Asset Classes

Cash

If your other investment in fixed interest, shares and property drop in value over the next few months it may be prudent to have retained some of your funds in cash. This would enable you to invest the cash back into your main portfolio of growth assets when the entry price is lower.

However the market may continue to rise while your cash is out of it. Consequently, you need to choose whether you prefer to retain some of your funds in cash and possibly reduce volatility or stay invested and possibly get higher returns with the risk of fluctuating value. For the same reason they will expect to pay more for yours if rates fall.

Direct property

Investing in direct property can potentially provide rental income and capital growth over the long term. Direct property can fluctuate in value and sometimes this fluctuation can be significant.

The main risk when investing in direct property is a lack of liquidity (or market depth). Should it become necessary to sell direct property there may not be buyers available who are prepared to meet your selling price. You may therefore have to hold onto your property or sell it at a lower price.

Property investments when used in conjunction with other classes of investment like equities and fixed interest can provide diversity which may actually smooth out risk for the total portfolio.

Listed Property Trusts

Property Trusts allow you to pool your money in funds invested in the property market, with the potential for income and growth.

Listed Trusts are listed on the stock exchange and are bought and sold through a stockbroker. As with shares, their value is mainly determined by the market and can rise and fall.

Domestic shares

By investing in Australian shares (equity) you should receive income from company dividends and some of these may have imputation tax credits. In addition to providing an income your share investment may rise in capital value over time.

However, there is also a risk that the value of a share may fall and that its dividend may fall, or in some years not occur at all.

It is therefore important to avoid investing in only one sector of the equities market (eg. mining and resources shares). A balance of investments across sectors of the equities market is one way to reduce the chance of making a loss in the equities market as a whole.

Of course, there is also the risk that the market as a whole may fall (as occurred in 1987, 1994 and 2008) and then take some time to recover.

That is why growth investments (such as shares) should usually be balanced by investments in other sectors, such a cash, fixed interest and property.

International Shares

Investing in international shares (equities) provides access to the other 98% of the worlds stock market - Australia represents less than 2% of the world market. They behave in a similar way to Australian equities; though do not provide imputation credits.

International shares values held within Australia are also subject to the risk those currency fluctuations will reduce their value.

For example, if you have an investment in US equities and our currency loses value relative to the US dollar, your investment would be worth more in Australian dollars. However, the reverse would also be true if our currency gained value relative to the US dollar.
Some fund managers use currency hedges and other strategies to partially or completely address the risk of adverse movements in the currency markets.