

INVESTING IN YOUR FUTURE

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INVESTING FOR YOUR FUTURE

Everyone wants to create a future that's financially secure for them and their family. And while investing might provide you with a way to do this, knowing where and how to invest is key.

This LifeGuide will give you an overview of some of the common types of investments and how to determine what's best for you.



SETTING GOALS

When it comes to investing, a good place to start is with your own personal goals. What do you want to achieve? And over how long?

What you invest in, and how much, can be influenced by lots of factors - including your age, income, savings and timeframe.

It's a good idea to look at your current situation and work out a budget to understand how much money you can realistically invest.

Think about:

- What sort of lifestyle do you want to live?
- Are there things you want to do, in the short or long term?
- How much money would you need to achieve this lifestyle?

WEALTH OR INCOME?

Are you investing for a bit of extra cash? Or to make a living? Whatever your motivation, you'll need to think about the strategies and specifics of where you put your money. For investments that have a goal, such as to build a holiday fund, make sure you have a target and timeframe in mind. If you're investing for the purpose of an income, like in retirement, you'll likely need a more refined and longer-term strategy.

Other considerations to think about:

- What is the likely real rate of return of your chosen investment – after fees, taxes and inflation?
- How much tax will you have to pay on your earnings?
- Is your money easily accessible in case of an emergency?

WHAT ARE THE RISKS?

The thing about investing is that it comes with many risks – both expected and unexpected. This might be because of a failed or bad investment, or outside factors like interest rates impacting performance.

Some of the main risks include:

- **Market risk:** economic factors can cause an investment to fall in value
- **Inflation risk:** your investment's value may not keep up with the rate of inflation
- **Interest rate risk:** changes in interest rates may mean your investment value fluctuates

These risks, and how big a concern they are, will depend on the type of investment you make, your personal situation and the external climate – so it's important to consider these impacts and your capacity before investing.

The Australian government's [MoneySmart](#) website has a great overview of the risks associated with investing.



INVESTING 101

Whether you're investing for the first time or have been doing so for years, having background knowledge on the types of asset classes is important. The four main ones are cash, fixed-interest, property and shares.

CASH

Investments like bank accounts allow you to access your money at will and are generally low risk and secure. But their returns are usually lower than other asset classes. The [Australian Government](#) provides added protection for bank deposits up to \$250,000 per account-holder.

FIXED INTEREST

Fixed interest investments typically offer a set interest rate for an agreed period or term. This might be in the form of a term deposit, government or corporate bond, or income securities via a fund.

PROPERTY INVESTMENTS

These include owning your own home, owning a property purely for investment purposes, property trusts and property developments.

Buying property can often be an emotional decision, especially if you plan to live at the home. But remember to look for things like the perceived capital growth and whether you'll have to pay taxes, like capital gains tax, when you sell.

If you're going to become a landlord and rent out a property, there are certain responsibilities you'll need to be aware of, including lease agreements, bonds and minimum standards. For more information on this, visit the [Australian Landlords Association](#) website.

Remember, investing in property means your money will be tied up and won't be easily accessible. If you need to access your cash quickly, this may prove costly or result in you losing money (e.g., due to a 'forced sale') – so think long and hard about your needs and [consider your backup plan options](#) before jumping in.

CRYPTOCURRENCY

Cryptocurrency is a digital currency that can be bought and traded. All transactions are verified and securely stored by a decentralised system using cryptography. It's important to note there are many unreliable and unsafe cryptocurrency sites on the internet, so be cautious and complete a thorough due diligence before investing.

SHARES

Also known as 'stocks', shares are investments that allow you to purchase a stake in a company and benefit from its profit through what's known as a dividend.

Depending on the company and industry you choose, there may be small returns or none at all if the business doesn't make a profit. Conduct your own research and decide on what your risk appetite is and expectations of returns before purchasing.

How to buy shares

You can purchase shares via the Australian Securities Exchange (ASX) through online broker platforms that let you buy and sell by yourself, or by engaging a licensed broker. If you decide to manage your share portfolio yourself, it's important to research the below key areas for each investment:

- 1. Industry:** What market does the company serve? Do companies in this industry typically return high profits and grow quickly? What are the challenges and opportunities of this industry?
- 2. Strategy:** Does the company have a clear strategy for success against its competitors? Does the company dominate their market? Do they fill a niche in a bigger market?
- 3. Management:** Are they capable? Are the directors well regarded? Will they provide an objective voice in management?
- 4. Profitability and track record:** Is the company making a profit? Does it have a consistent track record of profitability or growth? Has the company regularly paid dividends in the past?
- 5. Debt:** Companies in debt aren't necessarily bad investments. Like individuals, companies may borrow to increase their opportunities for profit. However, generally, the level of debt shouldn't exceed the assets of the company.

For more information about the share market and how to invest, visit the Australian government's [MoneySmart website](#).

WAYS TO INVEST

If you've made it this far on the road to investing, well done - it's no easy feat. Now that you know the types of investments you can make, it's time to understand the ways in which you can make them. Usually, investments are made via a licensed broker or financial adviser, or on your own.

MANAGED FUNDS AND EXCHANGE TRADED FUNDS (ETFs)

These are funds managed by experts that combine your money with others and invest it on your behalf, usually in the four main asset classes (cash, fixed interest, property and shares). This type of investing will have fees associated, including entry and exit fees and ongoing management costs.

SELF-MANAGED INVESTMENTS

If you're savvy with your money and want to take an active role in investing it, there are lots of resources that can help. You can find a list of websites in the [More Help](#) section of this LifeGuide.

Before you begin investing on your own, ask yourself:

- Do I have enough time to do this?
- Do I understand what's required (including legal requirements if investing via a Self Managed Super Fund)?
- Do I have the background knowledge to make financial decisions on my own?

[The Australian Securities and Investments Commission](#) (ASIC) can provide free information and helpful tips you can use.

AVOIDING SCAMS

Remember, when it comes to your money – always proceed with caution. If an investment opportunity looks too good to be true, it probably is. The Australian Competition and Consumer Commission (ACCC) has a number of [free resources available](#) to help inform and protect you from being scammed.

[ANZ's fraud detection service](#) helps protect you and your money from fraudsters and has tips on how to look after your accounts, including checking your accounts regularly and verifying calls and emails.



INVESTMENT STRATEGIES

Once you've mastered the how and where, you can get smart with strategies to ensure your investments are as savvy as can be.

The type of investment strategy used will depend on your personal goals and money situation, so make sure you take those into account before committing. For example, if you're investing to save for a holiday next month, you probably won't put money into longer-term investments like shares (because of their volatility and potential for negative returns in the short term).

INVESTING TIMEFRAMES

Short term (6 months to 2 years)

Short term investments typically focused on earning interest with minimal investment risk, such as in a bank savings account and a term deposit.

Mid-term (2 to 5 years)

Mid-term investments generally still aim to earn interest, but will also likely consider some capital growth assets to provide a mix of investments.

Longer term (5+ years)

Long term investments usually have greater exposure to growth assets (such as shares and property) and therefore greater risk but can provide higher returns over the long term.

COMMON INVESTMENT TERMS

Diversification

Diversification means putting your money into a few different types of investments to reduce the risk.

Dollar cost averaging

A strategy that reduces the chance of you investing as the market peaks by ignoring fluctuations and investing a similar amount each period (e.g. monthly).

Income splitting

A tactic used by couples to reduce the tax implications of investing by putting the investment/s in the name of the person who earns less. This means it will be taxed at a lower rate and may reduce the overall tax burden.

Gearing

Gearing is a term used to describe borrowing money to invest. In most cases, the costs of borrowing may be claimed as a tax deduction but this is a strategy that should only be used by more savvy investors due to the additional risk of loss in declining markets.

- **Negative gearing**

Negative gearing is a form of gearing where the costs of borrowing (including interest and fees) are more than the income received by your investment. This strategy is mostly used by property investors due to current Australian government tax incentives.

- **Margin lending**

Margin lending is a type of loan that allows you to borrow money to invest (i.e. gearing) and using any existing shares, managed fund or cash as security.

IMPORTANT:

If you're thinking about borrowing to invest it's important to know that this strategy is a step up on the risk curve and should only be employed by qualified investment professionals. This is because although gearing can potentially amplify your gains, it can also amplify your losses if the value of your investment falls or you're forced to sell your investments (known as a 'margin call') which may result in a loss greater than if you had funded your investment with your own money. It's also important to note that you should never borrow to invest solely on the basis of a potential tax advantage.

SUPERANNUATION

In Australia, there are many ways to invest your superannuation. For most people, from the moment you start work, your super fund will invest on your behalf. Typically, your nominated super fund will invest across a range of industries depending on the level of risk you have opted for. Some people also add more into their super fund, taking advantage of compound interest, as a way of investing for retirement. You can also decide to have a self-managed super fund, which means you're in charge of where your money goes.

For more information on this, visit the [Australian Taxation Office's website](#). For simple and powerful tips to get the most out of your super at any age, visit [ANZ's website](#) or read our article on superannuation hacks [here](#).

THE BACKUP PLAN

Once you've decided where and how to invest, it's always important to consider how you'll manage unexpected emergencies, like if you become suddenly or involuntarily unemployed.

This could derail your investment plans and impact your overall ability to meet key living expenses and debts.

This is particularly important if you're planning to borrow money to invest (i.e. gearing), so you understand your borrowing requirements and ensure you're able to service your loan and meet the minimum repayments throughout the loan term.

TIP

For simple and practical ways to protect yourself from unexpected events that could derail your investment journey, visit anz.com.au/backupplan



MORE HELP

The Australian Securities and Investment Commission (ASIC)

asic.gov.au

The Australian Taxation Office

The ATO has a range of fact sheets available regarding the tax implications of different investments.

www.ato.gov.au

CHOICE

Australia's leading consumer advocacy group has great resources about various financial products.

www.choice.com.au

The Australian Financial Complaints Authority

A dispute resolution scheme for financial services. Call 1300 565 562.

www.afca.org.au

CANSTAR

An independent organisation providing both information and comparisons of various financial products.

www.canstar.com.au

InfoChoice

Has unbiased information on various financial products.

www.infochoice.com.au

Services Australia

Offers free financial information.

www.servicesaustralia.gov.au/financial-information-service

Consumer Affairs

Can provide links to the relevant department in your state or territory.

www.accc.gov.au

ANZ Financial Wellbeing Program

If you're looking for some helpful insights, tips or tools then check out the ANZ Financial Wellbeing program – a free online resource designed to help you become better with your money. Complete modules at your own pace, regardless of who you bank with, or sign up for a 6-week challenge and receive helpful information straight to your inbox.

Read more about how we can help boost the power of your finances at anz.com.au/financialwellbeing





ABOUT LIFEGUIDES

ANZ has a proud history of helping customers across Australia and New Zealand, especially in times of change. Through these LifeGuides, ANZ is furthering its commitment to the broader community by providing general resources and useful information about key life moments – helping make them a little easier on you.

Important Information: The information set out above is general in nature and has been prepared without taking into account your objectives, financial situation or needs. By providing this information ANZ does not intend to provide any advice about your employment rights, any financial advice or other advice or recommendations. You should seek independent employment, financial, legal, tax and other relevant advice having regard to your particular circumstances.

