late'. They're really just trying to grab your money before you have a chance to check properly.

It promises bigger or faster profits

Scams often offer a higher return than genuine investments. Some offer 20% a year, others go for 300% a year or even more. It's too good to be true. By comparison, Australian shares are some of the most successful investments, and their value has grown about 7–9% a year over the long term. Whether it's high or low, never choose an investment based on return alone.

Trust your commonsense

Check the interest rate on your bank account as a reference point for realistic returns. If your bank account is only paying you 4% a year, and a promoter says you can earn 10% income a month, this is unrealistic and likely to be a scam and high risk.

It promises less effort or risk

Most scams say that financial success is easy and risk isn't a problem. But real wealth demands planning, hard work and patience.

Even the best investors make mistakes and have to weather storms like market busts and economic recessions.

It promises something special

It could be a 'secret' offer, 'inside information' or 'new techniques' to make you feel like you've got an edge over other people. But chances are it's a fairytale – and it won't have a happy ending.

How to protect yourself from financial scams

- Remember the golden rule – if it sounds too good to be true, it probably is too good to be true.
- Say 'no' to promoters who call you out of the blue, to anything you don't understand, or to anything illegal.
- Always get a prospectus or Product Disclosure Statement (PDS).
- Deal only with financial advisers licensed in Australia (see pages 9–11).
- Learn to love your paperwork – review your investments regularly to track their progress.
- Check tax claims made by scheme promoters so you know who's making the offer and why.

Find out more

For more about scams, visit **moneysmart.gov.au** or **scamwatch.gov.au**. See also *The Little Black Book of Scams* from the Australian Competition and Consumer Commission at **accc.gov.au**.

Misleading advertising? Hard sell?

Have you come across an advertisement for a financial product that you think is misleading?

Have you been pressured by a sales person to make a decision when you didn't have enough information, or weren't sure that the product was right for you?

Phone ASIC on 1300 300 630 to tell us about it. You can lodge a formal complaint at **moneysmart.gov.au**.

For strategies to help you resist pressure selling, so you don't end up investing in a financial product that doesn't suit your needs, go to **moneysmart.gov.au**.

Acknowledgements

ASIC would like to thank Surf Life Saving Australia (SLSA) for supporting our use of the 'between the flags' message. SLSA's red and yellow flags are an internationally recognised symbol of patrolled beaches and therefore promote safety awareness. For further information about SLSA or to support its work, please visit **slsa.asn.au**.

ASIC also acknowledges the work of DFA Australia Limited in providing educational articles to financial advisers under the banner of 'outside the flags'. We welcome efforts to educate and inform both industry and investors about the fundamental principles of wiser and safer investing behaviour.

Where to get more information

Australian Securities and Investments Commission (ASIC)

ASIC's MoneySmart website gives people clear information, useful tools and independent guidance so they can make the most of their money.

moneysmart.gov.au or phone 1300 300 630

Association of Super Funds of Australia (ASFA)

FAQs, fact sheets, calculators, super terms and information about how much you need to live on in retirement.

superannuation.asn.au or phone 02 9264 9300
or 1800 812 798 (outside Sydney)

Australian Bankers' Association (ABA)

Consumer booklets and fact sheets.

bankers.asn.au/consumers or phone 02 8298 0417

Australian Competition and Consumer Commission (ACCC)

Information about scams and scam monitoring at **scamwatch.gov.au**.

accc.gov.au or phone 1300 302 502

Australian Shareholders' Association (ASA)

Not-for-profit organisation protecting shareholders' rights.

australianshareholders.com.au or phone 1300 368 448

Australian Securities Exchange (ASX)

Share prices, market data and education about investing.

asx.com.au or phone 13 12 79

Australian Taxation Office (ATO)

Information about super guarantee contributions, lost super accounts, self-managed super funds and tax.

ato.gov.au or phone 13 28 61

Centrelink Financial Information Service (FIS)

Free and independent information about investments, tax and Commonwealth benefits, and a national seminar program.

humanservices.gov.au/centrelink
or phone 13 63 57 (seminars and bookings)
or 13 23 00 (benefits, speak to a FIS officer)

CHOICE

Free and some pay-to-view website information on money issues.

choice.com.au or phone 1800 069 552

Credit and Investments Ombudsman (CIO)

Independent dispute resolution service for the non-bank financial services industry.

cio.org.au or phone 1800 138 422

Financial counselling services

Free help to manage a short-term crisis or plan to prevent a future one. For information about financial counselling services, go to **moneysmart.gov.au**.

Financial Ombudsman Service (FOS)

Independent dispute resolution service for most banking, insurance and investment disputes in Australia, including complaints about financial advice.

fos.org.au or phone 1300 367 287

Financial Planning Association (FPA)

Find a financial adviser, check if an adviser is an FPA member, discuss conduct or quality of service or get a free brochure on financial planning.

fpa.asn.au or phone 1800 626 393

Financial Services Council (FSC)

Consumer fact sheets, financial services glossary and general industry information (including a list of members and operational guidelines and standards expected of members).

fsc.org.au or phone 02 9299 3022

Responsible Investment Association Australasia (RIAA)

Information about how to make investment choices taking into account environmental, social, ethical or governance issues as well as financial objectives.

responsibleinvestment.org or phone 02 8228 8100

Investing 'between the flags' checklist

- ☐ Do you understand what you are investing in and could you explain it to someone else? see pages 16–25
- ☐ Does the investment match your goals and timeframe? see pages 26–32
- ☐ Are the returns being offered realistic? see pages 36–37
- ☐ Do you know the risks associated with the investment? see pages 16–25
- ☐ Have you spread your investments to manage the risk? see pages 33–35
- ☐ Can you get your money back early? see pages 16–22
- ☐ Is the investment consistent with your personal values? see pages 12–15

Never invest in anything that seems illegal or dodgy.

No exceptions, ever.

You could lose all your investment money.

You could risk tax penalties and even prosecution.

Notes

We welcome your feedback

Please tell us what you think of our *Investing between the flags* booklet.

Please send your feedback to:

Email: feedback@moneysmart.gov.au

Post (no stamp required):

ASIC Publications
Feedback
Reply Paid 3451
GIPPSLAND MC VIC 3841

ASIC's MoneySmart website has calculators, tools and tips to help you make smart choices about:

- Investing
- Superannuation and retirement
- Scams
- Budgeting and saving
- Borrowing and credit
- Insurance

moneysmart.gov.au

Call ASIC: **1300 300 630**

Disclaimer
Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

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