



BuchananMcGill

# Financial Planning Tip 1

## Do You Have The Right Amount of Investment Risk?

*Taking too little investment risk can be just as dangerous as too much investment risk..*

What Do I Mean?

Consider Michael, he watched the news every evening and noticed that share prices moved from day to day. As a result he was not comfortable to invest his money in shares, but he did know the importance of saving for the future. So he put \$500 per month into a Cash Management Trust which was earning a healthy 5% pa and he reinvested the monthly interest he received.

Pamela, on the other hand was also saving \$500 per month. She understood the importance of including investments that were more volatile and risky in the short term, but offered her better long term returns, so she invested in a professionally managed share portfolio. Her portfolio only paid 3% pa in fully franked dividends (which were rein-

vested) but it also grew at a compound rate of 4% (therefore her total annual investment return was 7% pa).

Both Pamela and Michael invested for 20 years and were both on a marginal tax rate of 30% over that time.

So does the 2 per cent additional return make that much difference?

In Michael's case, after losing 1.5% of his 5% return to tax each year, his final balance after 20 years is a respectable \$173,434 of which \$120,000 was his own contribution.

Pamela effectively paid no tax on her dividends (due to franking credits) and her final balance was \$260,463. If she cashed her investment, she would have some Capital Gains tax to pay (about \$15,000), that would leave her with \$70,000 more than Michael.

It works the other way as well. Many retirees think they need to 'protect' their retirement nest eggs by taking little or no risk. Look at how an allocated pension can last longer when the return is higher as in the table below.

*The outcome is dramatic an additional 11 years of income and a very nice \$916,000 better off.*

### Referral Rewards Program

*Spend a night at the Outrigger on the Beach at Salt.*



See our Website for details.

*Albert Einstein when asked what he considered to be the most powerful force in the universe answered:*

**Compound interest!**

### IN PRACTICE—Investment Risk

The amount of investment risk you take is dependant on how you invest your capital between "Growth" and "Income" producing assets. This is referred to as your Asset Allocation.

Generally "Growth" assets are considered to be Shares and Property and "Income" is Fixed Interest (bonds) and Cash. Therefore a portfolio with more than 50% of capital invested in "Growth" assets would have more risk, as well returns would fluctuate greater from day to day.

The value of having regular reviews is to ensure you are taking the right amount of risk and getting an acceptable return for the risk you are taking with your money.

Every 6 months we review your **Investment Program** with you, where we discuss investment performance and risk, this includes discussions around your

- Asset Allocation
- Trading Instructions
- Investment Preferences and
- Investment Goal

Return	5.00%	7.00%
<b>Pension Capital</b>	\$500,000	\$500,000
<b>Commencement Age</b>	55	55
<b>Initial Pension Payment</b>	\$23,700	\$23,700
<b>Capital Used Up At Age</b>	86	97
<b>Total Payments</b>	\$1,027,650.79	\$1,943,937.36

**General Disclaimer:** This advice has been prepared without taking into account your objectives, situation or needs and you should therefore consider the appropriateness of the advice to your situation before acting on the advice. The returns used to illustrate this case study can not be guaranteed in any way. Future returns will depend on a number of factors that can not be predicted.

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