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Understanding your investment sector options.

Broad Investment Sector Categories

Warning: This information is intended to form general comments only and does not constitute advice. No investor should rely solely on this information when making investment decisions. This information has not been prepared to take account of investment objectives, financial situations or the particular needs of investors. Investors should consult their client adviser, who can assess their particular needs and circumstances when making investment decisions.

Managed Financial Strategy believes that there are three distinct types of investment sector categories available to investors. These are:

- Capital Stable Investments;
- Defensive Investments; and
- Growth Investments

The financial planning industry has grown accustomed to terms such as conservative, balanced growth etc. We believe that these terms can be misleading at times. Proof of this is that many investors don't understand that when you invest into a fixed interest unit trust, it is possible to lose some of the initial investment.

So we have decided to categorise investments into terms that we believe are in "Plain English", and give proper reference to the likelihood that you might lose some or all of your investment. An explanation of the three categories are:

Capital Stable Investments

These are investments that you can expect to remain constant in value and pay an income stream (interest). These types of investments would generally only ever increase in value if you reinvested your interest earnings.

Good examples of these investments are:

- Term deposits
- Cash management accounts
- Guaranteed annuities
- Capital guaranteed superannuation or insurance bonds
- Capital guaranteed mortgage trusts

An investor in these products should expect their returns to be somewhere close to the Reserve Bank official interest rate at any point in time.

Managed Financial Strategy would generally recommend these investments for specific short term investment requirements or for clients where capital stability was the primary investment objective.

Defensive Investments

Managed Financial Strategy considers defensive investments as being those that offer our clients a low risk for return profile, with risk being considered as the potential volatility of returns. Investments in this category are not capital guaranteed and can exhibit fluctuations in the capital value of each investment. However, when compared to shares and property, these investments are considered to be relatively stable or conservative investments. Investments in this sector may experience short term negative returns but over periods of 2 years or longer we would expect the chance of negative returns to be quite low.

Most of the return generated by investments in this sector would be expected to come in the form of income rather than capital growth. In saying this, we do expect these investments to exhibit a small level of capital growth over the medium to long term.

Good examples of investments making up this defensive sector are:

- Diversified fixed interest investments
- Enhanced cash investments
- Mortgage trusts (non guaranteed)

Managed Financial Strategy believes the potential aggregate returns on the defensive sector investments within a portfolio to be in the region of 2% to 4% above the Reserve Bank official interest rate over a three year investment time frame.

Growth Investments

Everything else really. This includes all form of share investment, property investment and alternative style investments. Managed Financial Strategy has a well defined investment strategy for each of the key components of this sector – namely Australian shares, international shares, property and alternative investments. Each of these sectors share one thing in common – they are all considered to be growth based investments.

Managed Financial Strategy considers that investments falling into this overall sector as being ones that offer the potential for strong long term returns with an associated level of investment risk.

Individual investments can exhibit a substantial level of volatility and thus a real chance of negative returns in the short term. History tells us that the potential exists for an individual investment to record a negative return for three consecutive years or longer, however it is more common to experience one and two years of negative returns for an individual investment.

Whilst individual investments may well be volatile in their own right, they need to be considered in terms of the overall growth portfolio strategy. Diversification of investments within each asset class and diversification of asset classes is the key strategy to managing the overall risk and return attributes of our clients' growth portfolio.

Managed Financial Strategy adopts a very disciplined investment selection process which aims to select the best of breed in each of the key asset classes. This selection process is designed to not only improve the returns to our clients above the relevant index or benchmark but to also manage the risk of the portfolio. This investment selection process will not mitigate the chance of negative returns altogether but it is certainly designed to reduce the frequency and extent of any negative returns. We aim to deliver real value add to our clients.

Some of our clients will be prepared to accept more investment volatility than others. This is a process of discussion with you and making sure that portfolios are individually appropriate.

Returns generated by investments in this sector would be expected to come from a combination of income and capital growth. For example, an Australian property fund would be expected to return mostly income with a moderate level of capital growth. Whereas an international share fund would typically pay little income and exhibit a high level of capital growth.

Good examples of investments making up this growth sector are:

- Listed property trusts
- Direct property investments
- Australian and international share funds
- Direct shares

Managed Financial Strategy believes the potential aggregate returns on the growth sector investment strategy within a portfolio to be in the region of 4% to 8% above the Reserve Bank official interest rate over rolling five year periods.

Many people assume that growth investments of the same category carry the same degree of risk. This is only true in some cases. For example, shares in large, long established, well-known companies are called 'blue chip' shares. The risk of losing all of money invested in those 'blue chip' shares is considered very small. There is still the risk of those shares dropping in value, however, or not producing dividend income of the amount the investor might want. However, shares in smaller, recently listed companies are likely to have a much higher risk of dropping in value to almost negligible amounts.

Therefore, every growth asset class is comprised of investments carrying differing degrees of risk. The following table provides some examples of this:

Asset Class	Lower Risk Investment	Medium Risk Investment	Higher Risk Investment
Property	Managed fund that invests in a wide range of listed property trusts	Shares in Westfield - a long established listed property trust	Unit in a property syndicate that is building a new shopping centre
Australian Shares	Managed fund that invests in 50 blue chip companies	Shares in the Commonwealth Bank	Shares in a small resources company
International Shares	Managed fund that invests in 80 of the worlds leading companies	Shares in Coca Cola	Managed fund that invests only in South American companies

Bringing it together

From an overall portfolio perspective, we work with our clients to agree upon the appropriate mix of capital stable, defensive and growth style investment sectors. Individual client circumstances and financial requirements are important considerations in this regard. For example more conservative investors will naturally have a greater focus on the defensive investment sector than more aggressive investors.

Please do not hesitate to contact your Managed client adviser for more information regarding investment sector categories.

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