The bigger picture about investing

BT

Contents

Insight one The bigger picture about financial advice

Insight two The bigger picture about investing and time

Insight three The bigger picture about risk and return

Insight four The bigger picture about diversification

Insight five The bigger picture about chasing returns

Insight six The bigger picture about sticking to your plan

Insight seven The bigger picture on tax and investing

Insight eight The bigger picture about staying calm

Insight nine The bigger picture about employing investment experts

Insight ten The bigger picture about finding value

Welcome to BT's guide to investing

Investing often appears complex. At first glance there seems to be so much to take into account — markets, products, politics, technology, legislation and regulation, economics. All that complexity can make us think — 'I don't have the know-how to make the right choice, the right decisions'.

But successful investing doesn't have to be hard. Every one of us has what it takes to invest successfully.

Most importantly, you can be a successful investor.

The key is to focus on the big picture. And the big picture is shaped by some fundamental truths of investing.

This guide is designed to explain those investment principles. Some of these insights have taken centuries to develop, some are comparatively recent. All are simple. What follows are the key concepts that separate successful investors from unhappy ones. Follow these principles and it's hard to go wrong.

We hope you enjoy and learn from this booklet. It is useful reading at any time but especially relevant in those periods when fear, greed or hype can cloud our focus. It's at these times focusing on the bigger picture becomes even more important.

If you have any queries about what you read in this booklet, please speak with your adviser or contact BT.

Insight one

Good financial advice is a good investment

No one is an expert on everything. When it comes to the most important things in life, good advice can be a good investment. But what are the most important services you get from a financial adviser?

A holistic approach

A financial adviser can help you take a holistic approach to your finances. They help you understand your existing financial position, clarify your goals and devise a strategy to help you achieve them. Most importantly they build a financial plan that's about you — your age, your plans, your investment experience, your risk tolerance and your lifestyle.

A qualified financial adviser will assess your financial situation, goals and objectives and work with you to develop a plan that covers:

- Financial planning advice
- Wealth accumulation advice
- Wealth protection
- Superannuation advice, including self managed superannuation funds
- Investment selection and ongoing monitoring
- Redundancy advice
- Retirement planning
- Gearing strategies
- Cash flow and debt management advice
- Social security benefits advice
- Life and disability insurance advice
- Estate planning services.

Keeping it simple

Your time is valuable. Given time, a certain amount of natural talent and a lot of training, we could do the things we pay others to do. We could spend time researching investment markets, or sweat over the books till we knew enough of the latest tax laws and accounting legislation to do our own taxes.

The reason we don't do this is because it's more cost effective for us to specialise in what we do best and use other experts when we need help.

Help with asset allocation

Asset allocation simply means how you spread your investments across different assets — from shares, property, bonds and cash through to other investments, like commodities and alternative assets.

Your asset allocation is an important investment decision. Your financial adviser can work with you to devise the asset allocation that suits you, helping you determine the mix of assets that meets your needs.

Ongoing consultation with your adviser also helps you to stick with your asset allocation even in the face of short-term events like share market downswings.

Understanding where to invest

There are literally thousands of shares, managed funds, trusts and superannuation and retirement income products to choose from. Which are best? The answer depends very much on your personal needs, and your financial adviser can play a key role here, recommending the best products for you — both in terms of performance, fees and quality of management and in how they fit into your portfolio.

Education

One final and often underestimated role of a financial adviser is to help you learn more about investing. No-one will do it better because they are by your side as you make crucial decisions.

Looking for an adviser?

We can help. Visit bt.com.au for more information on what you need to know about finding the right financial adviser.

Insight two

It's all about time

In today's fast-paced world it's easy to forget the value of time.

Get rich quick schemes are everywhere, but the only people who make money from these schemes are the promoters — often at the expense of investors.

Investing shouldn't be hard work. But like most things in life that are worthwhile, investing takes time.

Giving your investments time is one of the best ways to build your long-term wealth.

Time reduces the risk of negative returns

For starters, time reduces the prospect of earning negative returns.

Think about this. If, at any point between the start of 1960 and the end of 2009, you had invested in a diversified range of Australian shares and held your investment for just one year, you would have had a one in four chance of making a loss.

If you'd invested in those same Australian shares for five years, the chance of a negative return drops to one in 25.

But if you had invested for ten years, you wouldn't have encountered a negative return at all.[1]

It works this way because markets recover from downturns. But not only do markets recover, history shows us that the Australian share market goes on to achieve new highs following each low point. The only way to benefit from these recoveries is with a long term outlook.

Time lets you harness the full power of compounding returns. It lets investments recover from downturns and reap the rewards of the inevitable upswings that follow.

Time heals all wounds

Often it's the investments that have the greatest risk of losing money over the short term that produce the best return over the long term.

Consider Australian shares. Over the 10 years between December 1999 and December 2009 the Australian share market returned an average of 8.84% pa. But if you'd missed the 10 best days on the market from the 2,608 trading days in the period, that return would have dropped to just 4.04%. Take away more of the best trading days and the return keeps on falling.[2]

That's why many professional investors use the adage: 'It's time in the market that counts, not timing the market'. By investing for the long term, the effect of short-term losses is neutralised. Market highs outweigh market lows, and investors smooth out their returns.

1_Shares index is the Australia ASX Accumulation Index-All Ordinaries to April 2000 and the S&P/ASX 300 Index thereafter. A 'year' is calculated on a calendar year. You should consider your personal objectives, financial situation and needs before acting on this information. Past returns are no guarantee of future performance.
2_Assumptions: based on annual returns to 31 December 2009. Source: S&P/ASX 300 Accumulation Index thereafter.

Timing the market means second-guessing what the future holds and picking the best time to buy and sell investments. It's not an easy strategy. In fact, many professional investors believe the risks of trying to second guess market movements outweigh the benefits.

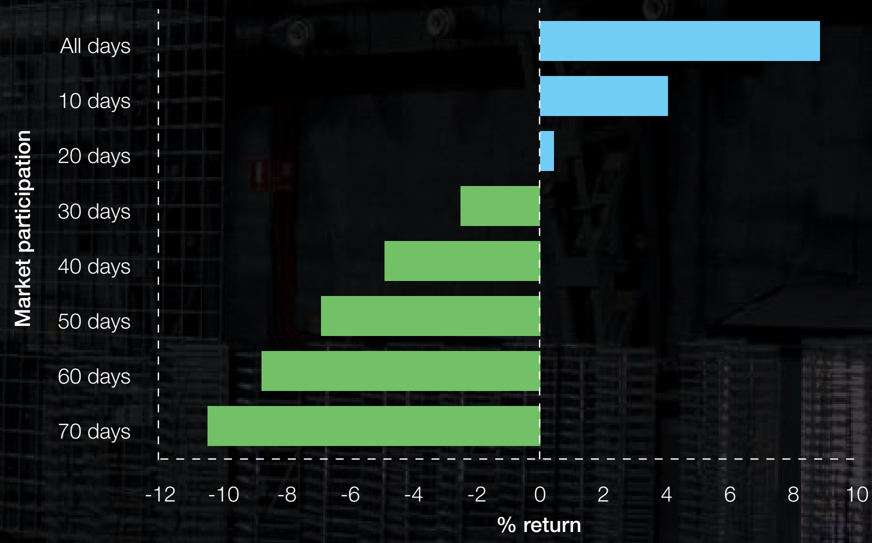
Dollar cost averaging — invest a little, invest often

A simpler and far smarter strategy than market timing is 'dollar cost averaging'. It means investing regularly — each month, each quarter, or every six months. Whatever suits you.

With dollar cost averaging, you don't have to focus on where share prices or economies are headed. You simply invest a set amount of money on a regular basis over a long period of time. By doing so, you buy less when markets are up, and more when they are down — automatically.

It's a way of paying the average price for an investment, and while dollar cost averaging does not guarantee a profit, it helps to reduce the risks associated with investing in volatile markets.

The impact on your returns of missing the best days in terms of returns between December 1999 and December 2009



Assumptions: Based on annual returns to 31 December 2009. Source: S&P/ASX All Ordinaries Index to April 2000, S&P/ASX 300 Accumulation Index thereafter.

Insight three

Understand risk

It's human nature to want to earn the highest return possible with the lowest possible level of risk.

But it is very rare to have both.

A fundamental ground rule of investing is that risk equals return.

Remember those 'get rich quick' investments we looked at earlier? One of the key indicators of these schemes is often the claim that you'll earn a strong return with little or no risk.

Successful investing just doesn't work this way.

Investing involves a trade-off between risk and return

Generally, the higher the risk, the higher the potential long-term return will be. But the higher the potential for short-term gain, the higher the potential for short-term loss. This explains why higher risk investments like, say shares, should be regarded as a long-term investment.

A good starting point for successful investing is knowing how you feel about risk. It will shape your choice of investments and your likely long-term returns.

Below and on the following page is a check-list of the major risks and some tips about how to deal with them.

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.

The best way to manage company risk is to diversify.

By spreading your money across a well-diversified portfolio of shares, you can significantly reduce the risk that a particular company's health will have a major negative effect on the performance of your overall investment.

Economic risk

This involves changes in the rate of economic growth, inflation, unemployment or interest rates which can all have dramatic effects on markets.

Political risk

This revolves around the ability of governments to pass laws that affect the overall economy or regulate a market. Geopolitical events including political instability, internal strife and wars can all have significant impact on asset prices.

Currency risk

If you are investing in international shares, property or fixed interest securities, you face the risk that changes in exchange rates may affect your return.

The best way to manage risk is by diversifying.

Returns from property, fixed interest and share markets do not always follow each other. Each asset class can react differently to the prevailing economic conditions. For instance, the fixed interest market, may surge when share markets are falling.

By investing in a number of different markets, you reduce the effect of a fall in one market on your overall portfolio.

When you invest in Australian as well as overseas markets, you reduce the effect currency movements have on your portfolio.

Manager risk

If you invest through a managed fund, you run the risk that the investment manager makes poor investment decisions resulting in losses. If you invest directly in the markets, you run the risk that your own investment skills are not up to the task.

The key is to choose your investment manager wisely — and diversify across different managers.

Before entrusting your money with an investment manager, do your homework. Check the manager's investment credentials — how they manage money, how they perform in different market conditions etc. Whatever you do, don't make rash decisions based purely on their performance over the past year or so. Seek the opinion of someone you trust or ask a financial adviser for their expert opinion.

Insight four

Diversification boosts returns, reduces risk

Diversifying is a powerful way to reduce risk.

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.

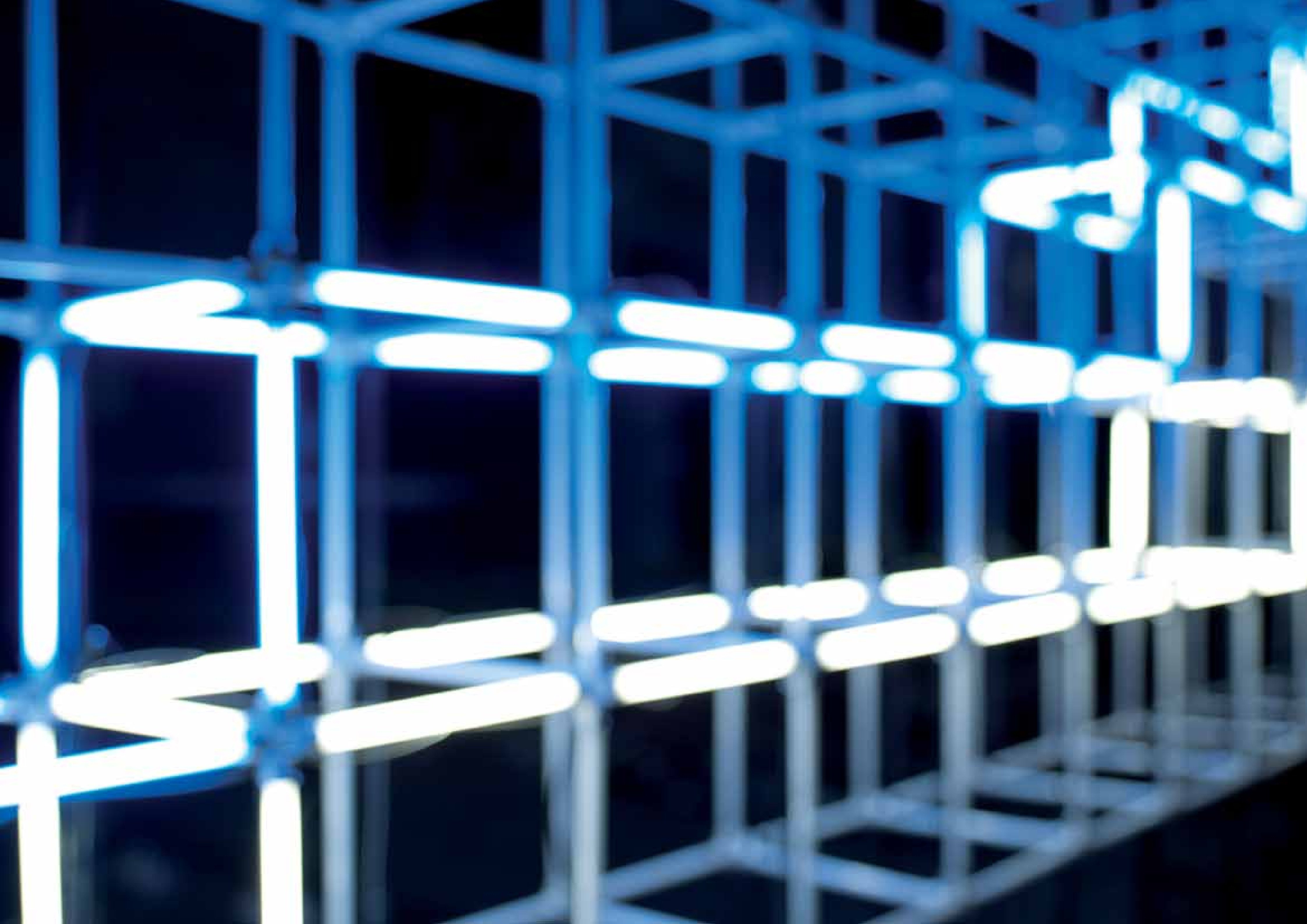
And as various types of investments will perform better at different times, diversifying across all the asset classes gives you a better chance of achieving a sound overall return. For instance, shares tend to perform well at the upturn in the economic cycle, while fixed interest investments tend to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

There is an easy way to diversify

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. If one investment manager performs poorly, you only have part of your investment with that manager.

Moreover, most investment managers follow a particular investment style that may perform better under certain market conditions. By combining different investment management companies with different investment styles, you can reduce your risk and smooth out returns.



Insight five

Avoid chasing returns

Understand the past but don't rely on it to give you guidance for the future.

One of the greatest temptations when deciding where to invest your money is to choose the investment that earned the highest return last year.

Many of us see a return of 40% and curse that we weren't invested a year ago. So you decide to put your money in that investment in the hope that it will do the same thing in the year ahead.

Chasing returns like this is one of the most common mistakes made by investors. It's a bit like driving using the rear-view mirror. You can see clearly what is behind you — but not what lies ahead.

Only twice in the past 15 years has the same asset class been the best performer two or more years in a row — international shares in 1997–98 and Australian listed property in 2000–02.

History tells us that if you invest in the asset that performed the best last year, it is unlikely to enjoy the top performance again this year.

Today's rooster can quickly become tomorrow's feather duster

If you shouldn't base your investing decisions on past performance, what sort of criteria should you use?

One way is to think about the driving analogy mentioned earlier. Avoid spending too much time looking in the rear-view mirror — concentrate on the road ahead.

Another way is to think about a weather forecast. You wouldn't base next month's weather on what happened yesterday. Rather, you would look at high and low pressure systems, cold fronts and long-term climatic conditions.

It's the same with investments. The future plays an important role in returns — often more so than the past.

Instead of putting all your money into the investment that performed best last year, try spreading your money across the different asset classes, investment managers and stocks. This discipline will help reduce the temptation to chase returns and may also reduce the volatility of your investment portfolio.

Best performing asset class each year from 1995 to 2009															
Australian %	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**
Cash	3.47	7.6	6.73	6.02	5.74	5.62	4.9	4.77	5.24	6.27	5.01	5.14	5.63	7.57	8.06
Bonds	1.73	**14.95**	3.46	3.14	5.8	6.96	3.05	8.81	5.45	12.08	-1.22	9.54	12.23	11.87	18.63
Property	9.56	-55.31	-8.36	**34.05**	12.7	**32.18**	8.81	**11.85**	**14.99**	**18.79**	-4.2	18.37	21.76	14.24	14.28
Shares	**37.03**	-38.92	**16.22**	24.51	**22.45**	27.92	**14.96**	-8.64	10.49	6.31	**19.52**	9.75	12.15	**14.54**	20.75
International (%)	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**
Bonds	8.04	9.23	6.63	4.41	6.62	8.92	6.62	11.57	8.29	9.74	0.28	10.08	10.71	9.48	20.62
Shares	-0.30	-24.92	-2.6	11.49	16.84	9.94	-0.76	-27.44	-9.96	2.19	17.2	**32.34**	**41.63**	6.24	**26.05**

Assumptions: Based on annual returns to 31 December 2009. Source: UBS Bank Bill 0+ years Index (Cash), UBS Fixed Interest 0+ years Index (Australian bonds), S&P/ASX 300 Property Index (Australian Listed Property), S&P/ASX 300 Accumulation Index (Australian shares), MSCI World ex Australia (Net Dividends) Standard in A$ Index (international shares).

Insight six

It pays to stick to your plan

Don't chop and change your investment strategy every year. It's more effective over time to develop an investment strategy that suits your circumstances and goals, and give it time to work.

Do your research

It's also a good idea to take advantage of the many resources available through the internet, newspapers, magazines or professional financial advisers. These can help you track true long-term performance and build up the information you need to make the right investment decisions.

You can check out the long-term performance of managed funds and their research company ratings at sites such as www.morningstar.com.au, through newspapers such as the *Australian Financial Review* or magazines such as *Money* magazine.

The Australian Stock Exchange has a wide variety of information on individual shares at www.asx.com.au. Or try the research facilities at broking sites such as www.westpac.com.au.

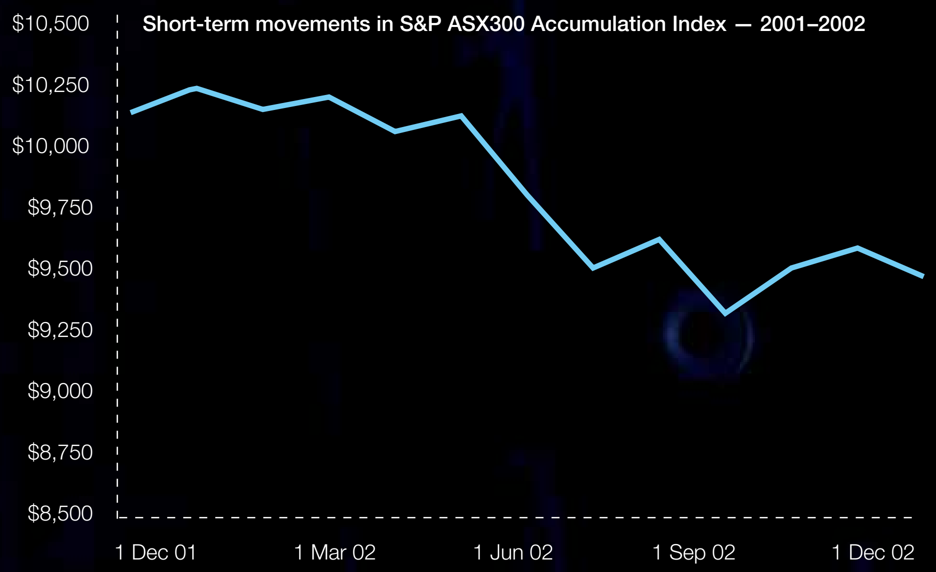
Seek advice

Most importantly, financial advisers can help you develop a disciplined approach to investing. They can also tailor your investment to your circumstances and goals.

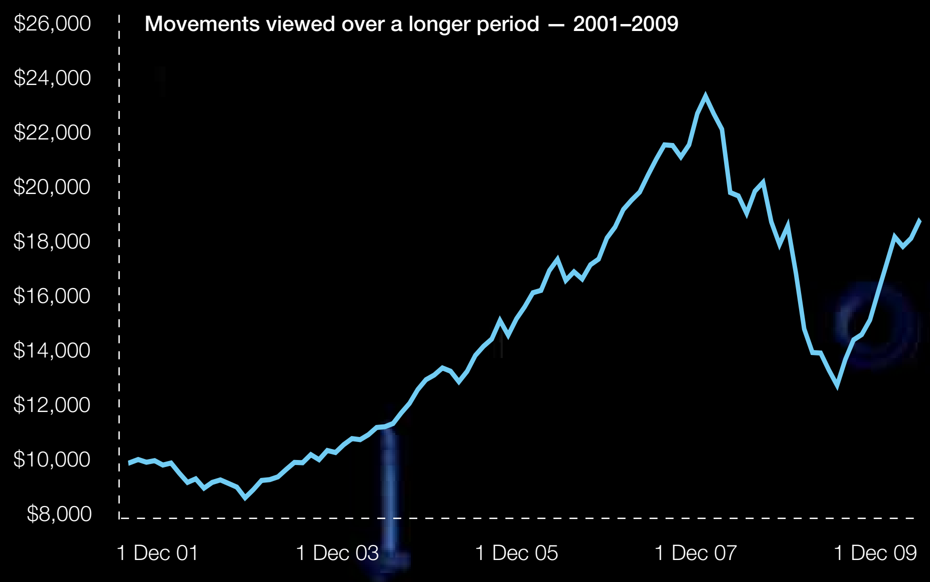
The dangers of looking at short-term performance

History shows us that short-term ups and downs in investment returns are greatly diminished over longer timeframes of between five to seven years or more.

Short-term pain…



but long-term gain…



Assumptions: Based on annual returns to 31 December. Source: S&P/ASX 300 Accumulation Index.

Insight seven

Focus on the after-tax return, not the tax

It makes sense to consider the tax implications of your investments. However one of the easiest investment traps to fall into when investing is to concentrate on tax savings and forget the reason why you invested in the first place — to make more money.

What can go wrong?

Some tax schemes have felt the wrath of the tax office in the past. Over the years, a large number of investors have been burnt by rulings from the Australian Tax Office (ATO). Some investors have had tax deductions disallowed by the ATO, while others have been fined for their part in illegal tax minimisation schemes.

Either way, the results can be costly.

It is worth discussing any tax effective investment with your financial adviser or accountant before investing.

You can become so involved in saving tax that you forget about the reason you are investing. If you hear yourself talking about tax savings before mentioning how your investment is performing, it is a warning sign that you may be focusing on the wrong goal.

Try focusing on the after-tax return from your investment — not the tax you are saving.

This doesn't mean you shouldn't take advantage of the following sensible tax tips.

Hold on to your investment for more than a year

If you're an individual (or investing through a trust) and you hold your investment for a year, you only pay capital gains tax (CGT) on 50% of your investment's gain. However, if you sell your investment within a year of your initial investment, you will pay CGT on 100% of the gain.

Invest through superannuation

If you invest through superannuation using before-tax money, you'll generally pay only a 15% contributions tax. This is likely to be much less than the marginal tax rate you are currently paying (which could be up to 46.5%). So it may make more sense to invest in super rather than other investments — because more of your money is put to work for you.

Once you are invested in super, your investment earnings are taxed at a maximum rate of 15%. In non-super investments, tax can siphon off up to 46.5% of your return.

Pay interest on your investment loans in advance

The interest you pay on your investment loan, including a margin loan or the mortgage on your investment property, may be tax deductible. The interest on this loan can be pre-paid, allowing you to bring forward your tax deductions.

For example, pre-paying in June allows you to claim up to 12 months interest as a deduction in the current financial year.

Seek advice when considering retirement

Many people have paid too much tax in retirement because they did not seek advice from a financial adviser or accountant. Yet retirement is a time when every dollar counts. For more information on retiring, check our website at bt.com.au.

Invest in companies that offer franking credits

Some Australian shares offer franking credits. This means that they pay tax on their profits before distributing to shareholders. As a result, you may be able to claim a franking tax credit for the amount already paid by the company. If you invest in shares via managed funds, these franking credits will be factored into the overall fund return too.

Insight eight

Don’t panic

We live in an uncertain world. Natural disasters can strike at any time. Terrorism poses a lingering threat. Economies and markets are often affected by these sudden tragedies — as we saw in the global financial crisis of 2008, every now and then, they have crises of their own. The losses sustained in events like the 2008 share market tumble still live in the minds of many investors.

So how should investors approach these events — unexpected economic, political or natural calamities — that strike at the value of investment markets?

The answer is remarkably simple. Stay calm. Don’t panic. History tells us that events, however catastrophic, are soon swamped by the longer-term trend.

With the benefit of hindsight we know that a whole range of events — the 1987 crash, the Asian currency crisis, the Russian bond market default and the 11 September destruction of New York’s World Trade Centre — all become blips on the long-term ascent of share markets. In time, there is no doubt the global financial crisis of 2008 will also be consigned to a footnote in economic history.

It is important for investors to think long term when crisis strikes. There is compelling evidence that panic selling is bad for your wealth in the short term.

As a guide, let’s see what has happened in the past.

After the terrorist attacks in New York on 11 September 2001, US markets stayed closed until 17 September. In the five days following the re-opening, the S&P500 index fell 11.6%. In a warning against short-term panic, legendary investor Warren Buffett said, “Whatever you thought about the stock market before the World Trade Centre is what you should be thinking now”.

As usual, he was right. By 15 October, the S&P500 and the NASDAQ indices were back near their 10 September levels. Investors who panicked simply crystallised losses rather than protecting capital.

More recently, in 2008 the global financial crisis saw the Australian share market lose 39% of its value. Many investors panicked and sold when shares were at their lowest point. But the following year, in 2009, Australian shares rose by 38%. Those investors who had bailed out faced real rather than ‘paper’ losses, as well as missing out on the lion’s share of the rebound.

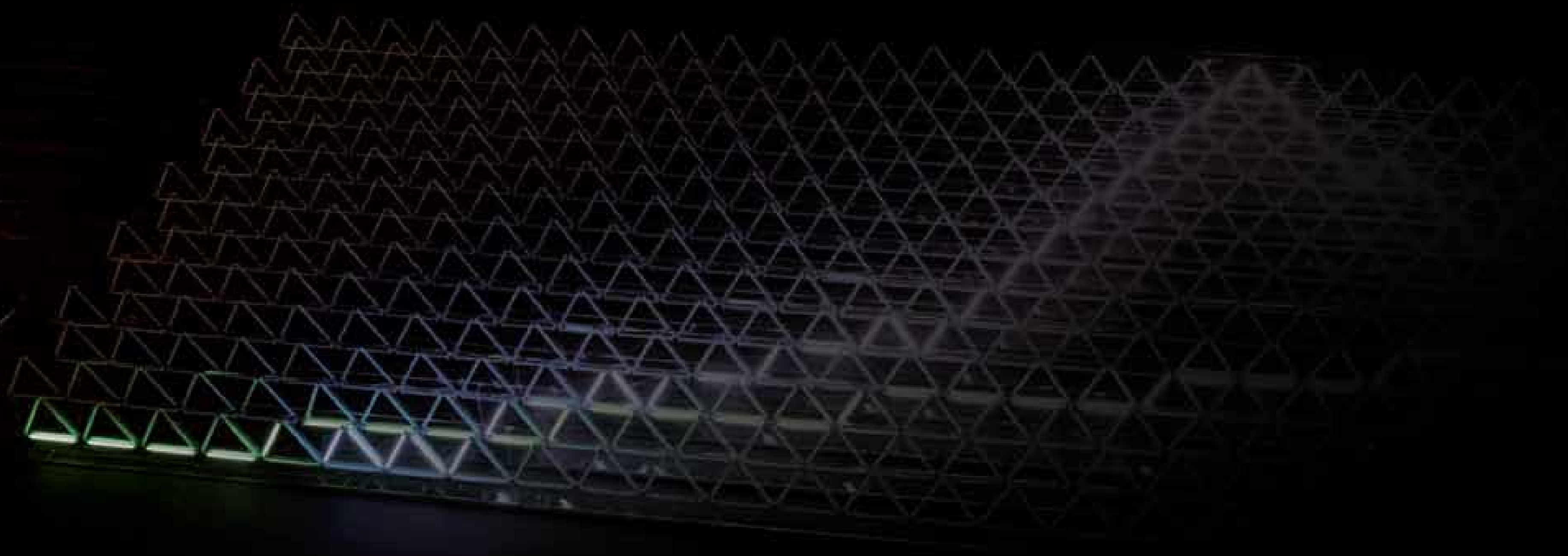
Share markets do react, often sharply, to crises. Yet they tend to snap back quickly as investors reassess the real economic impact of these events. Economics, nature and human nature being what they are, we will undoubtedly face other market-mauling crises in the future.

But we know that over the long term, the effect of these crises will fade.

Stick to your long-term plan

The most important precaution for any crisis is to have a financial plan — a written document that reminds you why you're investing, what your objectives are and how long you plan to invest for.

Such a plan is the perfect antidote to the tendency to panic, a reminder that long-term investors have nothing to gain from short-term reactions.



Insight nine

Employ experts

Even the smartest investors use managed funds. Why? Because managed funds employ disciplines that many individual investors do not. The methodical, systematic approach taken by most professional fund managers helps them avoid many of the mistakes individual investors are prone to.

Since the 1980s, investment experts have paid increasing attention to a field of study called behavioural finance. It's a science that investigates whether individuals behave rationally when they invest. Unfortunately many of us don't — and that can prove expensive.

Most of us exhibit a number of irrational behaviours when it comes to investing.

Individuals often have an inflated sense of their own competence. For example, around 90% of us believe we are above average drivers. Carry this approach into investing and it's easy to see why some investors take excessive risk given their level of investment expertise.

Researchers have identified other biases. 'Self-attribution bias' is the understandable, but unfortunate, tendency to claim success as a result of our talents and failure as a result of bad luck.

An investor might regard a good year in the sharemarket as proof of their stock picking prowess. However, a poor year is the fault of a bad market.

'Hindsight bias' is our tendency to believe (often falsely) that we predicted an event. And if we think we successfully predicted the past, we may have an inflated sense of our ability to predict the future.

Behavioural finance and investment manager research also tells us that individuals will sell winners sooner than losers. In other words they carry their losses and cut their profits — exactly the opposite of a rational approach.

It is because of these irrational behaviours that fund managers often outperform individuals. Their investment approach is more structured and they are trained to avoid poor investment behaviours.

Of course managed funds have other advantages.

Managed funds make it easier to diversify — because you pool your money with that of other investors you have the capital to invest in a wider range of assets.

Economies of scale means managed funds have the technology, people and research capacity to invest more successfully than most individual investors. Those economies of scale — and the power of modern technology — also allow managed funds to offer you services, choices and investment information that make investing easier. For example most modern managed funds can be accessed via the phone and the internet, and offer a range of investment choices to suit different needs. Regular statements and investment information also make it easier for you to monitor your portfolio and fill out your tax return.

Insight ten

Hidden value — hard to find, worth the effort

Hidden gems are every investor's dream. The problem with hidden gems though, is that they are hard to find.

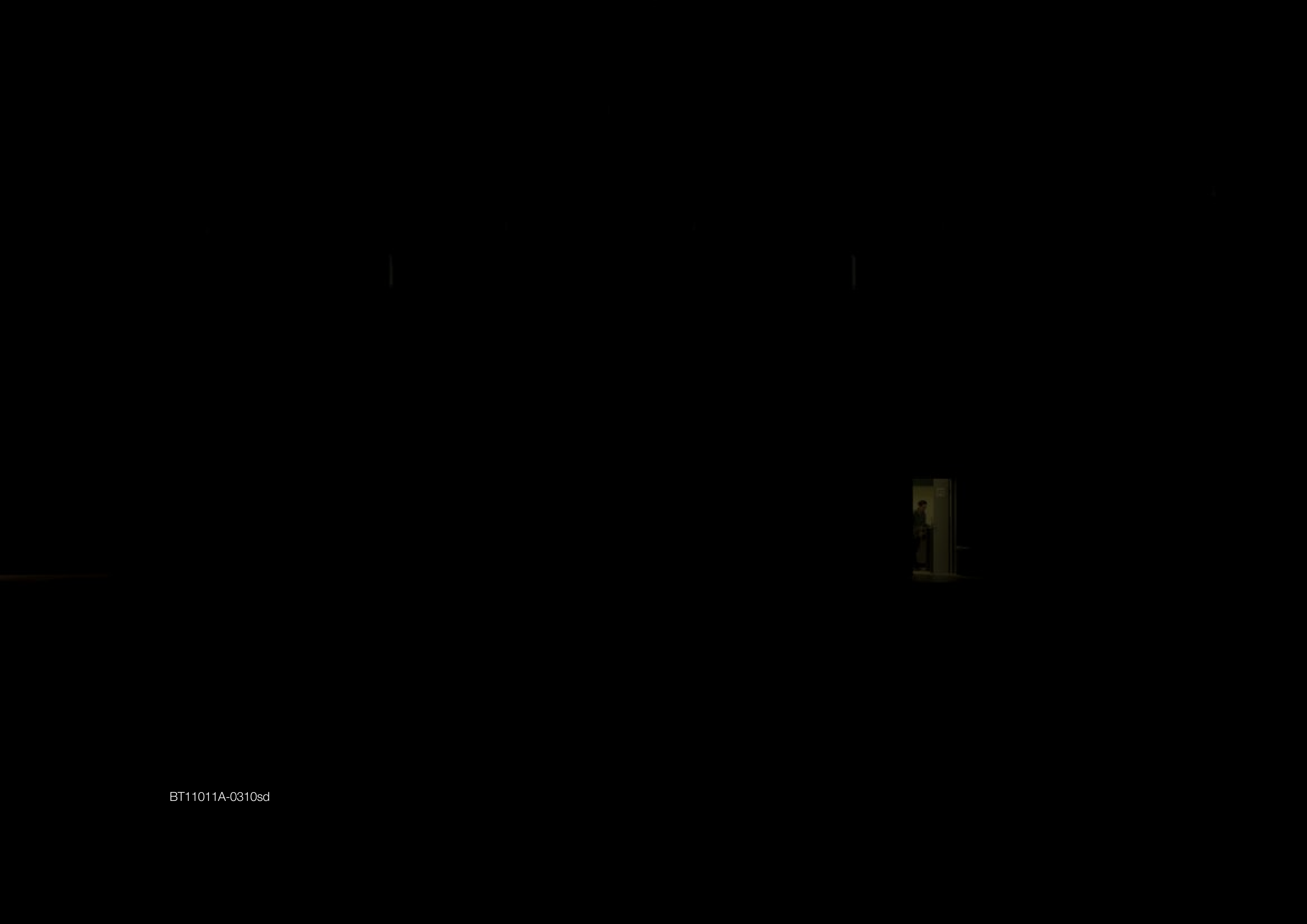
Gem hunting requires skill

Finding hidden gems is the strong point of many experts who run managed funds. Managed funds have greater research resources — more analysts, better investment technology and more experience. They meet with, and speak to, the people running these fledgling companies.

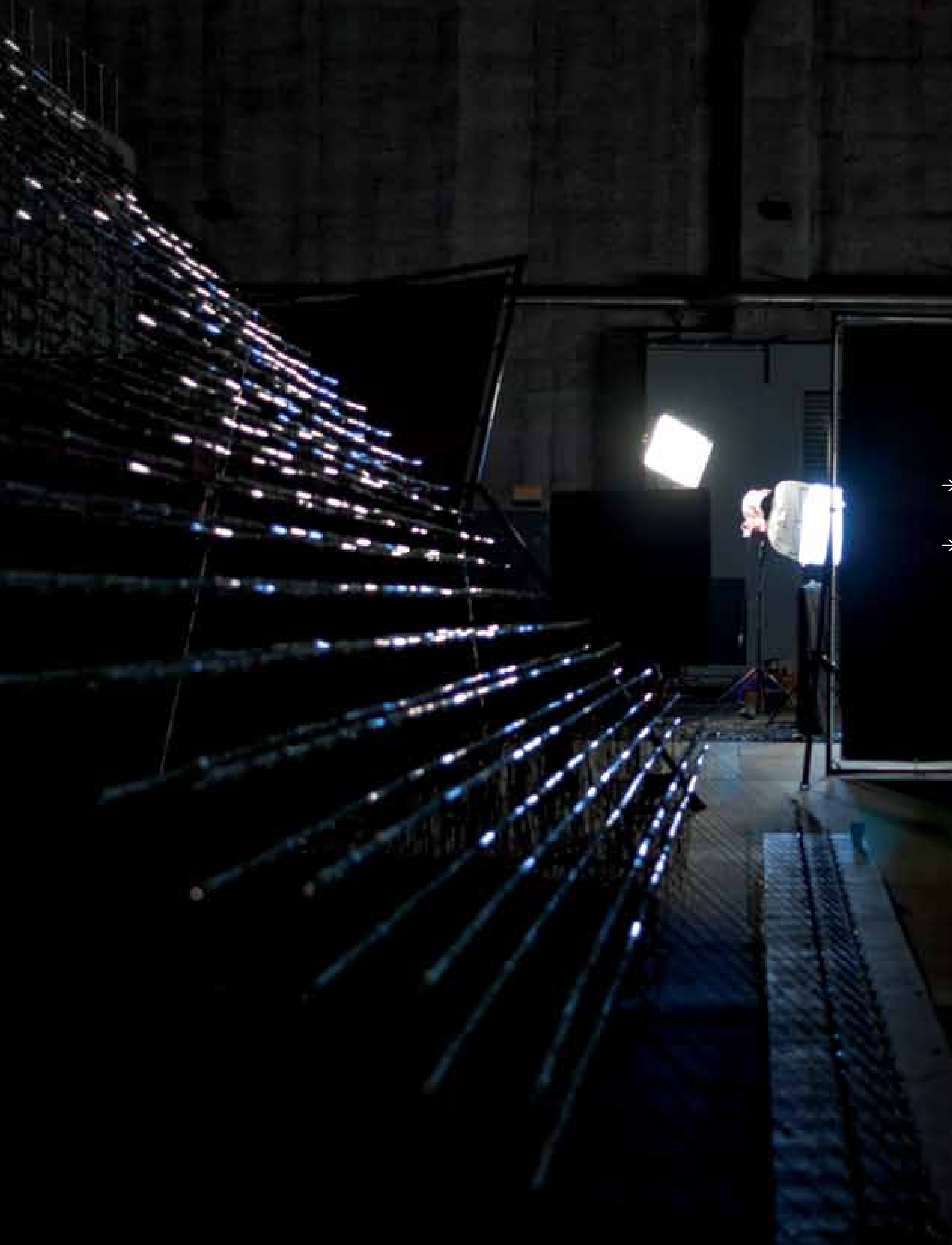
There are other types of hidden gems. These include companies whose true value is poorly understood. As well as searching for the heroes of tomorrow, sometimes it's worth investing in companies who seem on the surface to be suffering, but have potential that is hard to spot. You can be well rewarded as the share price moves up towards fair value.

The beauty of investing through a managed fund is that fund managers use a systematic approach to help them understand a company. They look at the quality of the business and its management team. They assess the outlook for the sector the company operates in and the company's competitive position within that sector.

Yes, this is all information you could source yourself. But it takes time and expertise. And you will get far more value, and potentially greater success, using an investment professional to hunt down hidden gems on your behalf.



BT11011A-0310sd



Like to know more?

We're here to help you make the most of your investments — and to enjoy your experience as a successful investor.

→ You'll find more information about investing on our website bt.com.au or you can talk to a BT Customer Relations Consultant by calling 132 135.

→ We recommend you use this booklet as the basis of a conversation with your financial adviser.

BT

It pays to look at the bigger picture.