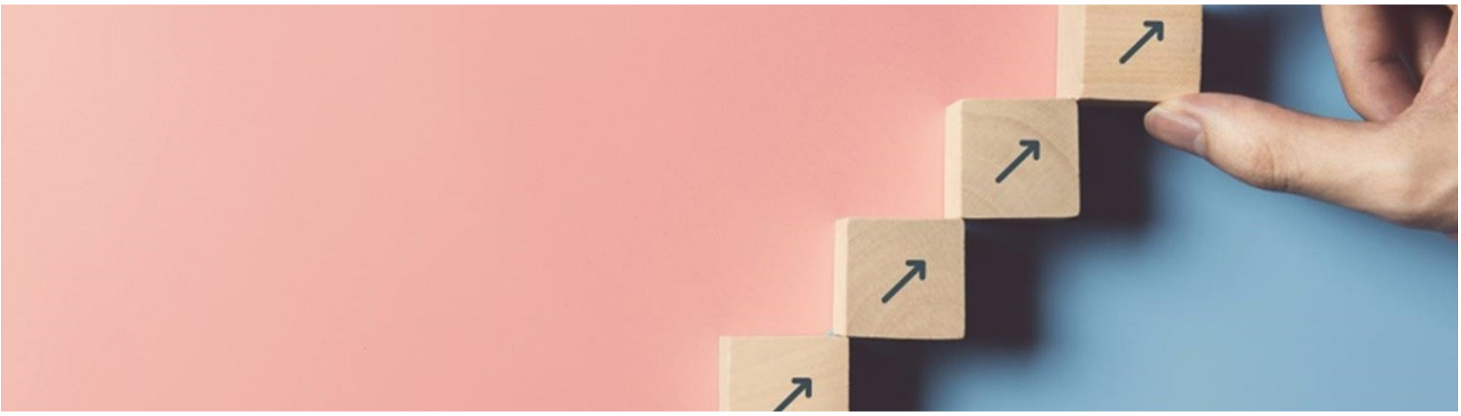
WHY YOU SHOULD CONSIDER INVESTING AND NOT JUST SAVING



PERPETUAL
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I know, I know, from an early age we've all been told to "save, save, save", and in general, saving is a good thing. If you ever hope to retire comfortably one day, you should be saving more than you spend.

The first thing people think about in terms of saving for retirement (or any lifestyle goal for that matter) may be to consider diverting some funds out of their transaction accounts and into a higher interest earning savings account or term deposit.

The problem is that interest rates over the years have been lowered and lowered. So, even if you hold your money in a high-interest savings account you're only likely to get around 1.5% interest. With inflation (which is the amount things get more expensive each year) running at around 2.5% it means if you keep your money in an average Australian savings account, it will buy you less as each day passes.

Having money in savings is useful as a 'rainy day' fund (for those unexpected emergencies where you need cash quickly) however for longer-term goals, you should start considering investing in a broader range of investments.

Investments in assets such as shares, property, bonds and managed funds will generally earn more money over the longer term, than cash in a savings account. However, this isn't a 'free lunch': investing in these types of assets involves accepting a higher level of risk. When we think about risk in investments it's the frequency (how often) and degree (how much) that asset prices can move day to day and month to month – this is often called 'volatility'.

However, it's the volatility of these assets that means, as long as you can ride out the bumps and moves in markets over the short-term, the returns generated from these assets will be higher over the long-term compared to the interest earned on a savings account.

Having enough savings for 'rainy days' means that you can afford to leave you investments for long-term goals, such as paying off your house, paying for your kids' education or saving for a comfortable lifestyle in retirement.

How much more?

Let's look at an example where you have $100,000 to save or invest.

As mentioned before if you put $100,000 in a high interest savings account you'll earn around 1.5% interest each year. Let's look at how much you end up with after one year, after taking into account the reducing value of the money, due to inflation. We've taken inflation to be 2.5% in this example as that is around the long-term average.

Balance	$100,000
Interest rate	1.50%
Earnings (pa)	$1,500
Less inflation	-2.50%
Value adjusted for inflation after 1 year	$98,962.50

Now let's look at investing as an example.

If you put your $100,000 into a balanced fund (with a mix of fixed income, property, shares etc) you *may* earn an average of 7.5%* per annum. After ten years, in the balanced fund, your $100,000 would have grown to $160,004 (adjusting for the impact of inflation). It's important to note here that some years the markets perform but some years they don't i.e. you could make a loss. And that's why generally investing is better as a long-term play.

Let's look at how these investing and saving examples play out over a longer time frame of 5, 10 and 20 years.

	5 years	10 years	20 years
Savings account (1.5% interest)	$94,919	**$90,096**	**$81,173**
Balanced fund (7.5% long term expected return*)	**$126,493**	**$160,004**	**$256,012.75**

*Investment returns are based on average historical performances. Past performance of a fund is not a reliable indicator of future performance. Returns can vary from year to year, some years it may be negative.

If investing has the potential to out-perform an average savings account, why doesn't everyone do it?

Three main reasons.

1. **It's riskier**
2. **They don't have the time frame**
3. **They don't know how**

Firstly, let's look at risk
We've already talked about being able to accept risk as part of investing. While putting your money in a savings account is the least risky option, an investment portfolio can be managed to different levels of risk and a good investment plan will aim to give you a level of risk you can accept and are comfortable with.

Some people prefer to take on less risk than others when it comes to investing. And that's OK, so long as your decision to do that is an informed one and built into your financial plan. There's no 'one size fits all' solution – everyone is a bit different.

Time frame
Yes, timing is everything. At Perpetual, we are great believers in investing, but we appreciate there is a time and place for both saving and investing.

Time frame is a key part in determining the level of risk you can accept. If you want to invest for less than five years (maybe you're saving for a deposit on a house) then most experts would recommend keeping your money in safer investment options, like bonds or cash. This is because returns can often fluctuate significantly over 3-5 years in riskier assets such as shares and property and leave you in a situation where you may have less money than you need to make that deposit on a house because markets have moved against you. We do know that over the longer term (5-10 years for example), there is less chance of equity and property markets delivering negative returns.

We're also big believers in having an emergency savings account for unexpected financial emergencies (such as a health scare or a car break-down), this means your money is accessible and you can leave you investment portfolio to accumulate for longer term goals.

How to invest

Investing can seem complicated but there are ways to invest your money and get a good return that are reasonably straightforward.

Firstly, we recommend doing some initial reading on investing. With something as important as your financial future, most people prefer to talk to a financial adviser. This is particularly true for people who expect that their income and savings will increase over time (and also those who don't want to spend time managing their own investments).

Most financial advisers (including advisers at Perpetual) don't charge for an initial consultation. So, you can talk to a few different advisers until you find one you are comfortable with.

A good adviser will take time to understand your personal situation and your life and financial goals before recommending investments to you. And above all a good adviser will make you feel comfortable, explain things to you clearly and never pressure you into making decisions.

Before you choose a financial adviser, we recommend asking them these 8 hard questions.