

Shares or managed funds



We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular financial advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.

Many people have difficulty deciding whether to invest in shares or managed funds. Some typical issues include: 'What's the difference between shares and managed funds?' and 'What type of investment will suit me?'

The basic difference

Shares are a form of 'direct' investment – you invest directly in a company by buying shares and then, in effect, become a part owner of that company.

Managed funds, on the other hand, are 'indirect' investments. You invest in a managed fund, and that managed fund invests in underlying assets (which may or may not include shares).

Shares

When we use the term shares, we're generally referring to what are called 'listed shares' (that is they're listed on the stock exchange). Companies with listed shares are called 'public' because the general public can invest in the company and become shareholders.

Trading in shares

You buy and sell shares on the Australian Stock Exchange (or an overseas exchange) via a share broker. Because shares are traded on the market, they are easier to convert into cash than many other investments, which means they are more 'liquid'. In fact, if you need to sell your shares you can usually do so immediately, within the stock exchange's hours of operation. The funds are then released to you within three business days.

Costs

When you trade shares you will need to either pay a flat fee or a percentage of the sale/purchase (around 0.5-2.5%) to your stockbroker (minimum fee usually around \$30-\$50). Many stockbrokers also offer share advice, often called 'full service' brokers. Naturally their fees are higher than brokers who simply offer buying and selling services, often called 'execution only' brokers. In addition, you may be required to pay capital gains tax when you sell your shares.

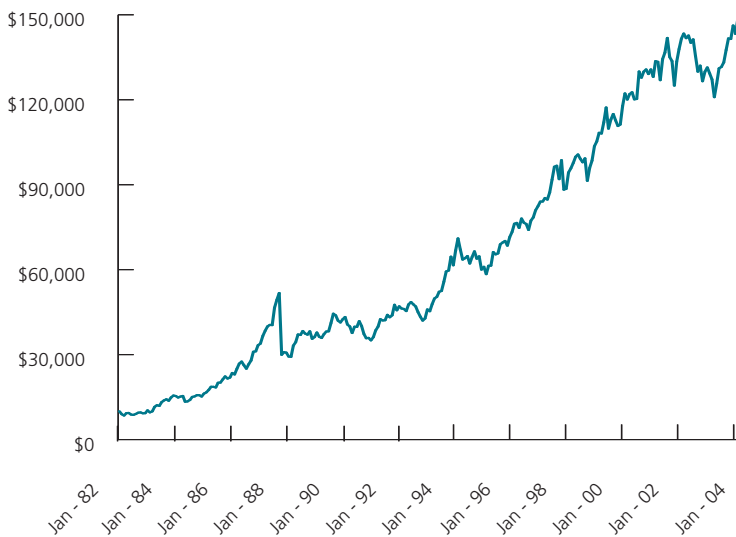
Return on investment

Shares offer two opportunities for a return on investment – an increase in the value of the shares (a capital gain, resulting in a profit when the shares are sold) and income through dividends (a portion of company profits). However, it's also possible the shares will fall in value and/or produce small dividends.

Choosing shares

When choosing shares, it's important to think long term. As the graph over the page shows, historically, over the long term, returns from the share market have been strong, despite short-term fluctuations such as the crash in 1987. For example, investors who stayed in the market from January 1983 to December 2003 would have made a return of 16% per annum.

Growth of a \$10,000 Investment (based on All Ordinaries)



Managed funds

Managed funds pool the money of a group of investors and use it to purchase assets (which can be anything from shares to commercial property) on their behalf.

The investors then share in any rise or fall of the assets and any income earned by the fund. Professional fund managers buy, sell and monitor the investments of the fund on behalf of investors.

Investing in a managed fund

You can invest in a specific managed fund directly through the fund manager, or you can invest in a managed fund via another investment vehicle such as a master trust.

You can redeem your managed funds by placing a 'sell order'. The sale usually takes 3-5 business days.

Note: Advice contained in this flyer is general in nature, and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified adviser.

Costs

Fund managers charge a fee for their services. This fee usually includes an entry fee of 0-4% and an ongoing management fee of 0.3-2%. When selling managed funds, you may also need to pay capital gains tax.

Return on investment

Like shares, the return on investment is measured in terms of capital gain (the value of one unit of the managed fund) and income that's produced by the fund (usually distributed twice yearly).

Shares or managed funds?

Whether you invest directly in shares or indirectly via managed funds will depend on your personal situation and the level of control and involvement you want in your investments.

If you want to handpick five or six specific companies, then investing directly in shares may suit you. However, make sure you diversify your investments across asset classes (i.e. don't just invest in shares – also invest in property, cash, fixed interest, etc.) and across industries (i.e. don't just invest in mining, or banking).

Managed funds, on the other hand, are a good way to diversify without having to get too involved or spend lots of time managing your investments. You may invest in one or two managed funds, but as a result you're actually exposed to a number of Australian shares, international shares, different properties and fixed interest.

With managed funds you also have choice. In fact, the Morningstar database shows around 7,000 active managed funds!

Shares and managed funds

For many investors a combination of shares and managed funds will help to create a diversified, strong investment portfolio. For example, you may like to handpick a few companies to buy shares in, and also select a couple of managed funds (including ones that invest in other asset classes such as property). This type of investment strategy will help diversify your investment portfolio.

What should you do next?

For more information about shares and managed funds or to arrange a no-cost, no-obligation first consultation, please contact:

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