Fact Sheet - Direct Investment

This document provides some additional information to help you understand financial planning concepts in relation to **direct investment.**

For more information, please contact the DPM Private Wealth team on (03) 9621 7000 or email info@dpmfs.com.au.

Types of Direct Investment

- **Shares** represent partial ownership of a company and are a longer-term investment. Owning shares may entitle you to receive regular income (dividends) paid to you by the company as well as capital growth opportunities. Australian shares can provide tax effective income in the form of franked dividends. While investing in international shares can enable you to diversify your share market exposure across a broader range of countries and into companies and industries that do not exist in the Australian share market.
- **Exchange Traded Index Funds (ETF's)** are like managed index funds, as they contain a diversified portfolio of shares designed to track specific indices. They offer efficient low cost diversification combined with flexibility and liquidity. Gaining exposure to international shares can be achieved by purchasing Exchange Traded Index Funds (ETF's) listed on the Australian Stock Exchange.
- **Term Deposits** involve an investor agreeing to lend money to the provider for a fixed term, in return for payment of income during the term of the investment. At the end of the fixed term, the amount invested is refunded, or may be reinvested for another fixed term. You do not have the ability for capital growth with this investment but are protected against the risk of capital loss.

Fees and Costs

- Direct investments do not incur as many fees as managed funds. Managed funds fees include Management Expense Ratio (MER), buy/sell spreads, internal portfolio transaction costs and performance fees.
- Direct shares have fewer layers of fees in comparison to other financial products. Each time a parcel of shares is bought or sold a transaction fee called brokerage is applied.
- Of the remaining internal product fees there is usually no ongoing MER, performance fee or platform fee. There is also a buy/sell spread that is usually the difference in the share price on the Australian Securities Exchange (ASX) for buying or selling shares. With electronically traded and highly liquid blue chip shares, this buy/sell spread is often very low - sometimes only 1 cent per share. However, fees are only one point of difference between direct shares and managed funds.

Transparency, Liquidity, and Portfolio Valuations:

- Both during and after the global financial crisis many investors were extremely concerned about where their investment funds were placed. A direct share portfolio is transparent and all holdings can be viewed live via most platform or stockbroker websites.
- While managed funds can be redeemed or purchased at any time, it is usually at least a 24-48 hours from receipt of the instructions and can be up to 10 working days. The unit holder is usually required to sign and fill out a redemption or purchase form, which is then placed by their adviser. A direct share portfolio within a platform can usually be bought or sold at any time during ASX trading hours (subject to timing rules of the platform) and share prices are valued daily.
- Fund managers are usually making many buy and sell decisions each year. This activity generates transaction costs (share brokerage) and capital gains or loss events. The client and/or their adviser are generally unable to have any input into these transactions.

- A direct share portfolio's level of buy/sell activity can be controlled by the adviser and client, hence the amount of transaction costs and capital gains tax events can also be controlled, usually to maximise the benefit to the client. (This does not apply to Pensions as they are exempt from tax).

What is a Capital Gain & Loss?

- A **capital gain** represents the growth in the capital value of an asset. The gross capital gain is obtained by subtracting the asset cost (including any purchase and sale expenses) from the sale price.
- A **capital loss** can also incur when the total cost base exceeds the price you sell the capital good for. This will not result in any tax payable but instead you can use the capital loss to offset other capital gains made.

What is Capital Gains Tax?

Capital gains tax may be payable when selling an investment.

- For individuals, capital gains tax only applies to assets purchased on or after **20 September 1985**. Capital gains are generally taxable as income at the owner's marginal tax rate. The taxable amount of the capital gain may be reduced by any unused capital losses.
- An individual may receive a 50% reduction in the value of the gross capital gain before tax is applied if they have owned the asset for greater than 12 months.

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