

## ***Do you want growth or income or both?***

Those of us who own an investment property will be well aware that our return from the investment comes from two sources: *income* in the form of rent paid by the tenant and *growth* in the form of an increase in the value of the property while we own it. Likewise from a share investment we can receive dividends (income) and capital gain (growth).

Many investors who buy shares and property focus on the growth potential with income being a beneficial aside. On the other hand, investments such as term deposits and bonds have as their main attraction the income return, with little or sometimes no possibility of capital growth.

### **Understanding risk and return**

When investing, **risk** is best thought of as **uncertainty**.

For example, with a term deposit in a major bank, we can predict with a high level of certainty what our return will be, and it is extremely unlikely that we will lose money. The level of risk is very low.

Contrast that situation with shares. If we buy a share today we can't be certain what its value will be in a year's time. Because the return from shares is uncertain, they are considered higher risk.

That doesn't mean shares are a bad investment. On the contrary, patient investors have been well compensated for taking on this risk. Cash and bonds are lower risk and produce lower returns. Property and shares are higher risk, but over the long term they have produced the highest returns.

Investors also need to take into account the risk of not achieving their goals. Generally, avoiding investment risk means retirement savings won't grow as much, and won't last as long as would have been the case if a higher level of growth had been sought. Let's look at a couple of examples.

### **Twin brothers**

John and Robert are twins. They both start the same type of job on the same day and each receives superannuation contributions of \$4,000 a year\*.

John is a conservative investor, and his fund returns 4% pa after inflation.

Robert wants more growth. He accepts this is a bit more risky and his returns fluctuate more than John's. Even so, Robert's fund provides an average return of 6% a year.

### **How much will they have?**

A 2% performance difference may not seem like much, but look at its effect over time. When they retire after 35 years, John and Robert each have:

John	Robert
\$294,609	\$445,739

### And how long will it last?

John and Robert each decide to take a pension of \$30,000 a year from their super funds. They both keep their investment strategy in place, with the same average earnings.

The following table shows the number of years before each runs out of money.

John	Robert
12.7 years	38.1 years

\*All calculations and investment returns are after fees, tax and inflation.

John's portfolio produced consistent returns over the years. The performance from Robert's portfolio was a bit more variable. But by accepting a little more investment risk, Robert can enjoy his retirement for three times as long as John can.

### Understanding risk

In putting together a suitable portfolio for a client, financial advisers will seek to achieve an appropriate balance of "growth" and "income" assets.

Capital Results are dedicated to providing you with information so that you can make the decision that is right for you. We invite you contact us on (02) 9233 4111 or email [info@capitalresults.com.au](mailto:info@capitalresults.com.au) to make an appointment today.

### Disclaimer and General Advice Warning

This flyer was prepared by Consultum Financial Advisers Pty Ltd (Consultum), ABN 65 006 373 995, AFSL No 230323. The flyer contains factual information and general financial product advice only. It has been prepared without taking into account any person's individual investment objectives, financial situation or particular needs. A person should not act on this information without first talking to a financial adviser. This information is given in good faith based on information believed to be accurate and reliable at the time of publication, including the continuance of present laws and Consultum's interpretation of them. Consultum does not undertake to notify recipients of changes in the law or its interpretation.

Consultum gives no warranty of accuracy or reliability, accepts no responsibility for any errors or omissions, including by reason of negligence. Consultum, its officers, employees or agents shall not be liable for any loss or damage whether direct, indirect or consequential arising out of, or in connection with, any use of, or reliance on, the information contained in this flyer.