

Wealth creation strategies

There are many ways a person can accumulate wealth. In simple terms, this involves careful investing into growth assets over a long period of time in order to achieve a regular income stream that will ensure a continuation of your lifestyle during retirement.

When thinking about your wealth accumulation, it is important to understand:

- the types of investments available
- the level of investment risk you are prepared to take
- the different taxation treatment.

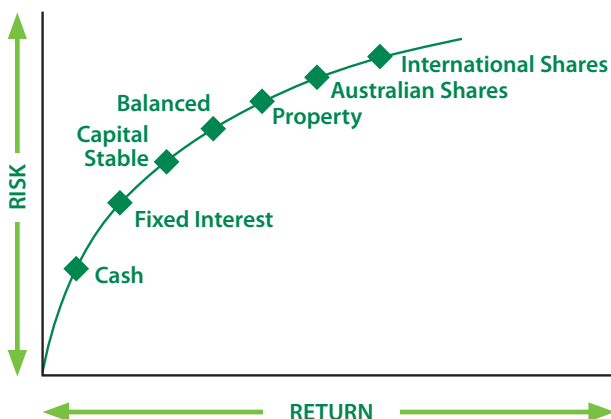
But most importantly, you should keep in mind that the power of compounding investment returns is achieved with a longer investment period. Avoid looking for quick fixes.

Important things to consider

How will your investment strategy impact your wealth accumulation strategy?

Understanding how your investment strategy can impact your wealth accumulation strategy is essential. This could include investing into effective asset classes such as fixed interest, property, Australian shares and international shares. It is essential to have an investment strategy which combines the different asset classes and takes into consideration your tolerance to risk.

Investing only in cash or fixed interest could mean your wealth accumulation goals may not be achieved due to lower long-term investment returns. An Australian shares investment strategy, on the other hand, could mean greater risk but potentially higher returns over time. It is important to bear in mind that the share market could produce a negative return.



Why do you need to understand investment risk?

An integral part of a wealth accumulation strategy will be investing into assets such as fixed interest, property and Australian or international equities. It is essential to understand potential investment risks and be comfortable with the impact of decisions you make (how much risk you're taking on as a result of your investment decisions). A simple way to gauge your risk appetite is to weigh up whether you could sleep at night knowing your investments are either gaining or losing money.

Why do you need to put a financial plan in place?

Clear direction to help achieve your goals can be formulated within a financial plan. Your financial plan can be likened to a road map. It will take into consideration your current situation, goals and objectives, and change in line with your future circumstances.

Why is it important to harness the power of regular investing?

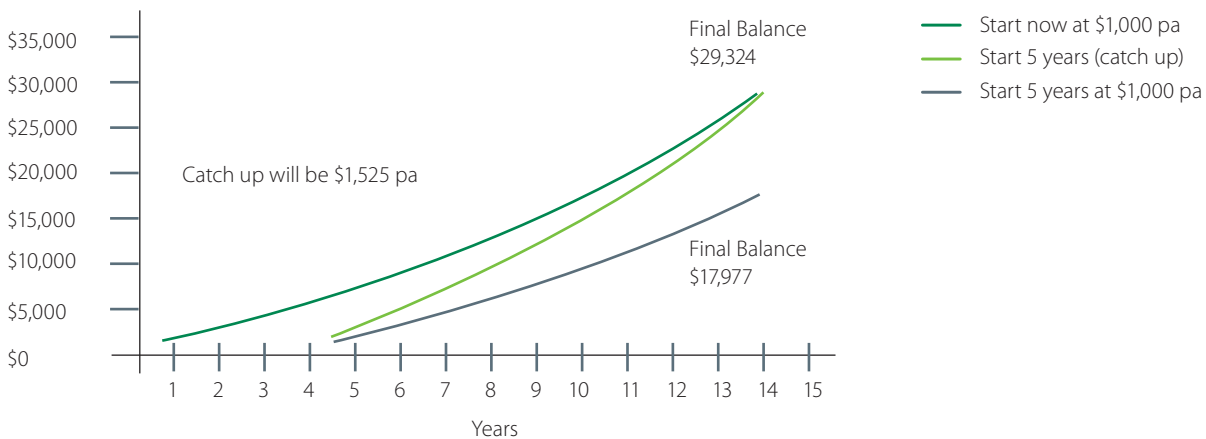
Making your money work harder for you is good practice and the easiest way to do it is to harness the power of regular investing. Investing regularly over a long period of time allows you to take advantage of compounding investment returns.

An example of how the power of regular investing and compounding investment returns can be beneficial over the longer term is Peter and Karen. They want to save for their son Mark (aged 3) and in particular his university education when he reaches 18 years old.

They have an investment horizon of 15 years and if they start investing their surplus cash of \$1,000 pa, the final balance will be \$29,324¹. However, if they delayed investing their surplus cash for five years, the final balance would reduce to \$17,977 (a shortfall of \$11,347).

¹ Assuming a return of eight per cent pa and earnings are reinvested over time. No personal income tax implications are taken into consideration.

If Peter and Karen wanted to catch up, they would need to invest \$1,525 pa instead of \$1,000 over the ten year period until Mark reaches university age.



What types of strategies are available?

Two of the main wealth accumulation strategies involve superannuation and investment gearing.

Superannuation

Maximising your superannuation as part of a wealth accumulation strategy starts with improving your knowledge. You can consider salary sacrificing into your super as a way of increasing your super balance for the future with potential tax benefits. The potential tax advantage for employees is that salary sacrificed contributions are taxed at the rate of 15 per cent going into the super fund, compared with cash salary, which is taxed at your marginal tax rate.

A financial adviser can assist you to work out whether you would benefit from making additional superannuation contributions or even access the co-contribution scheme based on your goals and objectives.

Investment gearing

Investment gearing is simply borrowing to invest. Gearing enables you to invest larger sums of money. Recent market volatility and uncertainty has somewhat reduced the appeal of investment gearing but it remains a legitimate strategy.

Investment gearing offers potential tax advantages when expenses exceed income. This is commonly known as negative gearing. This may reduce your assessable income for tax purposes, but be mindful that it is not appropriate for all people.

Investment gearing can provide magnified investment returns; however, it can also magnify your losses. Complex in nature, the risks of this strategy are best discussed with a financial adviser who can help you determine whether or not it is appropriate for you.

Get assistance with your strategy

Your wealth accumulation strategy needs to take into account many different aspects of your personal circumstances. If you require assistance with your wealth accumulation strategy please contact your financial adviser.

Phone us on 1800 062 963, email clientservices@ioof.com.au or visit our website www.ioof.com.au

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