DO INVESTMENTS MAKE MONEY?

PERPETUAL
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The simple answer is maybe. Investments may make you money (let's be real, otherwise why would anyone bother?). But if we're all about being real, they can also help you lose your money. In saying this, the Australian sharemarket delivered a strong annualised return of 11.8% [1] to investors since 1900 (please note past performance is not a reliable indicator of future performance).

A lot of investment portfolios are generally made up of two things: **shares** (you may also hear shares referred to as *equities*) and **bonds** (you may also hear bonds referred to as *fixed income*).

Want to learn about investments? Click here.

No thanks, I just want to know if they make me money first. I'll continue reading. Fair. You are goal-orientated, we like that, here you go:

How investments may make you money

This will likely happen when the value of your investments goes up or increases in value, you may refer to this as 'capital growth'. For example, a share's market price won't stay the same price forever – ideally, as the company grows and/or makes money it becomes more valuable overall. Then, because that total value gets spread across the company's shares, the market price per share usually goes up.

For example, let's say the market price of Company X's share is $4 and you buy 10 shares of it (learn how to buy shares here). The value of your investment is 10 x $4 = $40. Let's say Company X then performs well, and its shares are now selling for $5. That means the value of your investment is now $50 (10 x $5 – the amount of shares you own multiplied by the new value of that share). So, if you were to sell those shares you would have $10 more than you started with ($50-$40) and you would have earned $10 in net returns.

You can also get paid because you own the investment

Depending on the type of investment, you may receive income in the form of payments. In the case of shares, these payments are not guaranteed. If the company makes a profit and the leadership team decide to share this with shareholders, they will distribute what's known as a dividend. In the case of bonds and property the income return is often referred to as 'yield'.

For example, if you buy a bond for $1000 that pays 3% interest for 10 years. Each year you'd be paid $30. And at the end of the 10 years you would get your $1000 back and have received a total of $300 in interest. So after the 10 years you would have received $300 in net returns plus your initial $1,000 back.

Should I invest in shares or bonds?

There's no right or wrong answer here and it depends on your appetite for risk. Remember shares tend to be riskier (with a higher earning potential) than bonds. Note: not all bonds are made equal, learn more here. Most people like to diversify (and spread their risk) by holding a mix of investments in their portfolio.

There are also managed fund products available that are made up of a mix of investments, including cash, bonds, shares (Australian and international), property and infrastructure. These funds are often actively managed by investment specialists to achieve a goal for its investors.

Another option is an exchange-traded fund (ETF), which is listed on the stock exchange provide opportunities like Australian and international shares, currencies or precious metals/stones.

What the ... is an ETF?

ETFs are different to managed funds in that they are accessible to a wider group of investors with no minimum amount to invest. The value of an ETF can go up and down in value in line with the index they are tracking. These types of ETFs are also known as a 'passive' way of investing by following the market indices. For example, if the index is the ASX300, the performance of an ETF will just follow the top 300 Australian companies listed on stock exchange.

Next, we'll explain that your money may have made you even more money (thanks to compounding).

Compounding <link to article>, historically has been rather powerful (remember past performance is not a reliable indicator of future performance). But basically, when you invest your money, it hopefully gives you a return and on their own these returns can earn further returns for you over time (how good). This obviously can work the other, less desired way during down markets, but historically markets on average have trended upward.

In conclusion

Share prices may go up, may go down or share process stay the same – and may sometimes in the short-term go extremely up and go extremely down. The sharemarket is just the collective value of all the shares that investors own (which means it goes up and down too).

Fun facts, an example of how volatile shares can be:

- the Australian market's biggest calendar year gain (since 1928) was 1983 at 67%
- the Australian market's biggest calendar year loss (since 1928) was 2008 at -39%

Historically, the Australian sharemarket has delivered an annualised return of 11.8%[2] p.a. for investors since 1900, while 10-year Australian Government bonds have returned an average of 6.2%. In comparison, the average savings account currently pays around 1.0% per year, and inflation happens at around 1.8% per year (at December 2019). And that's why investing, generally, may help investors make more money than savings would alone.

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1. Perpetual Investments.
2. Perpetual Investments and Bloomberg 1900 to 2019.