canberra times: q&a

Q 1: I have received $50,000 as an inheritance from my grandfathers' estate. As I am still young, have no kids, and do not want to buy a house for many years to come, and have no debt, I have decided that I want to purchase an investment and hold it for 10 years or more. However, I am not sure which is the best way to go. I do not want to put it into super. Can you please give me some ideas?

Withheld, Canberra

A 1: There are certainly many options available to you and well done for being open to exploring what may be best for you in your situation. Here are a few broad ideas to consider:

1. Invest in a cash account or term deposit with a reputable financial institution as you would receive some interest return, your capital value will not drop over time, and your money should be reasonably safe as it would be covered under the Government Bank Guarantee.
2. Purchase some parcels of shares in Australian companies. Statistical diversification is achieved where you have around 20 different companies in your portfolio across many sectors of the economy. The downside of this is that it is harder to get exposure to companies overseas.
3. Use your money as a deposit to purchase an investment property, while borrowing the balance for the purchase. The downside is that you would need a loan, you have some property management issues and expenses to deal with over time, and you do not have investment diversification. However the upside is you would have a larger exposure to an investment and you would receive some rental income.
4. Invest in a managed fund or a number of managed funds to give you diversification across many companies and sectors of the economy, both in Australia and overseas. The upside is this can be done quite easily, is liquid in that it can be easily sold, and can provide terrific diversification. The downside is that you need to be aware of management fees that apply and choosing fund that will be reliable over time.

There are pros and cons to each investment option above and you should seek some advice from a Certified Financial Planner to explore which option (or combination of options) would be best in your situation and explain in detail how they all work. Know that getting professional assistance from an experienced financial planner is incredibly important, to ensure you have as good an investment experience as possible.

To illustrate this point, consider the managed fund investment environment. There are literally thousands of managed fund investment options available. While managed funds generally provide good diversification, there is a risk that a fund can 'fail' entirely or 'freeze' redemptions from their funds, due to issues such as fraud, mismanagement, or market conditions. And issues can occur in funds across all asset classes. The Association of Independently Owned Financial Professionals has recently compiled a list of 155 failed or frozen funds from 2006 to November 2012 totalling some $36.5 billion in invested funds. Now, while not all of these

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funds will be lost to the client entirely, having a fund fail or freeze will certainly create problems for an investor including a loss of some capital.

In the end, if you are considering investing in managed funds, then know that there are certainly some excellent funds available. You would be well served getting some advice to help you invest in a way that will help you get a return 'on' your money over time as well as a return 'of' your money.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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