


Asset classes

FACT SHEET



There are four main 'asset classes' you can invest in, each with different levels of risk.

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 averse investors – those who prefer safer, more secure investments with some consistency in returns.

Property and shares are 'growth' assets because they are designed to grow your investment. These are higher risk and more volatile assets. They are designed for long-term or aggressive style investors willing to 'ride out' the peaks and troughs of their investment, due to their potential for 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 plan on investing for, and your financial objectives.

What are the asset classes?

Cash

Risk level and potential return – low
Classification: defensive

Cash is the generic term for investments that are highly liquid, designed to be extremely safe and invested for a short-term period. Cash also carries the lowest level of return and the investment may be affected by inflation. An example of a cash investment is a short-term bank deposit, bill or treasury note. Generally, cash does not offer investors the potential for capital growth.

Fixed interest

Risk level and potential return – low to medium
Classification: defensive

Fixed interest is more volatile than cash, but is less volatile than growth assets. Fixed interest investments include government and corporate bonds. The issuer of a bond is effectively a borrower, and is required to pay interest to the investors throughout the life of the bond and return the money borrowed upon the maturity of the bond.

Fixed interest carries a low to medium risk and predominantly rewards investors through a regular income stream, usually higher than earnings from a cash investment.

Property

Risk level and potential return – medium to high
Classification: growth

Property includes direct property and listed Real Estate Investment Trust (REIT) investments across residential and commercial sectors. REITs are pooled property investments which are broken into units and listed on stock exchanges to provide liquidity to investors. REITs generally invest in a range of residential and commercial properties including retail shopping centres, office buildings, industrial factories, hotels and leisure centres. REIT prices fluctuate with underlying property fundamentals as well as with broader share market volatility.

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 and with fluctuations in company profitability.

A company's value can fall due to poor management, changes in consumer tastes, changes in investor sentiment or a number of other unpredictable factors. Therefore shares carry more risk of capital loss than cash or fixed interest. Well managed companies can achieve high growth in value and earnings over time which can be reinvested back into the business or distributed via dividends to investors. Where Australian companies pay tax on their profits, the dividends paid to investors carry franking credits which provide tax benefits to the investors.

International shares can have the additional risk of fluctuations in exchange rates which can change the Australian dollar value of international shares. However, international shares, other benefits, including opportunities for country and sector diversification, access to industries not well represented in Australia and access to emerging markets.

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 by investing in multiple asset classes and funds managed by a number of fund managers. One way of doing this is through a multi-manager such as OptiMix used by OnePath.

Which asset classes are appropriate for your investment?

All investments carry some form of risk and you need to be comfortable with the amount of risk you are willing to take. Your risk profile takes into account your attitude towards volatility, need for income, and time horizon for your investment.

A qualified financial planner can help determine your risk profile by asking some simple questions:

- How much money do you need to reach your goal?
- What is the timeframe you have in order to meet your goal?
- Would you accept your investment falling behind inflation?

Risk and return comparison



This graph is an illustration of the risk and return for the respective asset classes and is not indicative of actual performance.

Would you like more information?

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

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