BANKS GROUP

FIVE TIPS FOR INVESTING

With a greater understanding of financial markets and proven strategies, comes greater control and ultimately, opportunities for greater wealth.

Whilst many think the share market is riddled with uncertainty, volatility and significant risk, there are some tried and true strategies that can bolster an investors chances of sustainable wealth growth.

With the combination of investment know-how, experience and remaining focused on the long-term objectives, investors may see more clearly the opportunities when they appear, and keep their emotions in check during volatile market conditions. (See our Share Market Volatility fact sheet for more information)

There is plenty to understand when it comes to sustainable investing. See over the page for our top 5 tips.

1. Diversify your portfolio

You can't control the markets, but you can control what and where you invest.

Through diversification you can spread your holdings so that they don't always move in the same way at the same time. When some fall in value, others may rise, potentially creating a smoother portfolio performance.

There are a number of different ways you can diversify your portfolio.

- **asset classes** — the main ones being cash, fixed interest, property, and shares.
- **market sectors** — purchasing shares across different industries (e.g. materials, financials, information technology, health care).
- **fund managers** — have different investment approaches that can produce different results over a variety of market conditions.
- **geography** — by investing in different countries or in multinational corporations, you can smooth out the effects of patchy economic conditions.

You don't need to try to pick winners. Diversification helps take the guesswork out of which investments are going to perform well.

2. From Little things, big things grow

Earn returns on returns

By reinvesting your investment earnings, you get interest on interest, magnifying your returns over time — the so-called "miracle of compounding".

The longer you do this, the bigger the exponential growth in your returns.

Dollar cost averaging

One thing is certain about share markets: the price of shares go up and down.

'Dollar cost averaging' (also known as the 'constant dollar plan') is an investment strategy that helps reduce the long-term impact of market volatility.

Investing regular dollar amounts at consistent intervals – regardless of the share or investment fund unit price, will result in more units being purchased when prices are low, and less units when prices are high.

Not only does this strategy smooth out price fluctuations, it also removes the risk of you making one poorly timed lump-sum investment. Take a look at the impact of compound interest and dollar cost averaging in the table below.

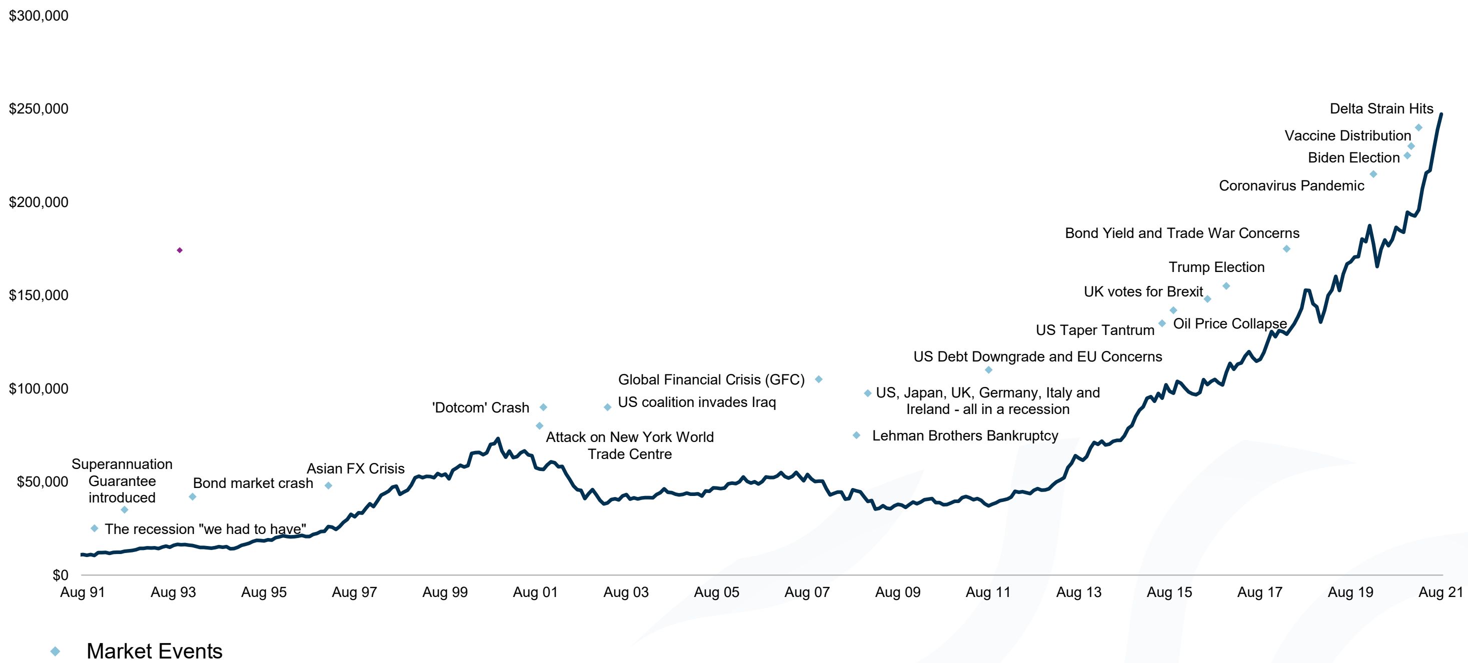
	Initial investment	Monthly extra investment	Total extra investment	Average annual return	Value after 10 years
Janet	$10,000	$0	$0	8% pa	$21,589
Peter	$10,000	$100*	$12,000	8% pa	$36,589
Lynne	$10,000	$200*	$24,000	8% pa	$58,187

*Assuming the contribution is made at the start of each month. This calculation is based on this basic information only and does not take into account fluctuating returns and real market conditions. It disregards tax implications and is designed to illustrate the power of compounding and dollar cost averaging.

3. Stay Invested for the long-term

Markets move in cycles, influenced by things like trade relations, commodity prices, interest rates and investor sentiment. As the graph below shows, each downturn in the Australian share market between August 1991 and August 2021 was followed by a recovery (some taking longer than others).

It shows, that investors who stay the course and remain invested, benefit from the markets' long-term upward trend.



ASX / S&P500 All Ordinaries Accumulation Index.
Source: Information current as at 3 September 2021. © Westpac Financial Services Limited 2021.

Think in years, not days

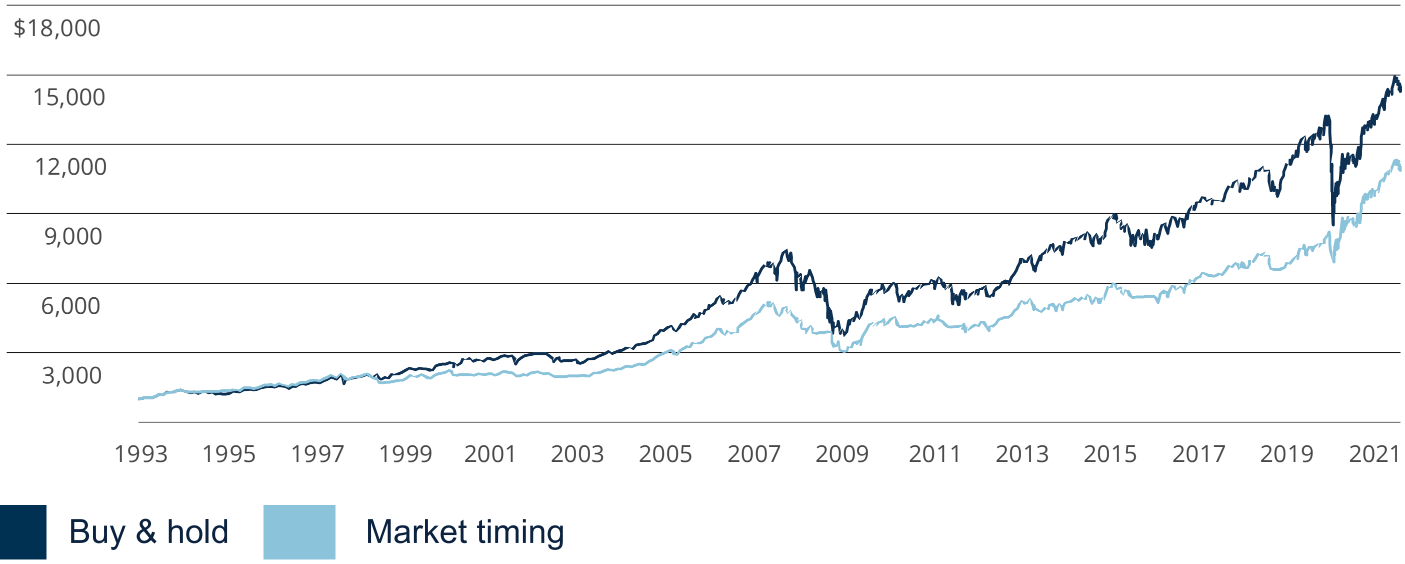
Trying to time the market is a risky business, as it's impossible to predict the best day to buy or sell.

Missing just a handful of days where there were good market gains, can significantly reduce the long-term value of your investment.

Take a look the graph on page 4. Based on the performance of the S&P500 Accumulation Index from 1 January 2000 to 24 November 2020, a notional $100 investment would have provided a 270.9% return if the investment was purchased and held for the period. In comparison to a 69.9% return (a 201% difference!), had the investment not been held for the 10 best days.

Nobody could predict when the best days were going to occur, so the only way you could take advantage of them, was to be invested in the market for the full period.

Market timing doesn't pay: Growth of $1,000 using a 10% sell and 10% buy



Source: Vanguard Calulations using data from Factsheet.

4. Look before you leap

Before you make an investment, it's important for you to understand the risk–return trade-off.

Similarly, before you withdraw from an investment, you need to know what the implications and costs will be. Here are three major things you should consider before withdrawing from a fund or other investment:

Crystallising your losses

Knee-jerk selling in response to market movements can create problems. If the value of your investment falls but you don't sell, you've made a loss — but only on paper. If the market rebounds, your investment could return to positive territory — without you doing a thing. However, by selling your investment in a falling market you'll make your losses real and irreversible.

Paying capital gains tax

Before selling an investment, make sure you know what your capital gains tax (CGT) liability will be. Large crystalised gains may result in large tax implications.

Loss of future earnings

If you're thinking about making a partial withdrawal from a fund, remember you'll lose the earnings from the compound growth of that withdrawal. In other words, if you withdraw the money, you can't earn dividends on the funds not invested.

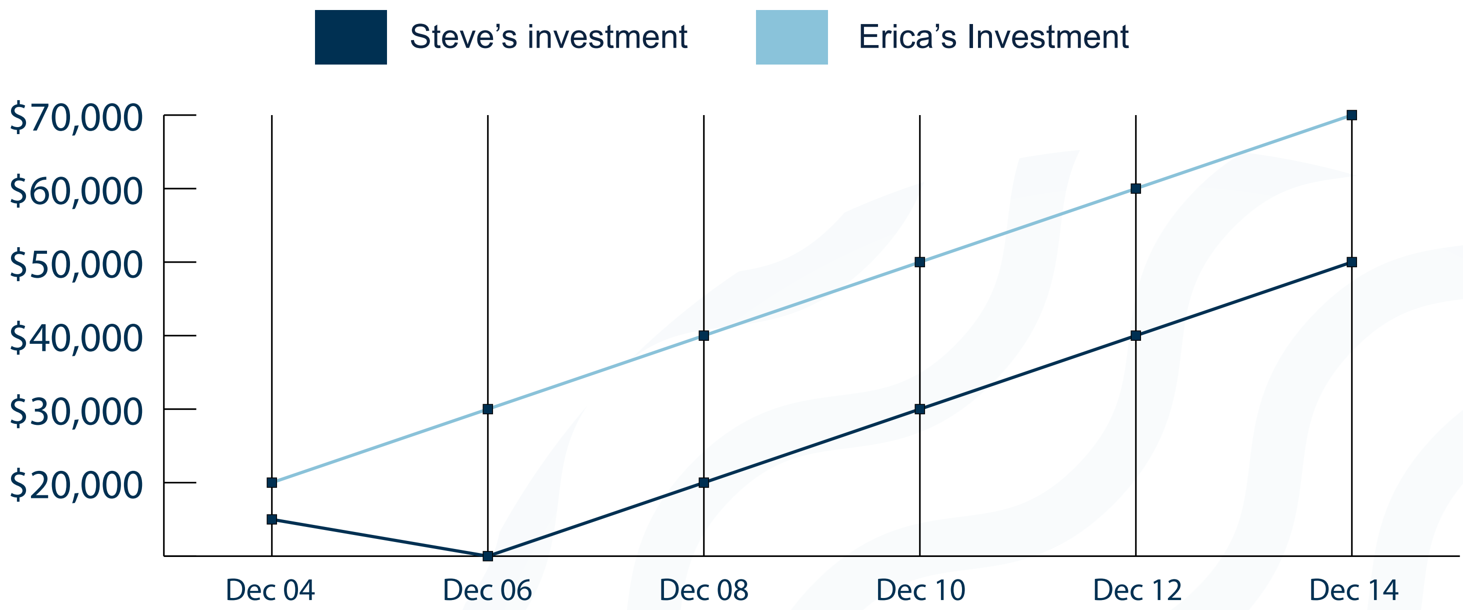
Take a look at the example on page 5 that shows the impact of a partial withdrawal.

Example:

Erica and Steve each invested $30,000 in the same managed fund for 10 years. The fund returned an average of 8% p.a.

Steve withdrew $5,000 from his fund for an overseas trip. While Steve enjoyed his holiday, the withdrawal reduced his long term return.

As you can see in the graph below, Erica's $30,000 grew to $64,768, while Steve's $25,000 grew to $53,973 — $10,795 less than Erica's.



This illustration does not take into account tax implications.

5. Get expert advice

The best piece of advice you can get is often 'get some professional advice'.

Engaging a Adviser to tailor a financial plan specific to your personal financial circumstances and what may be possible, may bring financial benefits that far outweigh expectations.

From providing strategic financial advice through to being the calm professional voice during bouts of volatility, we can help you filter out the 'noise' and ensure you continue to make sound investment decisions.

Contact us to schedule a complimentary consultation at info@banksgroup.com.au or +61 3 9810 0700.

Afterall, you don't need to be wealthy to invest, you need to invest to be wealthy.

Complete financial care is a phone call away.

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