Perpetual Investments

THE REAL VALUE OF INVESTING IN SHARES

Building wealth by investing in growing businesses

THE REAL VALUE OF INVESTING IN SHARES

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1861

MELBOURNE STOCK EXCHANGE OPENED

$63 TRILLION

VALUE OF SHARES TRADED GLOBALLY[1]

40%

AUSTRALIANS OWN SHARES DIRECTLY OR INDIRECTLY[3]

PEOPLE HAVE BEEN BUYING SHARES AS WE NOW KNOW THEM SINCE THE 1600S.

Australians were buying shares back in the 1860s (when the Melbourne Stock Exchange opened). Today the value of shares traded around the globe is well over $US63 trillion.[1]

In this booklet we look at the benefits of sharemarket investing, the types of returns shares have delivered for investors, the most effective ways to invest in shares and how to manage the volatility that comes with owning a piece of a company (or many pieces of many companies).

First, let's discuss what shares actually are.

WHAT YOU GET FOR YOUR MONEY

When you buy shares you are buying a piece of a company. You'll receive an annual report and can attend and vote at Annual General Meetings. Your reward comes in the form of dividends – regular income payments that typically rise or fall in line with the revenue and profits of the company.

You can also be rewarded with capital growth – a rise in the value of your shares. That price rise can result from a range of factors, including:

- The market believes the company's current operations will generate higher revenues in the future, or that something the company is planning to do – launch a new product, open a new mine, etc – will generate higher future revenues.
- The market (all those buying and selling shares) believes the dividend income the company is paying ('the yield') makes those shares worth more.
- Changes to economic conditions such as interest rates, currencies, economic growth, employment etc, improve the prospects of the company (or make competing investments such as cash, less attractive).

REALITY CHECK

There are no guarantees when it comes to the income and growth shares deliver. Profits and share prices fall as well as rise. And while rising revenue and profits will generally be reflected in the overall returns of the shares over the long-term, that return can be affected by a whole range of other forces as well.

WANT TO INVEST IN SHARES? (YOU PROBABLY ALREADY ARE)

Australians are big share investors. Nearly 40% of us own shares either directly or through managed funds. That's more than own residential property (22%). And while international comparisons are difficult, Australia has much higher rates of share ownership than countries like the USA, UK and Germany.[2]

Many Australians own local and international shares through their superannuation fund/s. By global standards, Australians' superannuation funds have relatively large share allocations.

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1 Source: World Federation of Exchanges members.
2 Source: ASX Australian Share Ownership Study, 2012.
3 Via managed funds.

THE REAL REASON TO INVEST IN SHARES

PEOPLE INVEST IN SHARES BECAUSE THEY HAVE GENERATED REAL WEALTH OVER THE LONG TERM.

SHARES HAVE OUTPERFORMED

Australian shares have out-performed other asset classes over the past 30 years. We can assess that performance by looking at return histories over decades and business cycles.

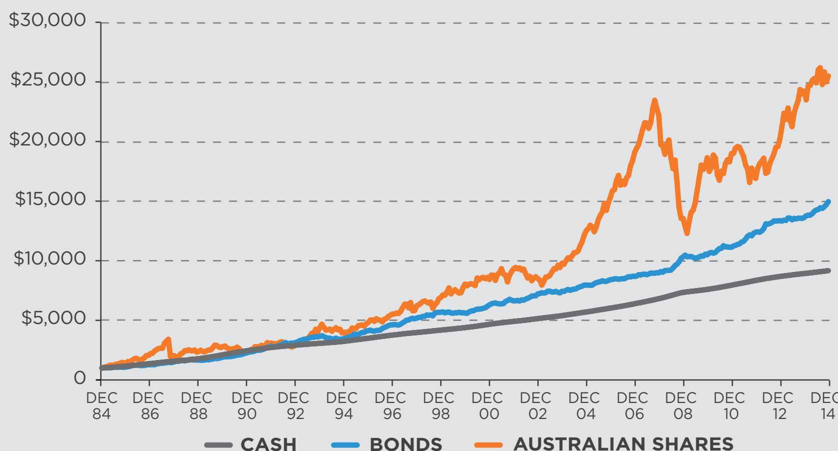
Chart 1 below displays the growth of $1,000 invested over 30 years in three asset classes – shares, bonds and cash.

RESULTS

As **Chart 1** shows, Australian shares delivered an average annual return of 11.4% over this long period.

Over the 14 years since 2000 – a period which includes the full damage wrought by the Global Financial Crisis (GFC) – Australian shares still averaged an after-inflation annual return of over 5% – again comfortably outperforming bonds and cash.

CHART 1: AUSTRALIAN SHARES HAVE OUTPERFORMED OTHER ASSET CLASSES OVER THE PAST 30 YEARS
$1,000 INVESTED OVER 30 YEARS: DEC 1984 – DEC 2014



AVERAGE RETURNS (PA)

CASH	BONDS	AUS SHARES
7.7%	9.4%	11.4%

Indices represented by: Cash: Blended Cash Index (90 Day Bills ≤30 September 1987 and ≥31 October 1987 Bloomberg AusBond Bank Bill Index). **Bonds:** Bloomberg AusBond Composite 0+ Yr Index. **Shares:** S&P/ASX 300 Accumulation Index (prior to 1 April 2000 the index was the ASX All Ordinaries Accumulation Index). Source: Perpetual & Factset. No allowance has been made for taxation. Past performance is not indicative of future performance.

CAPITAL GAINS TAX AND A 50% DISCOUNT

In broad terms, any capital gain you make by selling shares or redeeming managed fund units must be declared in your annual tax return, added to your assessable income and then taxed at your marginal rate.

The good news is that individuals get a 50% discount on the gain once they've held that asset for more than a year. So, if you make a $50,000 profit on a parcel of shares you've held for over a year, you'll only pay tax on $25,000 – that is, on 50% of the gain. The other $25,000 is tax-free.

If you make a capital loss on a share sale you can offset that against any capital gains you make on other assets – or carry that loss forward to offset against future gains.

There are some different Capital Gains Tax issues to consider if you buy shares through a structure like a company or trust. You can also choose an alternative way to calculate capital gains on shares you purchased before 21 September 1999. The Australian Taxation Office (ATO) website (www.ato.gov.au/General/Capital-gains-tax) has plenty of information and some useful calculators.

Perhaps the key thing to remember is that capital gains on shares are treated more favourably than income from sources such as bank accounts and term deposits, because of the discount.

AUSTRALIAN SHARES HAVE OUTPERFORMED OTHER ASSET CLASSES OVER THE PAST 30 YEARS.

THE REAL VALUE OF INCOME FROM SHARES

DIFFERENT INVESTMENTS PAY DIFFERENT LEVELS OF INCOME IN DIFFERENT WAYS. SHARE INCOME HAS DISTINCT CHARACTERISTICS THAT MAY MAKE IT PARTICULARLY VALUABLE TO SOME INVESTORS.

WHY SHARE INCOME IS NOT PREDICTABLE

How much a company can pay out as dividends will depend on a whole range of factors including income, expenses, profits, the outlook for all those things and any planned future spending. Even if a company is doing well, it may limit dividends to give it more money to invest in new products or save cash for tough times. It may choose not to pay a dividend at all.

The good news is that the money a company reinvests in the business, may turn into greater capital growth for investors down the track.

That's one reason legendary investor Warren Buffett's company Berkshire Hathaway, pays relatively small dividends – he believes he can earn a higher rate of return on the money the company retains.

In short, while some companies actively try to pay consistent dividends, share income is much less predictable than alternatives like term deposits.

WHY SHARE INCOME CAN BE HIGHLY TAX-EFFECTIVE INCOME

Term deposits and bonds pay predictable income at regular intervals. But the income they pay is fully taxable.

Conversely, share income in Australia can be very tax effective because our 'dividend imputation' system means that if the company has already paid tax on its income, you may get a tax benefit from dividends received from that company. This may make share income more attractive than that from cash and term deposits, as seen by the higher yield in **Table 2.**

EARNINGS PER SHARE

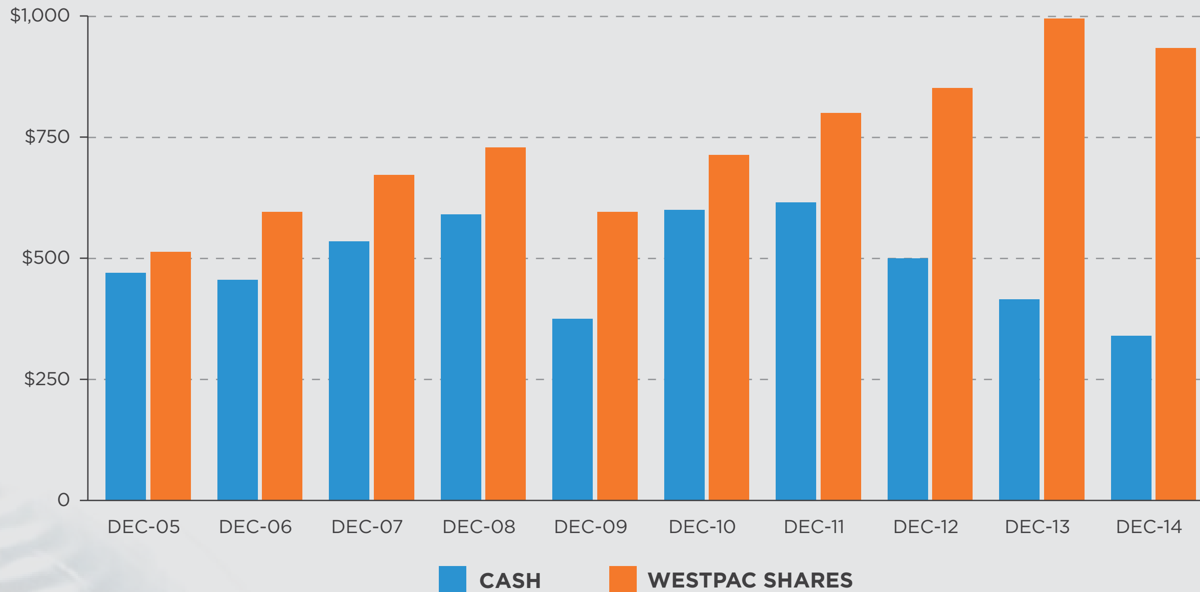
A company's total annual earnings divided by the number of shares on issue.

TABLE 2: DIVIDEND INCOME IS TREATED DIFFERENTLY FOR TAX PURPOSES

	SHARES*	BONDS	BILLS
Pre-tax yield	5.0%	5.0%	5.0%
After tax yield at 34.5% individual tax rate	4.7%	3.3%	3.3%
After tax yield at 39.0% individual tax rate	4.4%	3.1%	3.1%
After tax yield at 47.0% individual tax rate	3.8%	2.7%	2.7%

*Assumes corporate tax rate of 30% and 100% franking level. Source: Perpetual & ATO.

CHART 3: ANNUAL INCOME – $10,000 INVESTED IN WESTPAC SHARES VERSUS CASH



Source: Perpetual & Factset. Westpac shares income based on $10,000 investment at market closing price on 31 December 2004. Cash income based on $10,000 investment on 31 December 2004 at rolling 12 month Term Deposit rates.

HOW SHARES GENERATE GROWING INCOME

Term deposits can pay you a **consistent** income. That's because term deposit (and bond) income is almost always a set, simple percentage of the capital you invested.

However, when you invest in shares you are investing in a business constantly seeking to grow its revenue. Whether that's by buying other businesses, being more efficient, or developing new product or technologies, there are numerous ways a successful business can grow what it earns.

Chart 3 shows the earnings per share growth of one of Australia's major banks measured against the annual income you would earn if the same amount was invested in one year bank term deposits.

Earnings per share is a key measure of a company's ability to pay you a growing income over time – the more money it earns, the more it can afford to pay out as income to you.

High quality Australian shares can deliver earnings per share growth that significantly exceeds the return paid by cash. That's what allows them to pay investors a growing income over time.

THE REAL VALUE OF COMPOUNDING SHARE RETURNS

COMPOUNDING IS EARNING INCOME ON YOUR INCOME. IT'S SIMPLE BUT POWERFUL – SO POWERFUL THAT ALBERT EINSTEIN DUBBED COMPOUND INTEREST 'THE EIGHTH WONDER OF THE WORLD'.

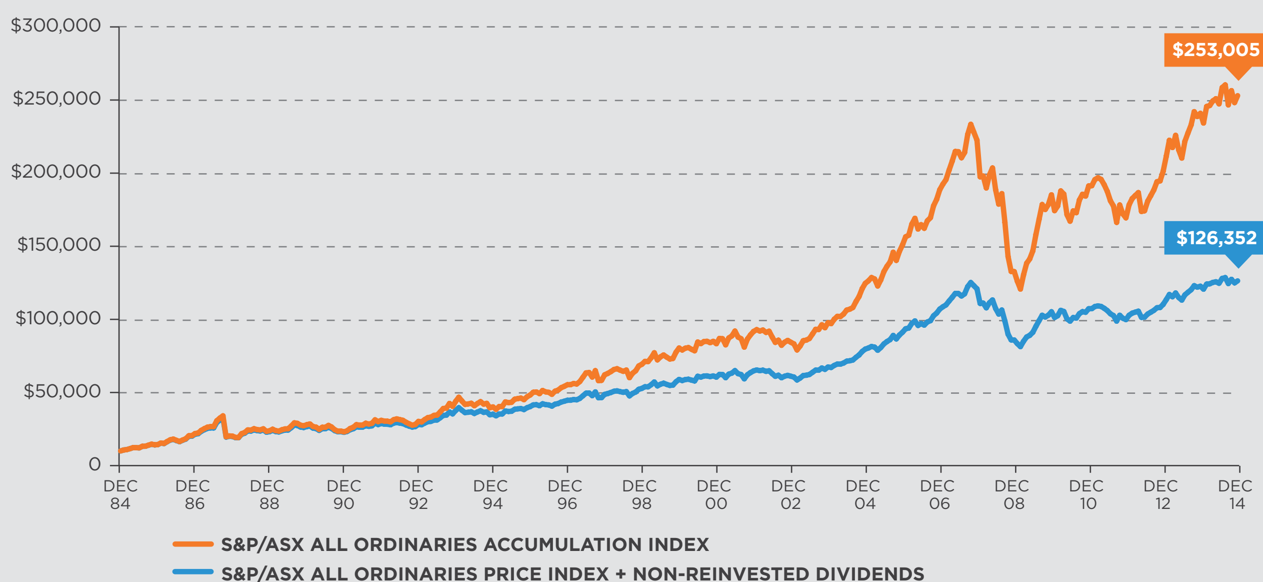
The power of compounding is a good reason to roll over your term deposit (and to pay off your credit card quickly). But compounding can be even more powerful when investing in shares. As we saw previously, the potential for shares and share funds to pay a **growing** income stream is one of their main attractions. You can **supercharge** the value of that growing income stream by reinvesting it, for example through a dividend reinvestment plan.

Let's look at two examples of just how powerful the decision to reinvest – to compound your returns – can be.

In **Chart 4** below, the **orange** line is what would have happened if you invested $10,000 in the S&P/ASX All Ordinaries Accumulation Index 30 years ago. That index assumes all income is reinvested. The **blue** line shows what you would have earned – without compounding – on the same amount over the same term.

CHART 4: THE POWER OF COMPOUND RETURNS

TOTAL RETURNS – DIVIDENDS REINVESTED VS DIVIDENDS NOT REINVESTED (DEC 1984 – DEC 2014)



Source: Perpetual & Factset. No allowance has been made for taxation. Past performance is not indicative of future performance.

It shows the S&P/ASX All Ordinaries **Price** Index – where no income is reinvested – and adds back the value of income paid out.

As you can see, the simple decision to reinvest rather than take your income is worth an extra $126,653.

REAL WORLD COMPOUNDING

The power of compound returns can also be seen in the performance of the **Perpetual Industrial Share Fund** in **Chart 5**, below.

An investment of just $1,000 in 1979 would be worth more than $123,000 today – if you'd reinvested your distributions.

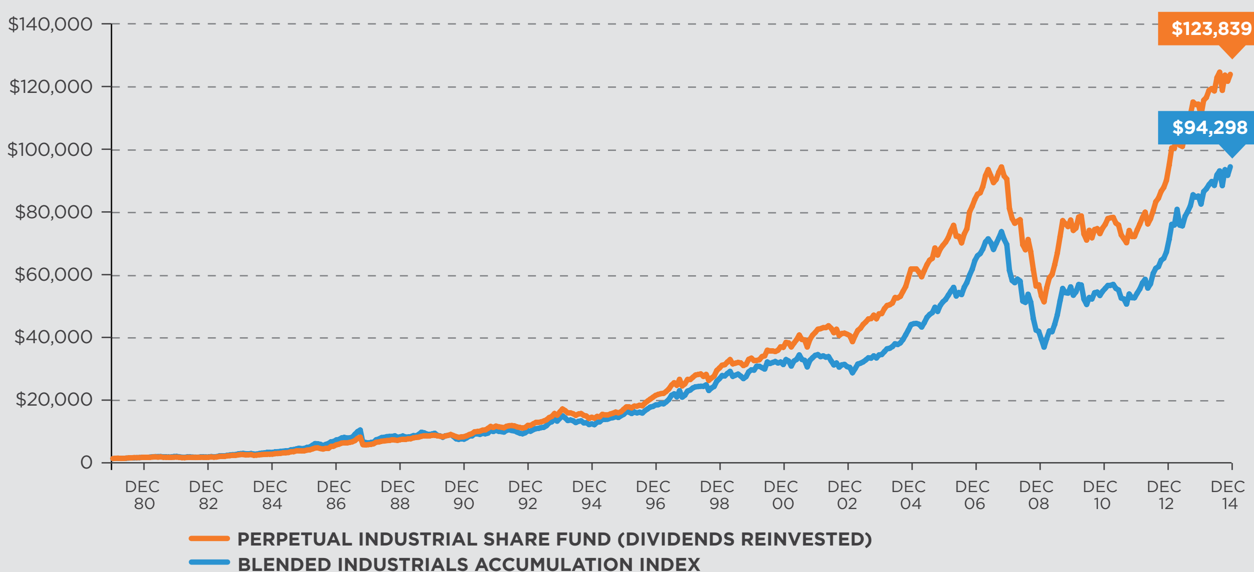
WILL REINVESTING WORK FOR YOU?

Reinvesting is a choice. Many people use share income to meet living expenses. But as these two charts highlight, compounding can make a major difference to your returns.

'AUSTRALIAN SHARES ARE A COMPOUNDING MACHINE. OVER A VERY LONG PERIOD THERE ARE VERY FEW MAINSTREAM INVESTMENTS THAT HAVE REWARDED INVESTORS SO WELL.'

Matt Sherwood
Head of Investment Strategy
Perpetual

CHART 5: PERPETUAL INDUSTRIAL SHARE FUND VERSUS INDEX
$1,000 INVESTED SINCE DECEMBER 1979



Source: Perpetual & Factset. Total returns for the Perpetual Industrial Share Fund have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance. Benchmark prior to 1 April 2000 was the ASX All Industrials Accumulation Index. From 1 April 2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

SHARE PRICES CAN FALL IN RESPONSE TO GEOPOLITICAL OR ECONOMIC TRENDS... BUT THE HISTORICAL LONG TERM TREND HAS BEEN CONSISTENTLY UPWARDS.

THE REAL MEANING OF SHAREMARKET VOLATILITY

SHARE PRICES CAN FALL FOR A VARIETY OF REASONS...

Share prices fluctuate every day, because every day thousands of buyers and sellers trade them. (The same thing would happen to house prices if they didn't take weeks to buy and sell.)

In an earlier section, we discussed all the forces that can drive share prices higher – bigger profits, higher yields, geopolitical or economic events that investors perceive as positive for the companies they own. The same is true in reverse. Share prices can fall for a similar variety of reasons. For every resources boom, there's a GFC; for every tech boom, a tech crash; for the rise of China, a decline in Japan.

So how can investors deal with this volatility?

REMEMBER, VOLATILITY IS THE PRICE YOU PAY FOR GROWTH POTENTIAL

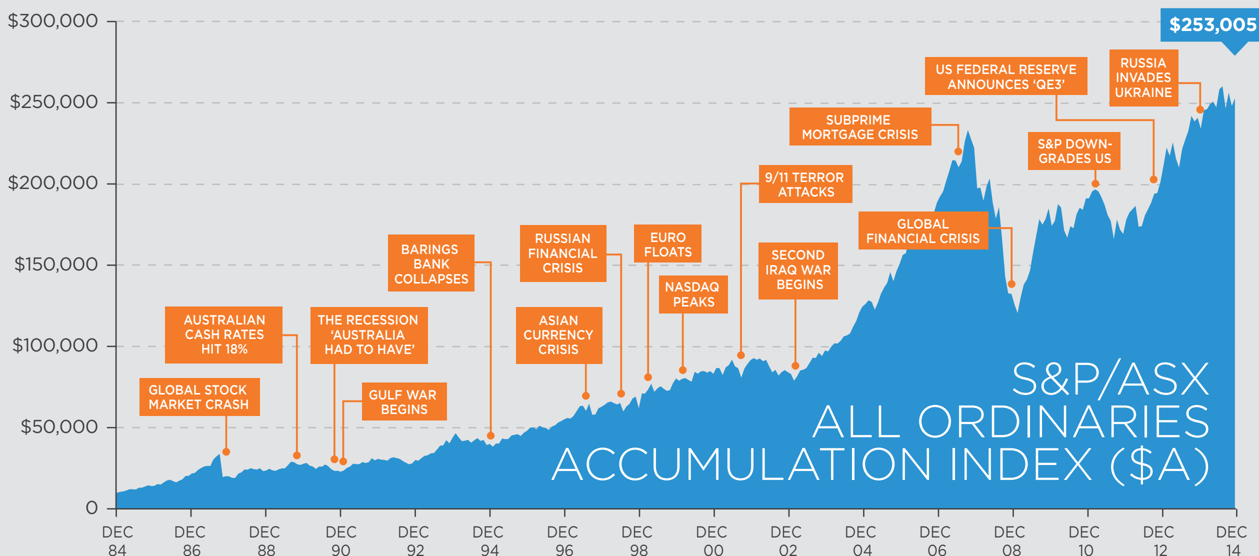
Because companies are always seeking growth, they are always embracing risk as well. Products may not sell, new factories take too long to get running, and competitors may invent a better smartphone. This risk is the flipside of the higher return potential of shares. You can't have one without the other.

It's what fund managers call the equity risk premium – you can expect higher returns from shares because you accept higher risk by buying them.

TIME IS ON YOUR SIDE

Share prices **can** fall dramatically in response to geopolitical events or economic trends. Yet the historical long term trend has been consistently upwards. As **Chart 6** below shows, the value of an investment in the Australian sharemarket has risen significantly over a long period of time and weathered the effects of recessions, financial crises and geopolitical events ranging from the tech wreck to September 11 and more.

CHART 6: AUSTRALIAN SHARES
GROWTH OF $10,000 OVER 30 YEARS TO DECEMBER 2014



Source: Perpetual & Factset. No allowance has been made for taxation. Past performance is not indicative of future performance.

SOME REALLY SIMPLE WAYS TO MANAGE SHAREMARKET RISK

GET TIME ON YOUR SIDE

We saw earlier how the sharemarket has ridden out volatility over time. You can reduce risk – and your anxiety levels – by aligning your sharemarket investment strategy with reality. Investing over the long term gives you the time to ride out market woes and profit from market rises.

Table 7 shows the percentage of negative returns that investments of differing time periods have delivered over the past 25 years.

For example, if you had decided to invest in the market for a period of one year, beginning at the start of any month within the past 25 years, there is a 20% chance that at the end of that year, you would have experienced a negative return on your investment.

TABLE 7: PERCENTAGE OF NEGATIVE RETURNS IN THE AUSTRALIAN SHAREMARKET: 25 YEARS OF ROLLING RETURNS TO DEC 2014

HOLDING PERIOD:	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Proportion of negative returns	20%	12%	7%	0%

Source: Perpetual. Australian sharemarket is represented by the S&P/ASX 300 Index (prior to 1 April 2000 the index was the ASX All Ordinaries Accumulation Index). Proportion of negative returns calculated on a rolling monthly basis to 31 December 2014.

If, however, you extended your investment timeframe and remained invested for three years rather than one, there is only a 12% chance that you would have experienced a negative return on your investment.

MAKE VOLATILITY WORK FOR YOU – DOLLAR COST AVERAGING

Dollar cost averaging is an investment strategy whereby you invest the same amount of money on a regular basis (often monthly) into a share investment.

This turns the sharemarket's tendency to move up and down in your favour. Your fixed monthly amount will buy more units/shares when prices are low and fewer units/shares when prices are high. Over time this means you reduce the average price you pay – so increasing your potential returns.

BE DISCIPLINED

The other key benefit of this strategy is that it reduces the risk – and anxiety – involved in trying to time when to put a large sum of money to work. Research suggests that investors are very poor at timing investment decisions.

THE PROPORTION OF NEGATIVE RETURNS EXPERIENCED REDUCES SIGNIFICANTLY AS THE INVESTMENT TIME HORIZON IS INCREASED.

Indeed, over the past 50 years, behavioural economists like Kahneman, Thaler and Tversky have found that we all have biases which make it hard to be a successful investor.[1]

- We buy when markets are rising (and prices are high).
- We sell when markets are falling (and prices are low).
- We trade too often (meaning we pay too much in costs).
- We react to short-term events (investing emotionally).

The discipline of a long-term dollar cost averaging strategy can help you manage these biases and increase your long-term returns.

To take just one example, research by Michael J. Mauboussin, of Credit Suisse, across 19 different equity markets suggests that investors lose **1.5% per year** in performance by trading in and out of the market instead of buying and holding over the long term.[2]

DIVERSIFY INTELLIGENTLY

One of the simplest ways to manage sharemarket risk is to spread it. You can spread (diversify) your investment risk across a whole range of levels.

By investing across a range of shares, sectors, investment styles, regions and fund managers you can ensure your capital is not over-exposed to poor performance from any one of those factors.

That's why managed funds are an appealing investment option for many investors. They allow you to purchase – in one swoop – a wide range of shares. You also get the benefit of expert investment management, and the convenience of having most of the investment administration taken out of your hands.

1 For example, in their papers Kahneman, D. and Tversky, A. (1983) 'Choices, values and frames' and Kahneman, D., Slovic, P. and Tversky (1974) 'Judgment under uncertainty: Heuristics and biases'.

2 Mauboussin, M. (2014) 'Credit Suisse Global Investment Returns Yearbook 2014'.

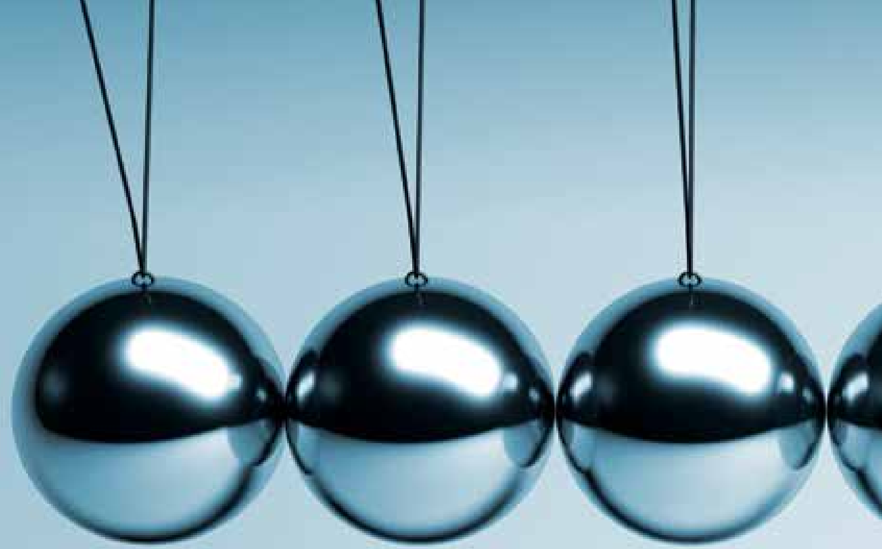
REALITY CHECK

Diversifying spreads risk by reducing the impact one or two major factors have on your returns. For example, a portfolio that is dominated by a big global mining company like BHP Billiton would expose you to a lot of risk if the iron ore price dropped dramatically.

The opposite can also be true. By diversifying across a range of different investments you do lower your risk, however it could possibly reduce the investments' performance.

During the 2000s resources boom, you may have made more money in BHP than in many industrial shares.

To get the right balance of risk and return, you need to choose the right kind of diversification – a diversification strategy that gives you the balance of investments that suits your goals, investment expertise, age and financial situation.



A REALLY SMART WAY TO INVEST IN SHARES?

BROADLY SPEAKING, YOU CAN INVEST IN SHARES VIA TWO APPROACHES:

1. DIRECT OWNERSHIP

- Where you select, buy and sell shares yourself (though you can get advice from a financial adviser or stockbroker).

2. MANAGED FUNDS

- Where you buy units in a managed fund which invests in shares.

MANAGED FUNDS: EXPERTISE AND ECONOMIES OF SCALE

A managed share fund offers investors a range of benefits.

ECONOMIES OF SCALE

A managed fund 'pools' your money with that of thousands of other investors with similar aims. This greater buying power means you can get access to investment opportunities not always available to individuals.

For example, while an individual investor might find it hard to purchase a stake in a newly listed company that is in high demand, a fund manager – because they are investing many millions of dollars – can often get an allocation to that company.

FUNDS TO SUIT YOUR NEEDS

Managed share funds come in many shapes and sizes. Some invest in just Australian shares; others invest in international shares. Some invest in highly specialised areas like microcap companies, or use particular strategies – such as focusing on income; investing in a small, concentrated portfolio; or focusing only on industrial or resource shares.

As a result, you can choose funds that suit your particular needs – income, growth, etc – or choose funds to balance out other investments in your overall portfolio.

EXPERTISE

Perhaps the most important benefit of managed funds is that the investment decisions are made by trained professionals, acting in a methodical fashion and using a specific investment approach. This means you don't have to make stressful investment decisions yourself, and you don't have to spend all your time monitoring and managing your portfolio. This professional approach can help ensure your money is managed without some of the investment biases we mentioned on page 11.

YOUR MONEY, YOUR CHOICE

The choice as to whether you build your own portfolio of shares or use a managed fund structure is up to you. It could depend on a range of issues – your tax situation, investing expertise, how much time you have to manage your money, the risk you want to take and how long you're investing for.

In this – as in so many areas of investing – advice from an expert who knows your situation as well as they do the stock market can be invaluable.

ACTIVE OR PASSIVE?

Active share investing means you – or your fund manager or broker – actively choose the shares you want to hold. Irrespective of who does the choosing, this approach takes research and expert decision-making and as a result the costs of an active approach are typically higher.

Active investing also has some other specific characteristics:

- The potential to outperform the market – both when markets are rising and falling.
- Greater control over your diversification.
- The ability to choose a particular investment style. Active managers typically have an investment approach built around their specific skills. Each style – such as value investing, growth investing or momentum investing – has distinct risk and return characteristics and therefore suits different investors.

'THERE ARE LOTS OF DIFFERENT INVESTMENTS STYLES AND EACH HAS ITS BENEFITS.

AT PERPETUAL, WE ARE FUNDAMENTAL, VALUE INVESTORS BECAUSE WE BELIEVE THE SECRET TO CREATING WEALTH IS BUYING SHARES IN HIGH-QUALITY COMPANIES AT REALISTIC PRICES AND HOLDING THEM FOR THE LONG TERM.'

Matt Sherwood
Head of Investment Strategy
Perpetual

A REALLY SMART WAY TO INVEST IN SHARES? (CONT.)

Alternatively, **passive** investing is typically achieved by investing in a fund that follows or replicates an index – such as the S&P/ASX 300 in Australia or the S&P 500 in the USA.

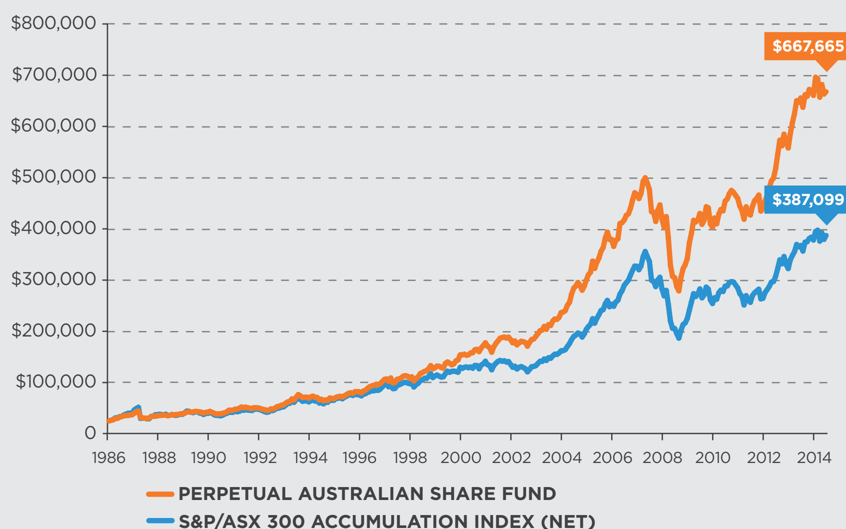
As this approach involves simply 'tracking' an index (generally investing in a fund that buys shares to match their weight in the index) this is often a very cost-effective way to invest in shares.

Passive – or index fund – investing has some other key characteristics.

- Your returns will closely mirror those of the index – with some small price difference to account for the impact of fees.
- Your portfolio will be as diverse as the index – it may therefore contain a wide variety of shares but may also reflect any fundamental imbalance in the index – such as the heavy weighting of banks and mining companies in the major Australian indices.
- Index investing is simple and convenient – you get quick access to a portfolio of shares without having to research, select and monitor them. You're also less liable to fall prey to some of the investment biases we discussed earlier.

CHART 8: PERPETUAL AUSTRALIAN SHARE FUND

$25,000 INVESTMENT SINCE INCEPTION (JULY 1986)



Source: Perpetual. Total returns have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming re-investment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance. The Ordinaries benchmark prior to 1 April 2000 was the ASX All Ordinaries Accumulation Index. From 1 April 2000 to current the benchmark is the S&P/ASX 300 Accumulation Index.

As you can see, each investment approach has its pros and cons. An adviser can help you choose the approach – or mix of approaches – that suit you.

They can also help you identify the active investment managers who have a long-term track record, distinct investing style, consistent investment philosophy and expert investment team – all factors that increase the likelihood an active approach will pay off over the long term.

Perpetual is an active manager and has a track record in providing returns to investors above the benchmark.

Chart 8 above shows the value of a $25,000 investment in the **Perpetual Australian Share Fund** (including fees and dividends reinvested) versus the benchmark return (dividends reinvested).

ABOUT PERPETUAL

ESTABLISHED IN 1886, PERPETUAL IS ONE OF AUSTRALIA'S MOST RESPECTED FUND MANAGERS, WITH $23.5 BILLION IN FUNDS UNDER MANAGEMENT[1]

It has been managing some of its funds, such as the Perpetual Industrial Share Fund, for a period measured in decades. That fund has generated average returns of over 15% per year for 38 years.[1]

INVESTMENT STYLE AND APPROACH

Perpetual is an active, value manager, with a bottom-up investment process. Its investment team is one of the largest in Australia and conducts more than 1,000 company visits each year as part of a process built around in-depth company analysis.

Perpetual has stuck to this process through the market's many ups and downs, and due to the rigour of its processes and the quality of its investment management team, has delivered consistent, award-winning performance for investors.

1 As at 31 December 2014.

AWARDS

In 2014, Perpetual was awarded Morningstar's Fund Manager of the Year award. This was its second consecutive win in this award and Perpetual has won this award six times since 2000.

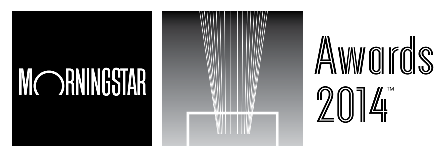


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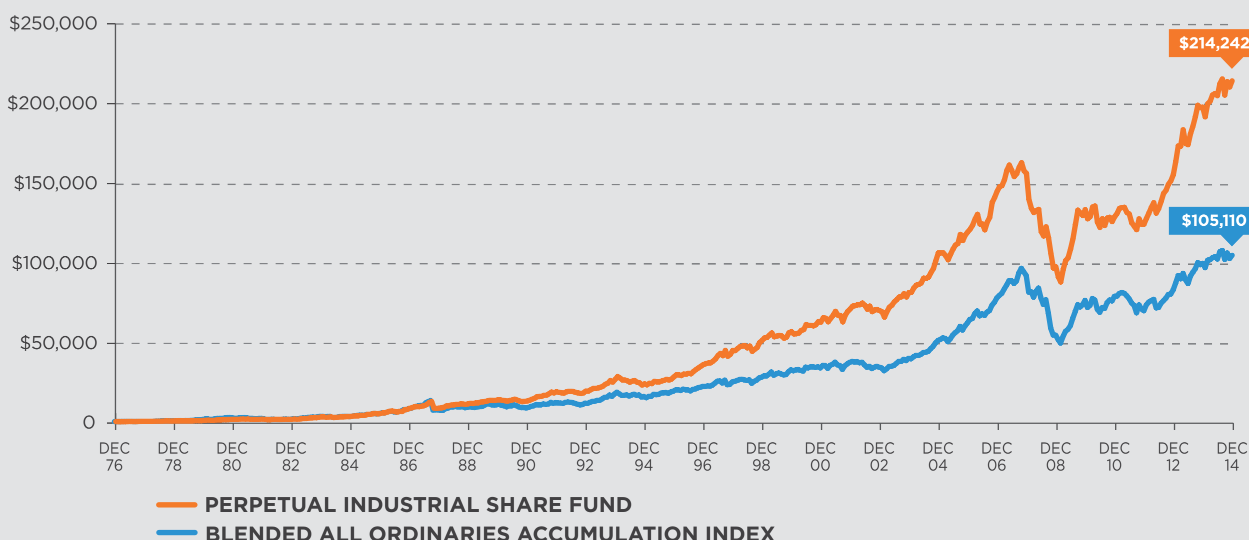
CHART 9: THE PERPETUAL INDUSTRIAL SHARE FUND HAS DELIVERED STRONG OUTCOMES FOR INVESTORS $1,000 INVESTMENT SINCE INCEPTION (DECEMBER 1976)



31 DECEMBER 2014 NET PERFORMANCE	1 YEAR % PA	3 YEARS % PA	5 YEARS % PA	10 YEARS % PA	38 YEARS % PA*
PERPETUAL INDUSTRIAL SHARE FUND	8.3	19.8	9.9	7.2	15.2

Source: Perpetual. Return has been calculated from December 1976 to 31 December 2014 for Perpetual's WealthFocus Investments Industrial Share Fund, using the first audited figures available. Total returns have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming re-investment of distributions. No allowance has been made for taxation. The current benchmark for the Perpetual Industrial Share Fund is the S&P/ASX 300 Industrials Accumulation Index. As the Industrials Index series is not available prior to 1979, the S&P/ASX All Ordinaries Accumulation Index has been used for reference purposes. Past performance is not indicative of future performance.

KEY TERMS

ACTIVE SHARE INVESTING
Active share investing means you – or your fund manager or broker – actively choose the shares you want to hold.

ASSET CLASS
An asset class is a group of securities with similar characteristics and behaviour. Shares are one type of asset class. Other types include property, fixed income and cash.

BOTTOM-UP INVESTING
A bottom-up investing approach focuses on the analysis of individual companies, rather than on industries. In general, it de-emphasises the significance of economic and market cycles.

CAPITAL GAINS TAX
A capital gain or capital loss is the difference between what it cost you to buy an asset and what you received when you disposed of it. So if you bought a share at $15 and sold it for $20, you would have a capital gain of $5. You pay tax on your capital gains and this forms part of your income tax.

CAPITAL GROWTH
Your initial investment is known as your investment capital. The rise in value of your capital over time is called capital growth. With shares, capital growth occurs when the price of the share rises higher than what you bought it for. Shares offer both capital growth and income opportunities.

COMPOUNDING
In simple terms, compounding is earning income on your income. Effectively you earn interest on the money you deposit, and on the interest you have already earned – so you earn interest on interest.

DIVERSIFICATION
Diversification is about spreading your risk. When you invest in different asset classes, across sectors and companies within an asset class, and in different countries you are spreading your risk; poor performance in one area is likely to be balanced out by better performance in another.

DIVIDEND
Income received from shares is called a dividend. A company chooses whether or not to pay a dividend out of its earnings and if so, how much.

DIVIDEND IMPUTATION
Dividend imputation/tax effective investing – you get tax benefits for dividends received from a company that has already paid tax on the earnings behind the dividends. This is so that tax is not paid twice and represents a tax saving to the investor.

DOLLAR COST AVERAGING
Dollar cost averaging is an investment strategy whereby you invest the same amount of money on a regular basis (often monthly) into a share investment.

EARNINGS PER SHARE
Earnings per share is a company's total annual earnings divided by the number of shares on issue.

GLOBAL FINANCIAL CRISIS
The global financial crisis (GFC) refers to a worldwide period of economic difficulty experienced by markets primarily from 2007–2009. It began with loss of confidence by US investors in the value of sub-prime mortgages, causing a liquidity crisis. Share markets around the globe crashed and became highly volatile, ultimately resulting in consumers being scared of investing.

INDEX
A share index measures the change in value of a particular group of investments over time. A Price Index measures the change of price. An Accumulation Index measures the total return of the share price movements and dividends (assumes all dividends are reinvested). Managed funds usually measure their performance against benchmark indices.

INVESTMENT PORTFOLIO
An investment portfolio is your collection of investments. A share portfolio only includes shares, whereas an investment portfolio may include shares, fixed income and other asset classes.

MANAGED FUND
A managed fund is an investment portfolio managed by a professional fund manager. You buy units in a managed fund; your money is then pooled with money from other investors and invested in asset classes by the fund manager.

PASSIVE SHARE INVESTING
Passive share investing is typically achieved by investing in a fund that follows or replicates an index, such as the S&P/ASX 300 in Australia or the S&P 500 in the USA.

RISK PROFILE
Your risk profile is determined by your investment time horizon, your expectations for returns and how much risk (volatility) you can tolerate. Once you identify your risk profile you can select the type of investments that best suit you.

SHAREMARKET
The sharemarket is a market in which buyers and sellers come together to buy and sell shares. In Australia, the leading market for shares is the Australian Securities Exchange. It is made up of close to 2,100 companies. It is the eighth largest sharemarket in the world, and the second largest in the Asia-Pacific region behind Japan. (Source: ASX, March 2013).

VALUE MANAGER/ VALUE INVESTING
A value manager or investor adopts the strategy of selecting stocks that the market has undervalued, and which trade for less than their intrinsic values.

VOLATILITY
Volatility is the fluctuation or movement of share prices due to thousands of buyers and sellers trading them every day. Prices can move both up and down.

YIELD
Yield is the income return on an investment. It refers to the interest or a dividend received from a security and is usually expressed annually as a percentage.

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