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## OUR APPROACH TO INVESTING

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When investing, there are four major asset classes to choose from. These are:

- Cash
- Fixed Interest
- Property
- Shares

The expected returns from cash are the lowest and the expected returns from shares are the highest. This is logical because owning a business is far more risky than depositing money in the bank. Therefore, you would expect a higher return to compensate you for this added risk. The key here is that risk and expected return are related.

If the expected return on a portfolio needs to be higher, it will generally be necessary to take more risk. This could be done by holding a larger proportion of the portfolio in shares or property. It can also be accomplished by allocating a portion of the portfolio to the sub asset classes that offer higher expected returns. Lastly, it is also possible to improve the expected return from a portfolio through leverage or borrowing to invest.

Although taking more risk generally means a higher expected return, there are a number of ways to reduce the risk that need be taken. Some of these are:-

- *Invest in a manner that has lower fees.* This reduces the risk that needs to be taken to get the same result after fees.
- *Invest in a manner that is more tax effective.* This reduces the risk that needs to be taken to get the same result after tax.

- *Diversify across a range of asset classes.* Different asset classes tend to perform well at different times during the investment cycle. By spreading your portfolio across each, the best performing asset class in a given year will help offset the worst performing asset class.
- *Diversify by holding a number of securities within each asset class.* Specific shares can be subject to factors (both positive and negative) that are impossible to predict. By spreading your portfolio across a number of different shares, you reduce your exposure to a serious problem in any single investment.
- *Rebalance the portfolio each year.* Each year, some asset classes will perform well and others will perform poorly. By returning the portfolio to its original position each year, you sell assets that have done well and buy assets that are good value.
- *Use a series of regular investments to build up your portfolio over time.* In this manner, you avoid the risk of investing all your money immediately before a market downturn. If the market does fall, it means that your future regular investments will be able to purchase more due to the lower price.

One final but important element of our approach is that we attempt to minimise the impact that luck (good or bad) can have on our clients. If an investment manager is attempting to analyse and select individual stocks to invest in, then they are taking a chance that they will either be right or wrong. If they are right, investors will be usually be happy with the higher returns but life will generally go on as normal. However, if they are wrong, investors will receive below average returns and for some, this could mean that they will not achieve their goals. The cost of being wrong is much higher than the benefit from being right. To make matters worse, even if the investment manager is right far more often than they are wrong (they will never be right all the time), they could still resign, retire or die and investors would have to trust to luck that whoever replaces them is as good.

Our approach is to utilise managed funds that offer excellent diversification, have low fees, are tax effective and do not rely on specific individuals within the investment management firm. We encourage our clients to be long term investors rather than short term speculators. Most importantly, we want our clients to understand what they are doing and why.