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The what, why and how of investing.

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What is a unit trust?
Why worry about retirement investing now?
How do I pick an adviser?

Asking questions is the best way to gain understanding, but investors aren't always sure where to find answers.

This small book offers simple, practical responses to some of the most commonly asked questions about investing. It will introduce you to the fundamentals, including investing terms, concepts and strategies. We hope that you consider this just the first step in your continuing education.

What is investing?

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Investing is the act of committing money now (for example buying shares in a company, or bonds) with the goal of receiving more money in the future.

What are shares?

Companies issue shares of stock to raise money. Stocks are a unit of ownership in a company. The initial price of a share is based on a company's estimated worth. After that, the price fluctuates based on supply and demand for the shares by investors.

What are bonds?

Bonds represent a loan or a way to borrow money. A company, state or government issues bonds to raise money. The issuer agrees to pay periodic interest payments for the term of the bond and to pay back the full amount borrowed at the end of the bond's life (called maturity).

What is a portfolio?

An investment portfolio is a collection of investments. An investor can buy a single security (for example a stock or a bond) or they can hold numerous securities in a portfolio.

What is asset allocation?

Asset allocation is how an investor distributes their money between different types of investments, such as stocks, bonds and cash. Asset allocation can help balance a portfolio's risk and return (a strategy known as diversification).

What are unit trusts?

Unit trusts are investments that pool money from many investors to buy securities, such as stocks or bonds. An investor buys units in the fund (and does not own any of the actual securities in the fund). The price of a unit (called its net asset value or NAV) is the combined value of all the securities in the fund divided by the number of units. The price fluctuates with the changing prices of the securities.

What are exchange-traded funds?

Exchange-traded funds, or ETFs, are investments that pool money from many investors to buy securities, such as stocks or bonds, similar to unit trusts. But, unlike unit trusts, ETFs trade like a common stock on a stock exchange. Because ETFs trade on an exchange, they allow for intraday tradability and offer transparency. The price of an ETF fluctuates throughout the day as they are bought and sold.

What is a benchmark?

A benchmark is a standard against which to measure investment performance. In most cases, an investment's benchmark is a market index or a combination of indices. An index tracks the performance of a type of security, such as all listed stocks or all government bonds. Indices are unmanaged and an investor cannot invest directly in an index.

What is active management?

Active management is an investment strategy where the manager of the portfolio seeks to select securities and initiate trades with the goal of achieving the investment objective. In contrast, passive management is an investment strategy where the manager typically seeks to buy and hold a portfolio that represents an index in an effort to track its performance.

What return can I expect from my investment?

It is impossible to accurately predict future returns. Over the last 20 years, stocks (as measured by the MSCI World Index) returned an average of 4.38% per year and bonds (as measured by the Bloomberg Barclays Global Aggregate Bond Index) returned an average of 4.55% per year.* It is important to note that past performance is no guarantee of future results.

*As of 31 December 2018.

What is risk tolerance?

All investments carry some degree of risk. These risks include the chance that an investor will lose the money they invested. Investors generally require more return potential to take on more risk. Each investor must determine how much risk they are comfortable with – their risk tolerance level.

What is volatility?

The price of a security (such as a share of stock and a bond) goes up and down based on supply and demand pressures from investors. Volatility measures how much a security's price moves.

Why invest?

Why invest?

Investing can help individuals reach their financial goals. Individuals invest to increase their wealth (called capital appreciation), generate income or protect the money they have (capital preservation).

Why not keep my money in cash?

Individuals are sometimes tempted to keep the bulk of savings as cash or in other short-term investments (such as term deposits and money market funds) to reduce their risk levels. But, these investments offer the lowest return potential, making it difficult to reach financial goals.

Why?

Why work with an adviser?

The financial markets are increasingly complex. Individuals may not have the time or interest in staying on top of changing conditions and actively managing a portfolio. A professional financial adviser can offer these individuals important benefits, including helping to develop custom investment plans, recommending specific investments, and monitoring markets and portfolio performance.

Why diversify my portfolio?

Diversification is an investment strategy that helps mitigate risk by investing across different asset classes. In this way, if any single investment or asset class does badly others might compensate by performing well, potentially smoothing returns overall.

Why start investing early?

Time is a big advantage in investing. An investor who starts early and invests consistently can accumulate more assets. In addition, the longer time frame allows an investor to ride out volatility and to realise the benefits of compounding. Compounding is when interest earned on an investment is reinvested in the investment, so that the interest earns interest.

Why?

Why is consistency important?

Market conditions change. Security prices go up and down. Investors may be tempted to try and time when to buy and sell investments, but history shows that creating a plan and sticking with it is most often a smarter strategy.

Why worry about retirement now?

People are living longer, meaning many individuals will spend decades in retirement. Financing those years will require a great deal of money. The sooner an individual starts investing for retirement the better.

How do I get started?

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The first step is to decide how involved an individual wants to be in selecting and managing their investments, or if they'd rather work with a financial adviser. In either case, an individual will need to identify their investment goal (what they need the money for, such as financing a child's education or retirement), their investment timeframe (how long until they need the money) and their risk tolerance. With that information the investor (and their adviser if they have one) can develop an investment plan.

How can I grow my money?

Investors interested in growing their assets are pursuing a capital appreciation strategy. Capital appreciation is an increase in the price or value of an investment. Stocks have historically provided the best opportunity for capital appreciation over time, but bonds can also offer appreciation potential. There are no guarantees that the value of stock or bond investments will appreciate and in fact they can lose value.

How?

How can I protect my money?

Investors interested in protecting their money can pursue a capital preservation strategy. Capital preservation is maintaining the value of an investment. Historically less risky investments such as fixed term deposits, money market funds and high interest saving accounts can maintain their value, but offer low return potential. Bonds have historically been relatively stable investments and can offer return potential that will help investors keep pace with inflation and move towards financial goals. All investments involve risk and there are no guarantees that bonds or any other investment will deliver a positive return or that they will not lose money.

How?

How can I generate income?

Investors interested in income may consider several strategies, including dividend-paying stocks, bonds and short-term investments. Selecting the appropriate strategy will depend on an individual's situation, including the amount of income needed, their investment time frame and their risk tolerance.

How?

How do I balance short- and long-term goals?

Most individuals are investing for more than one goal. These can include longer-term goals such as accumulating assets for retirement and more immediate goals such as generating income to supplement earnings. Investors may be tempted to prioritise more pressing short-term goals, but it is important to take advantage of time to achieve long-term goals. A professional financial adviser can be helpful in balancing these goals and selecting appropriate investments to pursue both.

How?

How do I manage volatility?

Investors who are uncomfortable with excessive volatility can adopt one or more strategies to help reduce it. These include focusing on less volatile types of securities (such as certain types of bonds) and diversifying money across investments. There is no guarantee that any of these strategies will eliminate volatility.

How often should I check and/or change my investments?

Scrutinising every fluctuation in the market or in the value of an investment can create a lot of anxiety. Investors may instead want to set a schedule to review performance and make any adjustments. It is important to keep in mind, however, that a disciplined approach to a long-term investment strategy may yield the best results.

How?

How?

All investments contain risk and may lose value. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. An investment in an **ETF** is subject to secondary market trading risks or the risk that fund shares could trade at prices at, above or below their most recent NAV; and the risk that the manager's investment decisions might not produce the desired results. **Money Market funds** are not insured or guaranteed by FDIC or any other government agency and although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund. **Asset allocation** is the process of distributing investments among various classes of investments (e.g., stocks and bonds). It does not guarantee future results, ensure a profit or protect against loss. **Diversification** does not ensure against loss.

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