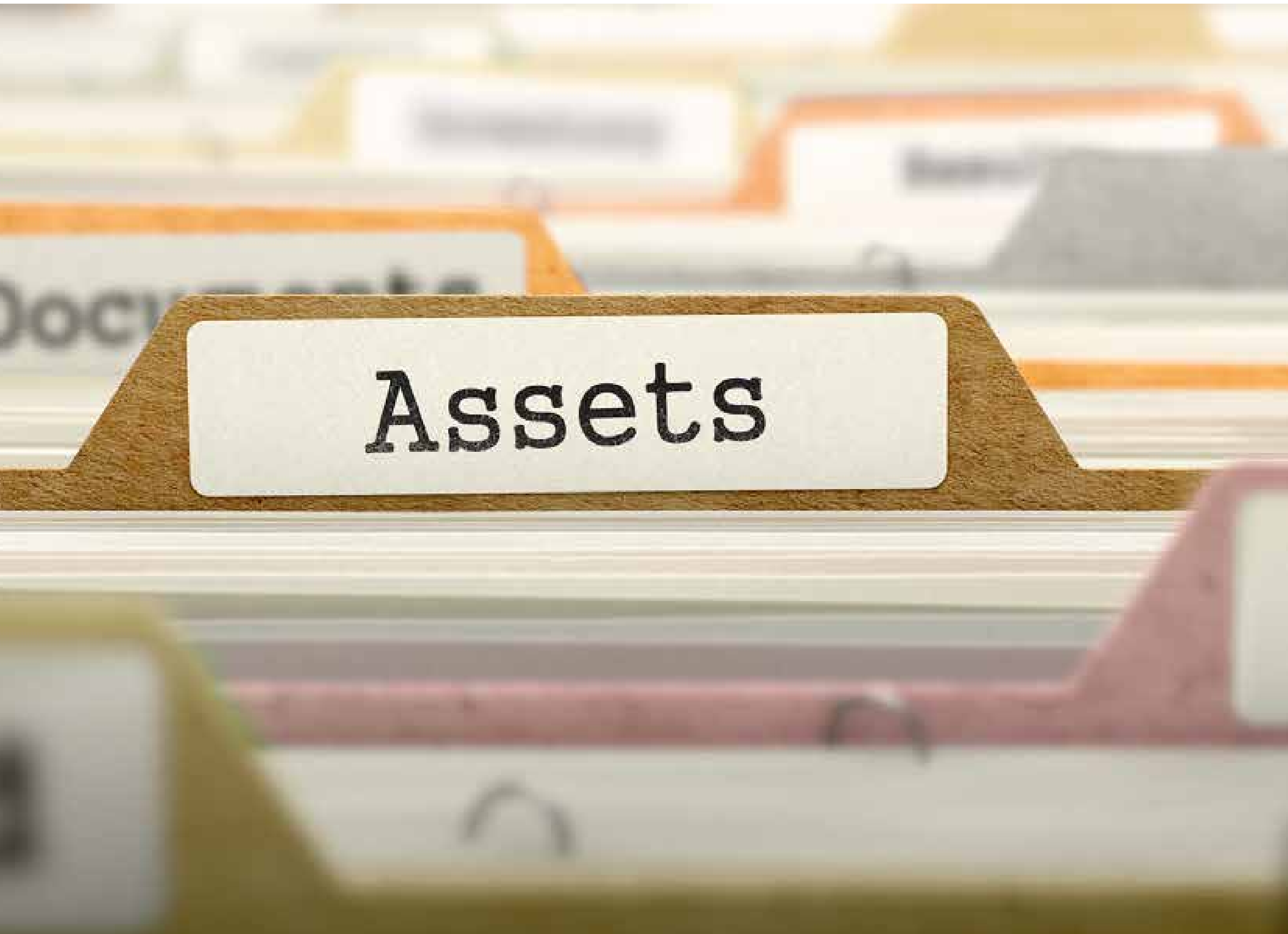
Understanding Key Asset Classes

Investors have different investment needs, and the mix of assets they hold in their portfolio will be one of their key determinants in delivering to that need.



1. Shares

Shares represent part ownership in a company and usually provide income payments through dividends and can produce growth if the share price increases. For Australian companies, these dividends can be franked, which means that you receive a tax credit for the tax already paid by the company so that you are not taxed twice (once at the company tax rate and again at your marginal tax rate).

If your tax rate is less than the company tax rate (currently a maximum of 30%) you will receive a refund for the extra tax paid by the company. If your tax rate is higher you may need to pay some extra tax. If the shares are held via super where the maximum tax is 15%, then the super fund will receive the refund (which in turn may be passed on to you if you are in pension phase).

2. Cash

Cash is one of the safest investments. Cash compared to other assets tends to provide lower variability in returns, high level of security on the capital invested and acts as a more defensive investment. This reduces investment risk so the money is available when you need it, with a minimal potential for capital loss.

3. Property

An investment in property provides you with ownership in a property or a number of properties through a managed structure. Property investments allow you to benefit from the rent received by the properties as well as the change in the valuation of the property over time. The returns of these properties will depend on the quality of the tenant and the rent paid as well as the location and type of property such as residential, industrial or commercial.

4. Fixed Interest

A bond is a tradeable debt security, usually issued by a government, semi-government or corporate body to raise money. Investors in the bond have effectively lent money, for which they receive a fixed rate of interest over a set period of time. The bond is repaid with interest on the predetermined maturity date. It is possible to experience capital losses from a bond investment if it is cashed before maturity and interest rates have risen or capital gains if the reverse occurs. This is because bonds are tradeable securities and are priced on financial exchanges….unlike term deposits. They are not as safe as cash so the investor would expect to be compensated for this with higher returns.

5. Alternatives

An alternative asset class is normally considered to be alternative if it has a couple of the following characteristics: its investment performance has little if any correlation with other more traditional asset classes such as shares, may predominantly use derivatives, seek an absolute return, may be less transparent, less liquid, and may charge performance fees. Examples include commodities, private equity, hedge funds and venture capital. The risk and return profile will vary across different alternative assets.

6. Infrastructure

Infrastructure assets can offer investors stable inflation linked cash flows and capital growth potential. These assets represent the opportunity to access the utilities and facilities that provides essential services for economic growth.

Looking for Financial Advice?

In an ever increasingly complex financial and legislative world, our mission is to provide you with clear, concise and tailored strategic advice.

We pride ourselves on working in the very best interest of our clients by tailoring solutions to meet their needs. We provide high quality investment and financial planning advice, driven by strategy – not product – at a reasonable cost.

t 02 9328 3322
f 02 9328 3323
e team@lfma.com.au
w www.logicalfinancial.com.au

Suite 21, Level 2, 8 Hill Street,
Surry Hills NSW 2010
PO Box 103
DARLINGHURST NSW 1300

Get in touch