A guide to regular investing

Regular investing is the key to financial success. A small amount invested regularly can be more effective than larger amounts invested every now and then.

Starting early and saving regularly pays off

The first step to regular investing is to set a financial goal. Your goal may be to retire at 45, buy your dream home or pay for your children's education.

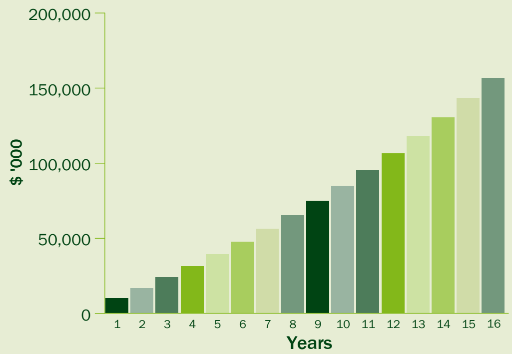
Case study

Let's have a look at an example which shows the benefits of having a regular savings and investment plan.

Joe is 35 and wants to buy his dream yacht and sail around the world in 15 years time when his children have all finished school. Joe estimates that his dream yacht and the trip will cost $150,000 in today's dollars and he already has $10,000 saved.

If Joe invested $500 per month, he would have the $150,000 and a little extra as shown in Graph 1. This is assuming Joe's investment earns a real return of 5% per annum after inflation and tax.

Graph 1: Joe's world trip savings and investment projection



Compound interest

The increase in Joe's accumulated savings is due to compound interest. Compounding is when interest is calculated on both the principal and the interest previously accrued.

When should you start your savings program?

The longer your investment plan is in place, the more time compound interest is working for you. As Graph 1 shows, Joe's savings grow more quickly over time, generating more returns each year, even though the rate of return and amount he saved was constant.

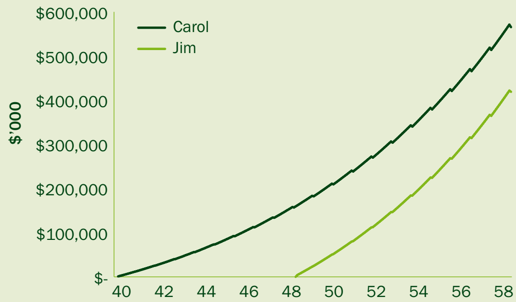
The benefits of starting your program earlier can be best explained by comparing two investment plans.

Case study

Carol and Jim are both aged 40. Carol decides to invest $1,000 per month for the next 20 years for her retirement. Jim decides to invest $2,000 a month, but he doesn't start saving until he turns 50.

They both intend to retire when they reach 60 and we assume that their investment will generate 8% per annum with a marginal tax rate of 31.5%. Graph 2 shows that even though Carol and Jim both invested $240,000 in total, Carol's savings are more because of an extra 10 years of compound interest.

Graph 2: Start saving earlier and reap



Source: Asgard

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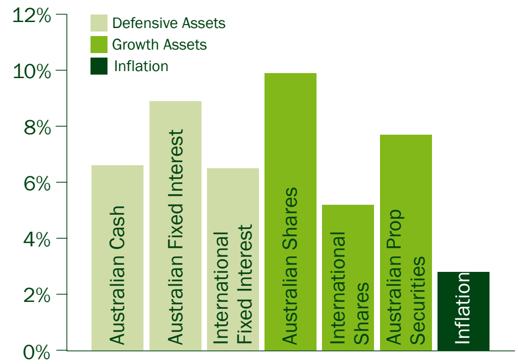
Where to invest your savings

You should consider investing a significant proportion of your money in growth assets such as shares and property. As Graph 3 shows, growth assets almost always outperform more conservative asset classes – such as cash – over the longer term. Growth assets also tend to significantly outperform inflation. However, growth assets also carry a higher level of risk.

Shares can be a very tax-effective investment if they pay dividends which are franked. Many listed companies pay tax on their profits before dividends are distributed to you. In other words, those dividends come to you 'tax paid'.

Your personal tax liability is calculated after taking into account the tax that the company has already paid. As a result, if you pay tax at the top marginal rate of 46.5% (including Medicare Levy) you'll pay reduced tax on 'fully franked' dividends. If you're paying tax at the lower rates, you'll pay no tax on the dividend or may even qualify for a tax refund.

Graph 3: Annualised asset class returns (20 years to December 2009)



Source: Iress, DataStream, St George Investment

Planning for your retirement?

If one of your goals is to retire in comfort, you shouldn't rely solely on the Superannuation Guarantee (SG) which is only 9% of your salary. This seems like a lot but most people will need to save much more than 9% each year to meet their retirement goals. Ask your financial adviser for a copy of 'Superannuation – Do I have enough?' to find out if you'll have enough super for your retirement.

The key to financial success

Successful investing requires you to stick with a regular investment plan. The best way to do this is to arrange a direct debit from your pay or bank account.

Establish your financial goals, develop an investment plan and start saving regularly as soon as you can to make sure that compound interest works for you. Your financial adviser will work with you to understand your needs and can advise you on how to best meet your goals.

Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

Your financial adviser can give you a copy of the relevant Product Disclosure Statement or disclosure document for any platform or financial product you are considering and you should read this document carefully before making any investment decision.

IMPORTANT INFORMATION

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