When we invest, there are four main ‘asset classes’ we can put our money into. The return we achieve and the level of risk associated with the investment will depend on which asset class we invest in.

### What is an asset class?

Asset classes are the building blocks of any investment. The four main asset classes are cash, fixed interest, property and shares.

Cash and fixed interest asset classes are what we call ‘defensive’ assets, which means they are designed to defend your investment from losses. These tend to be more popular for short-term or risk adverse investors (investors who prefer safe, more secure investments with some consistency in returns).

Property and shares are ‘growth’ assets, because they are designed to grow your investment. These are more volatile and are higher risk assets. They are designed for long-term or aggressive style investors willing to ‘ride out’ the peaks and troughs of their investment, because of the potential of higher investment returns.

The most appropriate asset classes for your investment will depend on a number of factors, including your risk tolerance, how long you want to keep your investment and your financial objectives.

### What are the asset classes?

#### Cash

*Risk level and potential return – low*

*Classification: defensive*

‘Cash’ includes bank deposits and investments in securities such as treasury notes with a term of less than one year. Generally, cash investments do not carry a risk of losing your investment capital.

#### Fixed interest

*Risk level and potential return – medium to low*

*Classification: defensive*

A fixed interest investment or ‘bond’ is a debt security issued by a corporation or Government in return for cash. The issuer of the bond is a borrower and is required to pay interest on the loan for the life of the bond. Inflation linked bonds are securities for which the value is indexed to inflation. The borrowers are generally creditworthy and therefore default risk is low. However, interest rate changes can impact the value of a bond therefore they can be riskier than cash, but also they can potentially offer better returns.

#### Property

*Risk level and potential return – medium to high*

*Classification: growth*

Property can include investments in direct property, listed property trusts (LPT) and other property securities. LPTs invest in a range of residential and commercial property, office buildings, hotels and industrial properties. LPTs are pooled property investments which are broken into units and listed on the stock exchange like shares in a company.

#### Shares

*Risk level and potential return – high*

*Classification: growth*

Shares or stocks are securities representing ownership in a company. The value of the shares will typically fluctuate with general economic and industry conditions in addition to the company’s profitability. When companies distribute profits (via dividends), the investor receives part of it.

A company’s value can fall due to poor management, changes in consumer tastes, changes in investor sentiment or a number of unpredictable factors. Therefore shares carry more risk of capital loss than cash or fixed interest. On the other hand, because companies often reinvest their profits, good companies will often achieve high growth in value and earnings over time.

Often Australian companies pay some or all of the tax payable on company income (called ‘franking’), which reduces your tax burden (this isn’t the same for international shares). International shares can have the additional risk of fluctuations in exchange rates which can change the Australian dollar value of international shares. Some fund managers choose to guard against currency fluctuations by ‘hedging.’

#### Diversification

Diversification is an important way of managing the risks associated with investing. It involves spreading your money across different asset classes to provide more consistent overall returns. Sometimes underperformance in one asset class can be offset by positive performance in another asset class. Depending on how you diversify; you can also potentially smooth out performance fluctuations more effectively by investing in a diversified portfolio made up of multiple asset classes, and funds managed by a number of fund managers (through a multi-manager such as ING’s OptiMix).
Which asset classes are appropriate for your investment?

Your planner will determine your investment profile which will then determine which asset classes you should invest in. Your risk profile takes into account your attitude towards volatility, need for income and time horizon for the investment. Visit L-earn online at www.ing.com.au to find out what type of investor you might be.

Investment performance over time

Past performance is not a reliable indicator of future performance.

Would you like more information?

Contact your ANZ Financial Planner who can provide you with information so you can make the decision that is right for you.

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