



## Fact Sheet - Investment Performance and Risk

### Investment performance

To achieve higher investment performance one must be prepared to accept higher investment risk. Conversely the lower the risk the lower the returns. It is important to have exposure to a number of investment classes to manage risk and help protect capital against the effects of taxation and inflation and still achieve the outcomes you desire with an acceptable level of certainty.

### Asset allocation

The term “asset allocation” refers to the allocation of your investment assets across the major asset classes:

- Cash
- Fixed interest
- Property
- Shares.

Major long term studies show that your asset allocation decision will determine 60% - 80% of your investment return. The other portion depends upon the specific products you invest in and the talents of the people who are managing your money.

By diversifying your portfolio across the major investment classes, two important benefits are also achieved.

Firstly, overall investment risk is substantially reduced. Spreading your assets not only across the investment classes, but also across investment managers, further reduces this risk.

Secondly, changes in economic conditions and Government policy will impact each investment class differently. These investment classes rarely move together and concentrating

investment in one class can result in considerable volatility in investment return.

By diversifying your portfolio across asset classes and within asset classes, total returns are expected to be more stable and reliable.

### Risk/return trade off

Whilst investment returns can be volatile in the short term, longer term returns tend to be more consistent. The table below shows the long term expected annual return from each asset class net of fund management fees.

Asset Class		% p.a.
Cash	Australian	5.5
Fixed Interest	Australian	6.0
	International	6.0
Property		8.5
Shares	Australian	9.5
	International	9.0

*Source: Lonsec*

### Other risks

There are other risks that an investor faces:

- Mismatch risk: the investment you choose may not be suitable for your needs and objectives.
- Inflation risk: the real purchasing power of your money may not keep pace with inflation.
- Interest rate risk: for investors relying on fixed rate investments, you may have to reinvest maturing money at a significantly lower rate.
- Liquidity risk: you may not be able to access your money quickly or without cost when you need to.

- Credit risk: applies to debt type investments such as fixed interest bonds and other interest bearing investments. The institutions you have invested with may not be able to make the required interest payments or repay you.
- Legislative risk: your investment strategies could be affected by changes in the current laws and regulations.

### Applying investment fundamentals to your situation

This is achieved by combining asset allocation and risk/return trade off into a number of investment categories, which can then be used to apportion the assets to get the result that best suits the investor.

When developing an asset allocation appropriate to an investor's objective, a balance must be struck between investment security and investment return. Over the shorter term, shares, fixed interest and property can be volatile assets with fluctuating value.

The reward for taking on greater volatility is the likelihood of higher returns over the long term. Therefore when targeting higher returns it is important to retain growth investments so the likely returns can be achieved. This will ensure the investments are of greater value in the future.

Over time, the asset allocation will require adjustments to reflect major shifts in investment markets. A review process provides timely and relevant information to ensure the chosen asset allocation remains on target.

Projected real rates of return (before tax and after investment management costs) are shown:

Investor profile	Long term return objective	Minimum investment term
Conservative	CPI + 2% pa	3 years
Moderately Conservative	CPI + 2.5% pa	4 years
Balanced	CPI + 3% pa	5 years
Growth	CPI + 3.5% pa	6 years
High Growth	CPI + 4.2% pa	7 years

Source: van Eyk Investment Outlook Summary May 2009

The strategic asset allocation appropriate to the various investor profiles is as follows:

Source: van Eyk Investment Outlook Summary May 2009

Asset Class	Aust Shares	Int'l Shares	Prop Trusts	Fixed Int	Cash
Cons	13%	8%	5%	50%	24%
Mod Cons	24%	14%	10%	38%	14%
Bal	34%	20%	14%	26%	6%
Grwth	43%	25%	17%	13%	2%
High Grwth	51%	29%	20%	0%	0%



## What are the characteristics of your portfolio?

Historical performance is only useful as a general guide and makes no judgement about the future. However it can be useful to examine the historical risk/return data for the different profiles.

	Conservative	Moderately Conservative	Balanced	Growth	High Growth
<b>Mean historical return</b>	10.99%	11.71%	12.38%	12.94%	13.49%
<b>Worst return over any 12 months</b>	-7.82%	-16.53%	-23.68%	-29.87%	-35.37%
<b>Best return over any 12 months</b>	26.93%	32.51%	37.83%	45.43%	52.41%
<b>Historical incidence of a negative return</b>	1 in 22.4 years	1 in 11.8 years	1 in 8.3 years	1 in 6.1 years	1 in 5.1 years
<b>Probability of a negative return</b>	4.46%	8.48%	12.05%	16.52%	19.64%

*Source: van Eyk Adviser Services*

The above data is provided by van Eyk Research and has been measured over a period from 1971 to 2009. The returns are not associated with any particular investment manager as they are representative of various market benchmarks such as the All Ordinaries index for Australian Shares.

### How to manage your portfolio risk

There are several key concepts in managing investment risks in your portfolio:

#### Take a long term view

Investment markets have life cycles. A period of poor returns can be followed by a period of good returns and vice versa. It is important to look at performance over the longer term to average out shorter term effects.

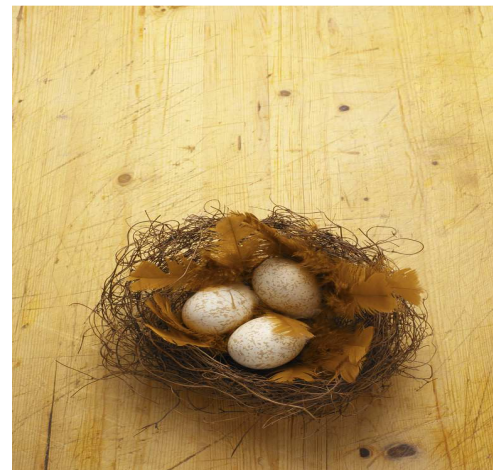
The factors that contribute to short term poor (and indeed negative) performance can be insignificant when viewed over the longer term.

It is important that you consider your portfolio's performance over a time horizon of at least the minimum investment term for your

portfolio (e.g. 4+ years for a Balanced portfolio) and resist the temptation to convert what is a short term appreciation into a real life loss through premature sale of investments.

#### Diversify

Investment markets generally have different characteristics in terms of returns offered and risks involved.



The rationale for investing in more than one market is that the risk of a poor return is minimised because all your investments are not in the same market i.e. all your eggs are not in one basket. This is known as diversification of asset class.

Another diversification strategy is to select investment managers who have different approaches (styles) to their investment decisions. This provides added protection because your whole asset class will not suffer if that particular style proves less effective. This is known as diversification of manager style.

### **Employ experienced investment managers**

The do it yourself approach can be flawed without the knowledge or the time to make profitable investment decisions. But how do you know who to entrust your money to? Those who deliver an above benchmark return this year may not do so next year. Those who are talented in investing in the property market may not shine so much in the international equities sector. The key is to know the personalities investing your money and make an informed choice.

The key to managing the volatility in your portfolio's return is to first understand it. The above information should help you with the key investment concepts.



### **Disclaimer**

This Fact Sheet has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in this document is General Advice and does not take into account any person's investment objectives, financial situation and particular needs.

Before making any investment decision based on this advice, you should consider, with or without the assistance of a financial adviser, whether it is appropriate to your particular investment needs, objectives and financial circumstances



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