

NORWEST-FINANCE

“Guide to Investing”

THE FUNDAMENTALS:



Investing is one of those things some people do just naturally while others never get around to it. This guide has been put together to help you understand why it is important and to learn how to get started. It provides a easy to understand plan towards investing. However, it is not financial advice, for that we strongly recommend a financial planner. Enjoy!

Step 1: Why invest?

Probably the most import question to answer. “Why?” Because once the “why” has been answered, you will find a “how”. Instead of listing statistics for you, let me ask you a few questions:

- Would you like more time to spend with your family?
- Do you believe the pension will support your planned lifestyle when you retire? *Do you believe the pension will still be available when you retire...*
- Do you know how much super you will have (*and how much you will need*) when you retire?
- If you spend several days to plan a holiday, do you think it would be wise to take the same consideration for your retirement – biggest holiday you will ever have.

Step 2: Where to start...

I hope you have made up your mind about the why. Too many people do not think about it and find themselves left “short” going into retirement. Make sure that does not happen to you. When you start thinking about investing, the amount of information is like a avalanche. Too much to take in. So let's start simple, and build up slowly. First, with all investing, there is only 2 possible aims:

1. Capital Growth (Aim for the investment to increase in value)
2. Cash Flow (Aim for the investment to return an income)

You can have both in some instances but don't count on it. And, for a secure retirement, you need both. Make a choice by looking at what you need most at this moment. *Let me illustrate this by 2 very obvious examples:*

- If you are young and have good income but no real assets yet, a “capital growth” focus might be best. Building an asset base that will increase in value over time.
- If you have your own home and it's worth significantly more than your mortgage and you would like to reduce your job hours, a “Cash Flow” approach might be best.

As you can see, much depends on your personal situation. Every situation is different so make sure you get the right advice. Once you have decided on this, let's move on.

Step 3: How much to invest

A golden rule is never to invest with money you can not afford to loose. So what does this mean? How can you set safe guidelines around your investment plan and how do you know what you can not afford to loose? Here is how you can create a practical way to implement that.

1. Plan a time to sit down and find out how much money is available in savings.
2. Next, work out your monthly expenses (rent/mortgage, utilities, groceries, insurances, car, ...). This amount is your starting point for your “emergency fund”.
3. Multiply your monthly expenses by 3, take that amount out of your savings and put it away for unforeseen events. This is your safety net in case anything unplanned happens.
4. The savings amount left over is your starting point for investing.

Also important in the “how much” is how much to each of my investment plans. Your investment plan could consist of several different investments, each with a different “risk profiles”. To explain, consider the following:

- Plan A has a “low risk” profile. The investments in this plan are for the long term, need to be low risk but return/grow steady & consistent. Allocate a substantial portion of your savings against this plan. For example, 60%.
- Plan B has a “moderate risk” profile. The investments in this plan aim for better returns than those in plan A, but will probably be less consistent. Allocate a much smaller amount to this plan. For example 30%.
- Plan C has a “high risk” profile. The aim is to make high return whilst realizing the higher risk involved. Only a small proportion should be allocated to this plan. It is also a good idea to hold off on investing in high risk until your experience and level of knowledge/comfort has increased.

Step 4: Where to invest

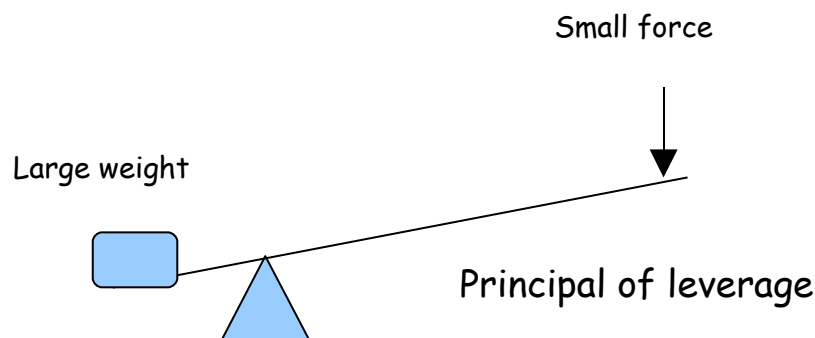
The “where” is hard. You want to earn best possible returns but have minimal risk. You need to take advice but who can you trust. Everybody has a preference and everybody has a horror story. There are simple guide lines to help you work towards a decision.

To start, there are several asset classes or investment possibilities. The most common ones are:

1. Shares (direct (part) ownership in a public listed company)
2. Managed funds (a group of shares, pooled together and managed by a “fund manager”)
3. Property (unit's, townhouses, houses, commercial property, industrial property, etc)

Next, consider an important aspect of investing: Leverage. A short summary of the benefit of leverage is included below.

- **Leverage:** *“The use of a small initial investment, credit, or borrowed funds to gain a very high return in relation to one's investment, to control a much larger investment, or to reduce one's own liability for any loss”*



This is a very powerful advantage in investing! To control a large investment (Say a house worth \$400,000) with only a small amount of your own money (Say \$60,000).

Why is this so important? Because with that small initial deposit you are entitled to the profits of the complete investment. Let's take an example:

3. You buy a property for \$400,000*
4. You put in \$60,000 of your own money
5. You take a loan from the bank for \$340,000 (85%loan)

If that property increases in value by 5%, you profit \$20,000 (5% of \$400,000). Your input was \$60,000 so you made 33% profit on your money! Can you see now that by using leverage, your profit increases significantly, even if the actual investment performs average?

Finally, ask for advice. Visit an investment property experts (this is different from a real estate agent!), a funds manager and ask questions. Talk to somebody that is already investing in shares and property and let them tell you their experience.

Step 5: When to invest

Almost everybody asks this question, “when is the right time to invest?” The answer is simple, the best time to invest is now. All economic markets move in cycles, for instance with shares the “resource sector” is at a different point in it's cycle then retail or banking, with property the Sydney market is at a different point in it's cycle than Perth or Melbourne. This allows for a good investment (as long as the decision is well informed!) at any time. Also, experience teaches us that procrastination is the worse enemy of any investor. Not doing anything, waiting for a “best deal” has proven to be a worse investment decision over stepping forward.



What's next?

Obviously, this guide only has a very brief outline and there is nothing like sitting down with someone and getting your questions answered. At NORWEST, we have all the required expertise ready for you and have helped many clients as part of our service.

Why not contact us today and find out what investing can do for you. We love to help.

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