



Investing made easy

A guide to making the most of managed funds

 **BT** Financial Group

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About BT Financial Group

BT Financial Group (BT) has been helping Australians create and manage wealth since 1969 and today is one of Australia's strongest wealth managers with more than \$95 billion in total investments. Our core business is providing investment, superannuation and retirement income products, investment administration services, financial advice and insurance solutions through a range of leading brands.

In Australia and New Zealand, BT provides a diverse range of investment choices, including multi-manager investments through relationships with some of the world's leading global and local investment managers, as well as funds managed by BT Investment Management.

BT Financial Group is the wealth management arm of the Westpac Group. Westpac has been delivering banking and other financial services to Australians since 1817.

BT an award winning fund manager



BT Investment Management (BTIM) was named Best Fund Manager by Money magazine in its 'Best of the Best' awards 2009. Dirk Morris, CEO of BTIM, said, "These awards cap off a good year for BTIM in terms of the relative performance of our funds and the recognition we have received from industry bodies." This is BTIM's third prestigious overall Fund Manager of the Year award in 2008 and adds to the Smart Investor and Standard and Poor's Fund Manager of the Year accolades. BTIM's Australian equity large cap, property and ethical funds have also received other individual awards throughout the year.

It is important to get advice

If you are wondering what is best for your particular financial situation, you should talk to a qualified and experienced adviser. To find out more visit www.bt.com.au/investors.

→ Investing is easy

The first investment decision is usually the hardest, but it is also the simplest — deciding to start. Once you have made this decision, you may find that the path to choosing the right investment to suit your budget, lifestyle and goals isn't as difficult as you thought.

The aim of this brochure is to tell you about a type of investment many people have found very successful — managed funds — and to offer you some tips for better investing as well as pointing out some of the investment traps for the unwary.

Managed funds are popular with people looking for long term performance and returns (in terms of income and growth) than those available from traditional term deposits and bank savings accounts. Through BT, they are available to investors who have as little as \$2,000 to invest.

Getting started

Getting started in a managed fund is easy — and you don't need to have a large sum of money. Essentially there are two ways you can invest in a managed fund:

- you can invest a lump sum and leave it to grow, adding amounts whenever you are able to invest
- you can invest a lump sum and then commence a regular investment plan, adding as little as \$100 a month.

Tips for better investing

Investing may be easy but successful investing generally takes a bit of time and effort to learn the ground rules and gain experience in the various investment markets. The best tip we can give you is to consult a financial adviser. This brochure includes more tips to help you become a better investor, including:

- identify your investment goal
- give yourself a timeframe for each investment goal
- understand how you feel about investment risk
- be patient
- seek out expert help.

→ Managed funds — the facts

Managed funds, also known as managed investments or unit trusts, are investment vehicles that enable you to pool your money with that of many other investors so that you can buy a wide range of assets managed by a professional team.

What does my money buy?

When you invest in a managed fund your money buys 'units' in the fund at a price calculated on that day. These units give you an exposure to all the share, property, fixed interest and cash investments that the fund has invested in, as well as any income from them. The price represents the value of the underlying investments on that day. Over the period in which you invest, the unit price will move up and down as the value of the investments within the managed fund rise and fall.

How does my investment grow?

There are two general components of investment returns from managed funds — growth and distributions.

Growth occurs when the value of the underlying investments in the fund grows over the period of your investment. As mentioned above, the unit price of the fund will rise and fall according to the value of the underlying investments.

You will only realise unit price growth when you sell the units for more than you bought them.

Shares and property are often referred to as 'growth assets' because they tend to provide higher unit price growth than other asset classes.

Distributions are the payments you may receive after the end of a distribution period (usually on a quarterly basis). These distributions are generally made up of one or more of the following:

→ Profits from the sale of assets

Profits arise when a managed fund's assets (such as shares) appreciate in value and are sold as the fund manager believes they have reached their potential. When a profit is made from the sale of an asset, it is known as a 'realised gain' or 'capital gain'. As such, you must pay tax on the portion of your distribution that relates to the realised gain. You may be able to use any realised losses on investments to offset these capital gains. Your annual tax statement from your managed fund will advise you of how much of your distribution relates to capital gains and/or losses.

→ Income

When a fund receives interest from cash or bonds, dividends on shares, or rent from properties, this income is distributed to you. This income portion of your distribution attracts income tax at your marginal rate at the end of the financial year. Your annual tax statement will advise you of your entitlement to any foreign tax credits and franking credits distributed by the funds.

→ Currency

If a managed fund holds overseas assets (shares, bonds or property), it will be affected by currency movements, particularly in relation to the Australian dollar. If the managed fund uses currency hedging, the gains from this hedging are treated in a similar manner to gains made on the sale of an asset (capital gains) and form part of your distribution.

Some people rely on the income they receive from distributions to meet ongoing cash flow requirements, while others choose to reinvest their distributions. BT's managed funds offer both of these options for investors.

How is performance measured?

You will also often hear a fund's performance measured against what is called its 'benchmark' index. An index measures the change in value of a particular group of investments over time. For example, if you own shares and follow the sharemarket's movements, you may have heard of the S&P/ASX 300 Accumulation Index. This index measures the total return of the share price movements and dividends (assuming that dividends are re-invested) for the Australian sharemarket's largest 300 companies.

The benchmark simply refers to the particular index against which the investment manager has chosen to measure a fund's performance. In short, comparing funds against their benchmarks gives you the opportunity to judge how well the investment manager is meeting performance targets. Investment management companies typically set out the benchmarks applicable to individual funds in Product Disclosure Statements or other offer documents.

→ **Different types of managed funds**

As managed funds have become more popular among Australian investors, investment management companies have developed an increasingly wide array of managed fund solutions — each with its own characteristics.

Share funds

Share funds use the expertise of a team of investment professionals to manage a portfolio of shares. These managers aim to produce a return from a combination of capital growth (from rising share prices) and from income (typically from dividends). There are three broad categories of share funds — Australian shares, international shares and regional shares.

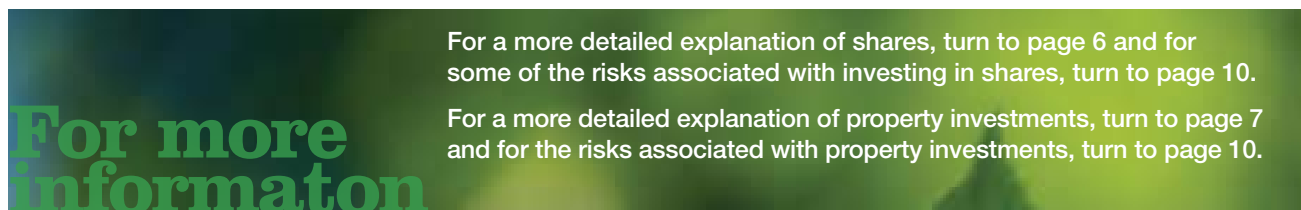
Property funds

Property funds typically invest in property trusts listed on the Australian Stock Exchange, although some include unlisted property and international property investments in their portfolio. Listed property trusts invest in a range of properties — from factories to shopping centres, office blocks and apartments. Investment managers specialising in property aim to produce a return from a combination of capital growth (from the rising value of properties) and from income (typically from rent).

Diversified funds

Diversified funds invest in a number of different types of assets — typically shares, bonds, property and cash — although some now invest a portion in alternative investments turn to page 9 for more information. By investing across asset classes, these funds offer diversification benefits — reducing the risks associated with investing.

There is more than one type of diversified fund. Typically, investment managers offer the choice between growth funds (which invest mainly in shares), income funds (which invest mainly in bonds and cash) and balanced funds (as their name implies, a balance between investment types). Balanced funds are generally about 60–70% invested in shares. While returns may not be as high as those that can be achieved in a pure share fund, they may be more consistent.



For more information

For a more detailed explanation of shares, turn to page 6 and for some of the risks associated with investing in shares, turn to page 10.

For a more detailed explanation of property investments, turn to page 7 and for the risks associated with property investments, turn to page 10.

**Multi-manager funds**

Multi-manager funds use a specially selected combination of investment managers to invest in a range of assets. Since these investment management companies operate under different investment styles and processes, these funds offer an extra layer of diversification to your portfolio.

Wrap accounts

A wrap or master trust service is a system of managing your investments. As the name suggests, this online service ‘wraps’ your portfolio of shares, managed funds, margin loans and other investments into one account. These services typically offer a wide range of investment funds from a number of different investment management companies and provide a set of consolidated reports on these investments for administrative ease and tax reporting purposes. For more information contact your financial adviser.

What about borrowing to invest?

Think about borrowing money to invest and most people generally think about home loans and mortgages. The same principle – often called margin lending, leveraging or gearing – can also be applied to shares and managed funds.

Gearing is simply borrowing money to invest in shares or managed funds using existing cash, shares or managed funds as security. As with investment property, you may be able to claim your interest payments as a tax deduction. While gearing may increase your returns when shares or managed funds perform well, it will also magnify your losses should the shares or managed fund fall in price.

→ Types of investments

Managed funds typically invest in one or more investment types (often called 'asset classes'). The major investment types are shares, property, bonds, cash and, increasingly, alternative investments.

Shares

Shares, also known as equities, represent ownership of part of a company.

When you buy a share in a company, you become a joint owner of the business and share in the future of that business. Shares have historically provided the potential for the highest return of all the investment types over the long term. They are what is known as a 'growth asset'.

Shares can provide regular income through the payment of dividends. However, the potential for higher returns comes from capital growth through a rise in the share price.

How? When a company makes a profit they have a choice of what to do with the funds. They could pay 100% of the profit to the shareholders as a dividend payment, or they could reinvest the profit back into the company — to finance expansion. This ability to reinvest in the company to foster greater growth and future profit can result in higher share prices — the benefit of which is passed on to shareholders.

The benefit of dividend imputation

Investing in Australian shares can provide yet another benefit in the form of dividend imputation. Dividend imputation means that if a company has paid tax on its profits and distributes these profits to shareholders as franked dividends, the shareholders who are Australian residents for tax purposes, get a credit against their tax equal to the amount of tax already paid by the company. The same rules apply if you invest in Australian shares through a managed fund. This means that an Australian share fund can provide a tax-efficient income stream as well as capital growth over time. An example of the benefit of dividend imputation is shown below. Of course, in comparing an investment in shares with a term deposit product, you need to remember that shares are a much riskier asset class.

	Shares	Term deposit
Initial investment	\$10,000	\$10,000
Dividend income return of 5% fully franked ¹	\$500	—
Interest return of 5%	—	\$500
Plus imputation tax credit ²	\$214	—
Taxable income	\$714	\$500
Tax due at 46.5% ³	\$332	\$232
Less imputation tax credit	\$214	—
Tax payable	\$118	\$232
After tax income	\$382	\$268

**For more
information**

The risks associated with different asset classes are discussed in detail on page 10.

Assumptions:

1_ Not all dividends are fully franked.

2_ Corporate tax rate of 30% pa.

3_ Highest marginal tax rate of 45% pa plus Medicare Levy of 1.5%. The taxation position described in this section is a general statement only and is based on continuance of present tax laws and our

interpretation of those laws. Your individual situation may differ and you should seek professional advice. This table is for educational purposes only. It is not representative of any particular investment product or investment strategy. No allowance has been made for inflation, fees or expenses.



Property

While most of us automatically think of our home when we think of property, in a managed fund the term 'property' generally refers to investments in property securities — property trusts listed on the stock exchange.

Funds which invest in property securities allow you to enjoy the benefits of diversification from investing across a range of different property sectors such as commercial, office, industrial, hotel and retail.

A property securities fund generally invests in property trusts listed on the sharemarket or in property-related companies. Property securities, also known as listed property trusts, enable you to diversify your property investments into different sectors such as office towers, factories and shopping centres across Australia and even overseas. And, unlike residential property which can often be hard to sell quickly (known as 'illiquid'), property securities are liquid.

Like shares, a property fund is considered a 'growth asset' and can provide both capital growth and income. Income refers to that part of the return on the property investment that is paid by the tenant to the owners, usually on a regular basis, for the use of the property — for example, regular rent paid by a business leasing a floor in an office building. Capital growth occurs when the value of the property rises.

Different types of property

Investing in a property securities fund gives you access to a wide range of property investments — giving you diversification within the asset class.

- **Industrial**
the factories and warehouses which house our manufacturers.
- **Retail**
the large shopping centres we use each week.
- **Commercial**
the large office towers which make up our city skylines.
- **Residential**
the unit blocks and high rise apartments dotted throughout our suburbs.

How to invest in shares and property

You can invest directly into shares and listed property through a stockbroker who can purchase shares on the Australian Stock Exchange on your behalf. You can also invest through managed funds which specialise in shares or property or a diversified fund that invests in all the major asset classes.

**For more
information**

For more information about diversification see page 13.

Fixed interest

Fixed interest securities are often referred to as 'income-producing' investments. They also have the potential for some capital growth.

Fixed interest securities such as bonds are generally agreements that guarantee to repay a fixed amount of money at a pre-determined date in the future (maturity date). Bonds are generally used by governments, banks or companies to finance investment projects.

When investors purchase a bond they are in fact lending money to the issuer of the bond for an agreed time. In return for this money, the issuer guarantees to repay the amount in full at the end of the agreed time, and also make regular interest payments known as 'coupons' throughout this time period. Therefore the bondholders have the security of knowing they will receive regular income from the coupon payments, as well as the return of their capital at the end of the period.

Bonds can either be held to maturity, or they can be traded on a secondary market. Fund managers trade bonds on this secondary market because it allows them the possibility of making a profit. This is because while the coupon payment rate and the time to maturity are fixed for a particular bond, its value or the price it can be bought or sold for in the market can change.

A profit occurs if the value of the bond increases (the interest rate decreases) between the time you purchase it and the time you sell it. Similarly a loss occurs if the value of the bond decreases (the interest rate increases) between the time you purchase it and the time you sell it.

Bond yields

You may hear the term 'yield' used in the financial press in relation to bonds. The yield represents the market interest rate for a bond, and reflects factors such as the risk of investing in the bond and the term to maturity. Whereas the coupon rate simply shows the rate of return that the borrower will pay each year based on the face value, the yield shows the actual rate of return expressed as a percentage of the market value of the bond under current trading conditions.

Cash

Cash management trusts are a form of managed fund in which the primary investment is cash.

While offering lower risk than shares or property, cash management trusts can also offer the potential for a higher return than an ordinary bank savings account.

Cash management trusts typically invest in a wider range of cash securities than a bank savings account, and therefore may provide a better rate of interest. How? By investing in the short-term money market.

Short-term money markets facilitate the transfer of cash between borrowers and lenders. In this market, 'short term' typically refers to investments that last less than 12 months.



Making the most of cash

Investors who put their money into cash investments will know there is little risk of losing money, as cash represents the safest investment type. Cash may therefore be a sensible investment where you would like to have access to your money in the short term.

Most Australians have at least one bank savings account into which they put their wages or salary, and from which bills are paid. However we often seem to use our bank accounts as our primary savings vehicle as well. While cash in a bank savings account is secure, the investment returns it offers are generally low. Investors who leave their money in cash over longer periods of time (say three years or more) run a different type of risk — the risk that the value of their money will be eroded by inflation.

Though money held in cash is earning a small rate of return, the cost of living continues to rise. As a result, the real rate of return on a cash investment (the return after you take away the inflation rate), is close to nothing, especially after you have paid tax on the interest.

Cash management trusts are popular with investors wishing to put some of their money aside for a 'rainy day', a planned short-term expense like home renovations, or as a parking place in between investment decisions.

Alternative investments

Alternative investments, also known as 'hedge funds' or 'absolute return funds' are designed to produce a positive return in all types of markets.

Typically, an alternative investment fund invests in a number of sophisticated strategies, such as merger and acquisition arbitrage or long short selling.

→ Investing involves risk

There is a trade-off between risk and return. Generally, the higher the level of risk you are prepared to accept when investing, the higher the potential return will be. But there are ways to manage those risks.

It's human nature to want the highest return possible, so often the best way to choose a fund is to understand the level of risk associated with different investment types, and determine your risk comfort level.

Remember that the higher the potential return, the higher the potential loss may be, and that negative returns are possible for all investment types.

What is risk?

In investment terms, risk is an indicator of the potential gain or loss associated with investing over time. To understand your own risk comfort level, you should consider the volatility of return associated with differing investment types. The higher the volatility of an investment, the higher the fluctuations in return from month to month or year to year.

Shares

Shares are usually identified as the investment that offers the potential for the highest returns of all the investment classes, but with a higher level of risk. That is, share investments have the most volatile returns over the short term.

Company risk

There are hundreds of factors that can affect a business. There are external factors such as the state of the economy, interest rate levels or the efforts of competitors. There are also internal issues — wage pressures, capital expenditure costs and pressure on the price a company receives for its products. Factors such as these can cause a company's share price to rise or fall rapidly.

Market risks

No matter whether you are investing in the share, fixed interest or property market, there is the risk the entire market will fall. Generally this is a result of market sentiment turning sour, that is, investors believing a particular factor will hurt returns. Broadly this could be caused by two types of risk — economic risk and political risk.

Economic risk relates to changes in the rate of economic growth, inflation, unemployment or interest rates can have dramatic effects on markets. In political risk, Governments can pass laws that affect the overall economy or regulate a market. Geopolitical events — political instability, internal strife, wars, etc — can also all have significant impact on asset prices.

Currency risk

If you are investing in overseas shares, you face the risk that changes in exchange rates may affect your return.

Property

There is a close link between the property market cycle and the economic cycle.

The growth in the economy, inflation levels, employment rates and population growth all have an impact on a property's value.

For example, as an economy grows, companies need to expand to meet increasing demands from their customers, so demand for office or industrial space may increase. Similarly, if a country is attracting more tourists then the



demand for hotel rooms will increase. In turn, these factors can also represent the risks of investing in property. In an economic downturn, companies often minimise office space required and tourism is usually one of the first industries to suffer.

Fixed interest

Fixed interest investments generally have lower risk than shares or property because loans have generally been repaid in full in the past by governments, semi-government authorities or large corporations.

However, there are some risks attached to fixed interest securities. The two major risks are credit risk and market risk. Credit risk refers to the creditworthiness of an institution, and its ability to repay either the regular coupon payment or the full amount on maturity. Market risk refers to the risk that an adverse movement in interest rates may impact the current price of bonds.

It's important to realise that fixed interest securities are not a short-term investment. As an example, international bond values fell in 2007, leaving many people wary of investing in them again. Yet if these people had remembered the importance of sticking to an investment horizon of three years or more, they would have benefited from the exceptional returns that international bond funds produced in 2008.

Another risk to be considered when investing in a global fixed interest fund is currency risk — the risk of changes in exchange rates affecting the return.

Cash

Cash is generally regarded as the safest investment. While it is technically possible to make a capital loss investing in the short-term money market, it is highly unlikely. The Australian banking and financial system has controls in place to protect you from most risks involved in these types of investments.

There are elements of credit risk (which refers to the credit worthiness of the institution) and market risk (risk of an adverse movement in interest rates) involved in investing in cash. However, given the legislative controls and the short-term nature of cash investments, these risks are negligible.

→ How to manage risk

Investing involves risk.
You cannot change that.
However, you can manage
the risks more effectively.

Risk and time

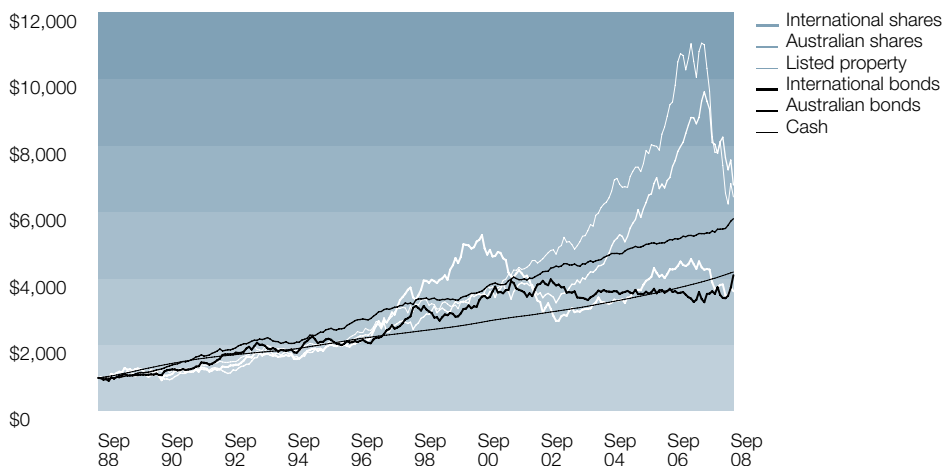
Something you should consider when determining your risk comfort level is your investment time horizon. If you expect to make a very high gain in a very short period of time, then you will need to accept very high risks.

In contrast, if you are prepared to take a longer term view of making gains, you can moderate the risk on your investment.

The chart below demonstrates that the volatility associated with riskier asset classes such as international shares was reduced over time leaving significantly higher long-term returns.

The return over time from 'growth assets' like shares is generally much higher than the return from a low risk investment like cash in a savings account. If you leave your money in a bank savings account earning a very small interest rate over a longer period of time, you run the risk that your money may 'go backwards'; that is, not keep up with inflation.

It is important to note that the returns shown in the chart are historical. Investment returns are volatile and past performance is not a reliable indicator of future performance.



Based on an initial investment of \$1,000. Assumes reinvestment of income and does not take account of taxation, inflation, fees or expenses. Source: BT Investment Management Limited.

Two key principles

In summary, there are two principles to consider when working out your individual risk/return comfort level.

- The length of time over which you will be investing.
- The fact that investments which provide a higher return over a period of five years or more will typically have wider variations in return from year to year, and that over shorter periods of time (one to two years), the return may be negative.

Remember that a managed fund aims to help reduce the inherent risks in most types of assets through diversification.

Your attitude to risk

As a financial adviser would tell you, the most important element of the risk/return equation is you. Your attitude to risk should be the main driver of your investment decisions. You need investments that will allow you to sleep soundly at night while working hard towards achieving your financial goals. A risk profiler can help you understand your attitude to risk. However, it is important to note that risk profilers are not a substitute for professional advice and do not take account of your individual investment objectives, existing financial situation or particular needs — all of which should be considered before making any investment decision.

Diversify your investments

The more you spread your investments, the less chance you have of losing money.

Let's say you invested your life savings into a single company. If the share price soared, you could become very rich. On the other hand, if that company went bankrupt, you could lose your life savings. You may be better off spreading your money around.

Diversification is a powerful way to reduce risk. It can do this in two ways. Firstly, if you have a well-diversified investment portfolio and an individual stock (or even an entire asset class) loses ground, your losses may be reduced.

Secondly, various types of investments will perform better at different times. For instance, shares tend to perform well at the upturn in the economic cycle, while fixed interest investments tend to perform better in the latter parts of the cycle. So diversifying across all the asset classes gives you a better chance of achieving a sound overall return.

There are three main levels of diversification — by asset class, investment security and investment manager.

Diversify by asset class

This refers to the type of investment — generally shares, property, fixed interest and cash.

By investing across all the major asset classes, you will always have exposure to the best performing asset class every year while also being invested in the worst performing asset class.

However, this performance will at least be partially offset by the performance of other assets.

**For more
informaton**

To view your attitude to risk, visit www.bt.com.au. The risk profiler can be found under 'Tools & resources', under 'Calculators'.

Diversify by investment security

This refers to individual shares, fixed interest securities or properties. Once you have diversified across asset classes, it is time to start thinking about diversifying within asset classes. There are three major ways to do that:

→ **Individual companies**

Certain market, economic or political conditions could spell trouble for one company and success for another. Investing in a number of companies reduces the effect if an individual stock falls.

→ **Industries/sectors**

All companies operating in a particular industry can be affected by a change in government policy or economic conditions. But these same changes may have no effect on another industry — they may even make things better! So diversifying across industries will help balance out the effect of these industry-specific changes. The same principle applies to sectors of the property market such as office blocks, houses, warehouses and shopping centres.

→ **Countries**

While Australia has one of the biggest listed property markets in the world, it is still only about a fifth the size of the US listed property market. And while Australia's sharemarket is among the world's 10 biggest, it still only makes up around 2% of the value of the world's sharemarkets. This means that if you only invest in Australia, you are missing out on the diversification benefits of investing in different economies, markets and industries.

Diversify by investment manager

One of the easiest and most effective ways to create a diversified investment portfolio is through managed funds. Share funds, for instance, will generally invest in more than 30 individual companies while diversified funds will generally invest across shares, fixed interest, property and cash.

If you choose to invest through managed funds, it can make sense to diversify across different investment managers. Firstly, if one investment manager performs poorly, you only have part of your investment with that manager.

And secondly, most investment managers follow a particular investment style that may perform better under certain market conditions. The most common investment styles are growth, core and value. By combining different investment management companies with different investment styles, you can reduce your risk and smooth out returns.

Tips for better investing

Whichever way you plan to invest, this section will give you some tips and techniques to get you started



tip 1

Understand why you are investing.

One of the keys to successful investing is identifying your investment goals, and the time frame over which you will invest. What do you want to do with your money?

- Do you want to save for a goal?
- Do you want to invest a certain amount?
- How long do you want to put that money away for?

Your goals and time frame

When investing money, many people have a specific goal in mind. If this is the case for you, you need to decide what time frame is attached to that goal – short term, medium term or long term?

Short term (1–3 years)	Medium term (3–7 years)	Long term (7+ years)
→ deposit on a home	→ boat	→ children's education
→ overseas holiday	→ house renovations	→ deposit on a holiday house
→ new car		→ retirement
→ starting a family		

Rather than having a particular investment goal, some people may just want to invest a sum of money, for example, an inheritance. If you are in this situation, you need to decide what you want from that money. Do you want to use the money in the next year or two? (in which case you are a short-term investor).

Or do you want a regular income? Or do you want it to achieve capital growth over the long term?

A short-term investor would be more likely to choose a more conservative investment like cash, to ensure that their capital is available in the next one to three years when they need to access it. A long-term investor would be more willing to invest in growth assets such as shares, as they do not need to access their capital for at least five years, so are usually less concerned about short-term ups and downs. They recognise that the potential returns are higher in growth investments, and if they are held over the long term the risk associated with short-term volatility is reduced.

Don't forget that superannuation is one of the most tax-effective ways to invest for the long term. If you would like more information on superannuation, contact your financial adviser or visit our website on www.bt.com.au.

In considering which type of investment is most suitable for your goals, a professional financial adviser can help you with this decision after analysing your investment objectives, particular needs and financial situation.

tip2

Become an investor instead of a saver.

Many people invest but only some become wealthy. Why? The mistake many people make when investing is that they treat their investment as saving. So what is the difference between saving and investing?

Saving is what you do to build up funds for something, like a holiday, and when you have the amount saved, you withdraw your capital from your investment and spend it.

Investing is different. People who want to build wealth invest their money for the long term in growth assets, such as shares and property. Their strategy is to spend the income that the investment produces, but leave the capital invested. They don't withdraw the capital, so it stays there to grow, which in turn allows more income to be produced.

If you do this it will take you a while longer initially to get to your investment goal, but in the long run you will find that the extra wait has been worth it. As the years go by, you may have an increasing additional income stream from your investments and your standard of living can rise accordingly.

So what's the secret to becoming wealthier? It's easy! **Start investing, and stay invested.**



tip3

Start early and take advantage of compound interest.

There is always a 'good' reason for not investing, but there is actually an even better reason to start investing right away. In fact, starting sooner rather than later is one of the best investment decisions you can make. The reason? So you can take advantage of compound interest.

The problem is that compound interest works against those who hesitate. Most of us studied compound interest at school, so we know how it works. But it's not until you start looking at practical examples that you realise how powerful it can be.

Imagine you are 21 again. You decide to invest \$5,000 and then add to it at the rate of \$1,000 a year — until you turn 30. Then you stop saving altogether and leave your nest egg alone until you turn 65.

Let's assume you earn an average return of 8% pa (after fees and taxes) which you always reinvest. And for simplicity let's say inflation is zero (so your real return is a healthy 8%).

Now imagine an alternative scenario. In this version you don't start saving until you turn 31. At 31, you put aside \$5,000 and add another \$1,000 each year until you turn 65. Remember, you are reinvesting income, inflation is zero and you're getting that 8% pa average return. You figure you will more than make up for lost time by saving harder — ie for 35 years rather than 10 years.

Which is the better strategy? The 10-year saving plan, in which you will invested a mere \$14,000 (a \$5,000 initial contribution then \$1,000 a year for nine years) will reap \$332,413. The 35-year plan, in which you will have invested \$39,000 — nearly three times as much — earns you considerably less: \$227,077.

Here are the hard numbers for you to check. The bold type represents those years when you contribute \$1,000. The return, remember, is a constant 8% pa.

Years of age	Example 1 (\$)	Example 2 (\$)
21	5,000	—
22	6,400	—
23	7,912	—
24	9,545	—
25	11,309	—
26	13,213	—
27	15,270	—
28	17,492	—
29	19,891	—
30	22,483	—
31	24,281	5,000
32	26,224	6,400
33	28,322	7,912

Years of age	Example 1 (\$)	Example 2 (\$)
34	30,587	9,545
35	33,034	11,309
36	35,677	13,213
37	38,531	15,270
38	41,614	17,492
39	44,943	19,891
40	48,538	22,483
41	52,421	25,281
42	56,615	28,304
43	61,144	31,568
44	66,036	35,093
45	71,319	38,901
46	77,024	43,013
47	83,186	47,454
48	89,841	52,250
49	97,028	57,430
50	104,790	63,025
51	113,174	69,067
52	122,227	75,592
53	132,006	82,639
54	142,566	90,251
55	153,971	98,471
56	166,289	107,348
57	179,592	116,936
58	193,960	127,291
59	209,476	138,474
60	226,234	150,552
61	244,333	163,596
62	263,880	177,684
63	284,990	192,899
64	307,790	209,331
65	332,413	227,077

tip4

Use market movement to your advantage.

Dollar cost averaging

One way to ride out the market's ups and downs is a technique called dollar cost averaging, typically used in managed funds. With dollar cost averaging, you don't have to focus on where share prices or interest rates are headed. You simply invest a set amount of money on a regular basis.

Sounds easy? You're absolutely right. Dollar cost averaging is an investment technique that can help turn the odds in your favour. The idea is that you buy less units when the market is up, and more units when it is down — automatically.

How it works

Let's look at a worked example of how it works. Say you put \$100 per month into a managed fund that initially had a unit price of \$10. Over the next few months, the market falls (causing the unit price to drop) before recovering to its original value. At the end of the five months you have 65 units each worth \$10, so you have \$650. You have invested \$500, so your profit is \$150 even though the unit price is the same as when you first invested.

Month	Investment	Unit price	Units purchased
1	\$100	\$10	10.0
2	\$100	\$8	12.5
3	\$100	\$5	20.0
4	\$100	\$8	12.5
5	\$100	\$10	10.0
Total	\$500		65.0

This table is for educational purposes only. It is not representative of any particular investment product or investment strategy. No allowance has been made for inflation, taxation, fees, or expenses.

Of course, dollar cost averaging does not guarantee a profit. But with a sensible and long term investment approach, dollar cost averaging can smooth out the market's ups and downs and help reduce the risk of investing in volatile markets.

So when is the best time to invest? This month, next month... every month.

Regular investment plans

Most investment managers offer a regular investment plan which enables you to make regular investments automatically from your bank account.

This has two advantages:

- 1_you are using the effective dollar cost averaging technique
- 2_it's an easy way to be disciplined about your regular investments — you don't miss the money as much, and are not tempted to spend it before you can invest it.

tip5

Don't try to time the market.

One of the excuses many use for not investing is that it is not the right time to invest. These people are likely to be under the misconception that they have the magical powers to be able to predict the future. They are under the illusion that the path to riches is a matter of getting on the right horse at the right time.

However, as investors begin to learn the vagaries of markets, they begin to realise the insurmountable difficulty in picking market movements. Trying to pick the magnitude and direction of market movements has cost even the most experienced investor dearly.

Rather than trying to time the market, it is often more sensible to give yourself a longer investment timeframe. Sure, investments may go up and down over the short to medium term, but a well diversified portfolio has a better chance of helping you reach your financial goals.

The importance of time in the market, not market timing

Missing a few good days substantially reduces return.

Investment in Australian shares 1998-2008	
Days in the market	Annualised returns (%)
2543 trading days	10.54
Minus the 10 best days	6.30
Minus the 20 best days	3.53
Minus the 30 best days	1.36
Minus the 40 best days	-0.55
Minus the 50 best days	-2.29
Minus the 60 best days	-3.92
Minus the 70 best days	-5.44

Assumptions: Returns are annualised from 30 September 1998 to 30 September 2008. S&P/ASX300 Accumulation Index (S&P All Ordinaries Accumulation Index prior to April 2000). The returns shown are historical. Investment returns are volatile and past performance is not a reliable indicator of future performance.



tip6

Don't chase returns.

Investing in the fund that had the best performance last year may be a big mistake!

Most fund managers will offer you a choice of many different types of managed funds, from shares and property to fixed interest and cash, to mixtures of all of them. There are also usually a range of different share funds investing in different parts of the world. Given such a wide choice of investments, and the ability to switch your investments between them for little or no fees, some people make the mistake of chasing returns.

Chasing returns means that you are moving your investments across to the fund that had the best performance last year. Why can this be a mistake? Let's look at the chart below. This chart shows the main asset classes and their percentage return each year for the 20 years from 1989 to 2008. The chart shows us how unlikely it is for the same asset class to have the best performance for two years running. It has only happened twice in the last 20 years. So if you invest in the asset that performed the best last year, it is unlikely to have the best performance again this year.

	1 year returns to 30 September					
	Australian (%)				International (%)	
	Australian shares ¹	Listed property ²	Australian bonds ³	Cash ⁴	International shares ⁵	International bonds ⁶
1989	14.76	9.22	7.00	15.88	24.98	8.24
1990	-11.19	13.94	17.18	15.82	-23.29	1.05
1991	22.66	5.33	21.41	11.01	11.60	8.10
1992	-8.81	11.03	11.96	6.86	6.34	27.39
1993	42.04	26.84	15.46	5.17	33.00	20.75
1994	-1.11	-0.16	-5.97	4.56	-5.83	-8.21
1995	8.39	7.63	16.71	7.19	9.43	12.41
1996	14.52	12.72	12.30	7.05	11.09	-0.57
1997	21.86	22.15	12.33	5.55	35.30	10.09
1998	8.70	20.99	8.45	4.69	26.00	30.09
1999	12.44	0.94	0.25	4.50	13.30	-6.94
2000	17.46	11.50	6.83	5.47	21.02	13.13
2001	-3.17	16.95	9.88	5.21	-23.47	13.44
2002	-5.17	8.00	4.04	4.24	-26.67	1.77
2003	8.87	4.09	5.31	4.45	-4.42	-5.81
2004	16.76	26.36	6.41	5.06	8.14	5.34
2005	27.57	14.38	4.99	5.20	13.20	-2.12
2006	20.64	27.93	4.60	5.37	17.11	4.25
2007	26.73	19.02	3.67	6.01	1.51	-5.85
2008	-29.16	-41.53	8.42	7.04	-15.22	24.86

Source:

- 1_S&P/ASX300 Accumulation Index (S&P All Ordinaries Accumulation Index prior to April 2000)
- 2_S&P/ASX300 Property Accumulation Index (S&P All Ordinaries Property Accumulation Index prior to April 2000)
- 3_UBS Composite Bond Index (CBBI prior to September 1989)

4_UBS Bank Bill Index

5_MSCI World (ex Australia) Index Net Dividends in A\$ unhedged

6_Citigroup World Government Bond Index in A\$ (unhedged).

The returns shown are historical. Investment returns are volatile and past performance is not a reliable indicator of future performance.

Getting organised

By organising your finances,
you may be surprised



→ Getting organised

Many people have found that an effective way to build up an investment portfolio is by making regular investments each month. But how much should you invest? The key is to work out how much you can afford to invest without having to compromise your lifestyle too much. There is no point depriving yourself of the things you enjoy in order to fund an over-ambitious investment plan — the first unexpected expense is likely to throw out your whole plan.

So how can you work out the happy medium that will let you put away a regular amount that you can afford to live without? The answer is to create a budget.

A personal budget

Drawing up a personal budget may not sound very inviting, but most people who have done so have found it to be a very worthwhile experience. It's not very difficult.

If you have access to spreadsheeting tool on your PC, and to the internet, you can download a budget planner worksheet from our website at www.bt.com.au. Go to 'Tools & resources' and then choose 'Calculators'. This will allow you to save your worksheet and amend it over time.

Your income

Firstly note down all of the sources of income that you receive, broken down by each month of the year.

Your fixed expenses

Then, also by the month, record all of your fixed expenses — that is, expenses whose size you have no control over. Refer to the budget planner for ideas on the types of items you should include here.

Repeat the same exercise for your variable expenses — that is, expenses over which you have some control. (Don't forget items you paid for using your credit card.)

Putting it together

For each category, work out an annual total. Then work out the following:

Total annual expenses	=	Total annual variable expenses	+	Total annual fixed expenses
Result (amount available)	=	Total annual income	-	Total annual expenses

If this result is a negative number, you are spending more than you earn, and you have nothing left over to invest. Whether this is the case or not, most people are shocked when they tally up their variable expenses, and find that by going back over these expenses there are areas in which they can cut down without dramatically affecting their lifestyle.

Can I find some extra?

What does your coffee habit cost you? A take away latte every working day costs you more than \$700 a year. Adding up the yearly value of small expenses is one quick way to see where your money is going.

Now you have the result, this is the total amount that you could invest. It is a good idea not to commit to investing all of this amount. You need to allow for a margin in case you have underestimated a few of your expenses, or in case of an emergency or unforeseen event.

So subtract an allowance for these things, and the remainder is what you can comfortably invest without putting yourself through too much pain. If you come to the end of the year and have a little extra left over, you can always add it to your investments then.

And one more tip — it's a great idea to have your regular investment deducted from your bank account or direct from your pay each month automatically. That way you won't really miss the money, and also you won't be tempted to spend it before it finds its way to your fund.

How do I apply

If you've decided to invest, you will need to know where to start. Contact your financial adviser, call BT Investor relations on 132 135 or download a copy of the BT Investment Funds PDS at www.bt.com.au.





To find out more

- For more information on any of the issues discussed in this brochure, please contact your financial adviser.
- To obtain more information on BT's range of investment options, visit our website at www.bt.com.au or call BT on 132 135.

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