



6 things you need to know... To get the most out of your investments

This information sheet was written to help you develop an awareness of financial (and other) matters to consider when investing your money.

I have recently come into money – are there any decisions I need to make straight away?

It is usually not necessary to make any decisions immediately. So, allow yourself time to adjust to your new situation and assess your options.

- You may find it beneficial to decide how much you will need to live on for the next 6 to 12 months and keep that money separate.
- You can put your money in a temporary and safe account – a term deposit or cash management account will provide a safe and relatively liquid place for your money.
- You may need to get tax advice so that you can determine if there are any immediate actions you must take because of tax repercussions.

1. How do I preserve and grow my capital?

Arguably the most important goal of investing is to maintain the real spending power of your savings. That is best achieved through risk management, not chasing returns. Risk cannot be entirely avoided or outsmarted through cleverly timed purchases and sales. But investments can be shaped to minimise risk and maximise potential returns. While it is natural to be concerned about the security of investments, a smart investor understands the need to undertake a certain amount of risk. 'Safe' low-risk cash investments, like cash management trusts, for example, are excellent choices for preserving the nominal value of assets

and ensuring a very high level of liquidity, if that is a requirement. However, over the longterm they generally cannot provide the capital appreciation needed to meet long-term investment goals.

The best way of both protecting capital and also providing some potential for further growth is a balanced portfolio of investments.

A balanced portfolio is one that is diversified across fixed income, shares and property, and is diversified within each of these three main sectors.

The mix between the various types of investment can be tailored to take into account the level of risk appropriate for your investment goals, time horizon and risk tolerance.

2. What returns can I expect?

The returns you can expect from your investments hinge around what we call the "risk-free" rate, which itself revolves around the inflation rate. The risk-free rate is the return you can earn on a risk-free investment. Investment professionals use the 5-year government bond as the definition of a risk-free investment and look at the interest rate on these bonds to get the current risk-free rate of return.

If you can't find the interest rate on the 5-year government stock just have a look at the rates the major banks are paying on 90-day deposits. This is usually very close to the risk-free rate.

Although they are very up and down, shares, on average, provide a return that is around 4% higher than the risk-free rate. Slightly higher-risk fixed income, relative to government stock, may provide

an extra 1.5% above the risk-free rate and property an extra 3%.

Many people still expect to earn 10% or more on their low-risk investments. If an investment offers a return of 10% at a time when the risk-free rate of return is more like 5%, then it will not be low-risk. Anything offering twice the risk-free rate will be high-risk even if the advertisement says otherwise.

3. What is the Investing Process?

The investing process begins by understanding what you are trying to achieve financially. This goal is absolutely vital to ensuring you invest in a way that best suits your circumstances. Then it is a matter of putting together a portfolio of investments that best suits your investment timeframe and your tolerance for risk. Your investments should never keep you awake at night.

This is where you might seek specialist help to advise and assist in those areas of investing where you have limited expertise. Equally, if you are a busy person who wishes to invest but don't have the time or desire to look after your investments, the help of an investment professional can be invaluable.

4. How do I find good investment advice?

If you already have a trusted Investment Advisor, you will likely turn to that person for help through this period of transition.

If you don't have an Investment Advisor, you will probably want to find one. The Investment Advisor may become part of a support team of professionals that you may need to assist you with legal, tax and related issues. One of the best ways of finding a qualified investment professional is to ask trusted friends or professionals, such as lawyers and accountants, for references. Even with a recommendation from a trusted personal friend or professional, you must do your homework.

An in-person interview with the Investment Advisor is the best way to decide your comfort level with the person and learn answers to questions such as:

- What qualifications does the advisor have?
- What is their (and their firm's) investment philosophy.
- What process do they follow with their clients to decide how a client's money should be invested.

After interviewing a potential advisor, it's important to note how you feel. Do you feel comfortable and trusting of this advisor? Did the Investment Advisor answer your questions satisfactorily? If you felt intimidated when you asked questions, that may be a signal that the Investment Advisor is not right for you.

Remember, this person is going to be working for you, so it's important that you feel comfortable with whomever you choose.

5. What is the role of an Investment Advisor?

Much like a business consultant or coach, your personal Investment Advisor works alongside you to help you achieve your goals. In addition to providing investment advice, a professional Investment Advisor will work with you to:

- Understand what you want to achieve with your investments and how involved you wish to be in looking after your investments.
- Help you to clearly define both your short and long-term goals.
- Help you to design the most appropriate investment strategy accounting for your objectives, your tolerance for risk, your time horizon and any constraints that are in place.
- Help you understand your investment options and offer you specific investment recommendations and opportunities based on your needs.
- Provide you with a familiar voice to express your interests and concerns regarding your investments.

Most importantly, your advisor is an experienced investment professional who you can trust to provide you with guidance and advice regarding your and your family's financial future.

6. What questions should I ask when looking for an Investment Advisor?

- Can you describe your typical client?
- Do you specialise in types of clients, level of income, or types of services?
- What would be the general approach you would take to address my particular needs?
- What do you expect from me in our relationship?
- What is your investment style or philosophy?
- How are you paid? (Commissions? Fee-based? Combination?)

Craigs Investment Partners is one of New Zealand's leading investment firms, offering personalised investment solutions to private, corporate and institutional clients.

We are one of New Zealand's leading NZX participant investment advisory firms with 17 branches throughout New Zealand. We are an accredited NZX Firm and operate under the rules of the New Zealand Exchange (NZX). All our Investment Advisors are accredited NZX Advisors or Associate Advisors.

FREEPHONE: 0800 272 442 **WEBSITE:** www.craigsip.com

A Disclosure Statement is freely available on request - visit www.craigsip.com