Wealth Accumulation (Non-Superannuation)

This document provides some additional information to help you understand financial planning concepts in relation to wealth accumulation (non-superannuation).

Cash management trust

Cash management trusts invest in highly liquid secure investments, such as short-term securities issued by the Australian Government, banks and corporate borrowers. They are generally able to offer a higher level of interest than a traditional bank account. Investors are generally provided with deposit and cheque book facilities, optional telephone withdrawal and internet facilities, plus overnight access to their funds. In most cases these types of accounts do not incur entry and exit fees.

Factors to be aware of:

- Account management and other fees may be charged.
- You may have to keep a minimum balance in the account.

Term deposits

A term deposit is a secure, fixed rate investment for a fixed term. Term deposits are popular for investors that want to have certainty of a known interest rate and return. Investors may be able to withdraw funds before maturity although a penalty may be charged. Interest may be paid at maturity or either monthly, quarterly or annually. At the maturity of the investment term, interest can be paid into a nominated financial institution account, or added to the principal and reinvested for another term.

Factors to be aware of:

- Loss of immediate access to your funds.
- You must give 30 days notice if you wish to withdraw the funds before the end of the agreed term. There may be a penalty applied by the provider if the investment is withdrawn before the end of the agreed term.

Australian shares

Australian shares represent a part ownership in an Australian company. Australian shares can offer sound long-term value in the form of capital growth, income, and tax benefits through the dividend imputation system. The dividend imputation system generally allows an investor to receive a tax credit for any tax that the company has already paid on the income distributed to them.

Although Australian shares can be expected to outperform many other investment classes over the long-term, due to share market volatility share investments are likely to fluctuate in value across all time periods, particularly in the short to medium term.

Factors to be aware of:

- Investing in a single share, or a very small number of individual shares, is more likely to expose you to greater fluctuation in the value of your investment than investing across a range of shares. It is possible to further reduce fluctuations by investing across different sectors in the economy.
- Small companies are generally considered higher risk investments.
- Share prices can rise and fall suddenly in response to many factors including company profits, market sentiment, industry issues and economic trends. For this reason Australian shares should be viewed as a long-term (5-year plus) investment as they can experience significant levels of short to medium term volatility.

If your long-term investment strategy includes this asset class, it is important to resist selling your shares in response to short term market movements. If you do not resist, you may sell them for less than you could by adhering to your long-term strategy.

Direct property

Buying a residential or commercial property to rent out is a way of investing directly in property. Property investors have personal control and management over their investment. Capital appreciation over the longer term is likely to keep pace with or exceed the rate of inflation, depending on the location and physical condition of the property. Tax deductible expenses may include depreciation, maintenance, insurance and financing costs. Furthermore, the equity in a property may be used to leverage other investments.

Factors to be aware of:

- Large amounts of capital are required to purchase a direct property.
- There are significant establishment costs (mainly stamp duty) and ongoing costs (mainly rates, insurance and repairs and maintenance) associated with a property.
- Direct property assets can be illiquid, resulting in the inability to draw down a portion of your capital in the future.
- You risk being heavily reliant on the income stream from a single investment sector.
- You risk losing income whilst the property is untenanted.

As a significant amount of capital is required to purchase a direct property, your portfolio may lack diversification.

Managed funds

Managed funds enable investors to pool their money with other investors. An investment manager, who has extensive research facilities and experience then buys and sells assets on behalf of all investors in the fund. Managed funds generally provide a combination of income (including Realised Capital Gains), and the potential for capital growth over the medium to long-term. Generally, income distributions can be either be reinvested, or paid to a nominated bank account.

Advantages of managed funds

Some of the advantages of managed fund investments include:

- Diversification - the large pool of funds available enables fund managers to diversify the spread of investments across all asset classes as well as providing access to investments which may not be readily available to individual investors, such as large retail property complexes and shares.
- Professional management and expertise - fund managers have the expertise to monitor and research investment opportunities, and apply their investment experience in managing investment portfolios across all asset classes.
- Economies of scale - investors in managed funds can access economies of scale in areas such as volume discounts on brokerage and other fees.
- Liquidity - investors in managed funds can usually access their funds within 5-30 days (excluding superannuation investments), and are usually able to access a part of their funds without needing to cash in the whole investment.
- Regular reporting and information - managed funds can take care of the administrative hassles and expenses, which would normally accompany direct ownership of investments. Fund managers also provide regular information to investors regarding investment performance and year-end tax summaries.
- Tax advantages – income distributions may be tax advantaged through imputation credits for investments with underlying Australian share assets.

Factors to be aware of:

- The capital value of managed funds may fluctuate, particularly in the short-term.
- Capital Gains Tax may be payable on any growth in the value of your investments when you eventually redeem or sell them.
- Income distributions are not guaranteed and may fluctuate over time.
- Re-invested income will still form part of assessable income for tax purposes.
- You will pay internal management fees to invest into managed funds.
- Loss of immediate access to your funds.

Index funds

Index funds are similar to managed funds except they mirror the market you are investing into. They are essentially performing an administration role for you and not attempting to outperform what the market does. The advantages of this option is that you have a wide spread of investments and the ongoing costs are lower than managed funds. Some would argue the disadvantage of this option is there is no pro-active management. However, it has been shown that active management of a portfolio has not been able to outperform the market in the long term.

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