

## What is a diversified portfolio?

A diversified portfolio invests in each of the major asset classes, in proportions that suit the risk & return profile of the investor. The major asset classes are shares, property, fixed interest and cash. A well diversified portfolio usually invests in a number of securities in each asset class, directly and/or via managed funds, and may invest in Australia and overseas.

### What is the benefit of investing in a diversified portfolio?

A diversified portfolio reduces investment risk in two main ways:

1. Investment in a broad range of securities lessens the impact on a portfolio of one security failing.
2. Investment across the major asset classes tends to smooth the overall portfolio returns, because while one asset class is in a downturn other asset classes should be performing well.

### The best of both worlds

A diversified portfolio gives you access to the potentially higher returns from quality shares and property, combined with the security of fixed interest and cash. So, over the long term, the result from a diversified portfolio should be as shown at the top of the next column.

This can be seen in Chart 1 which compares the volatility and long term returns of shares versus cash versus a broadly diversified portfolio. As you can see, the latter has generated higher returns than cash with less volatility than shares.



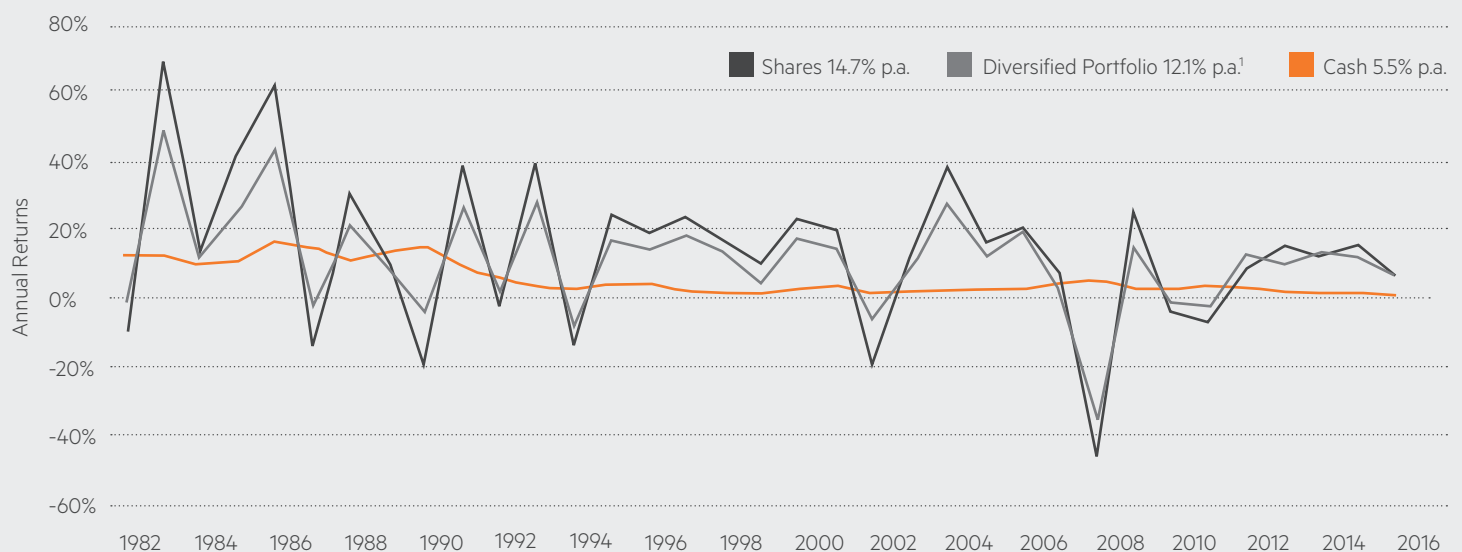
#### Diversified Portfolio Return:

- Higher than cash & fixed interest
- Lower than shares & property

#### Diversified Portfolio Volatility:

- Higher than cash & fixed interest
- Lower than shares & property

Chart 1: A diversified portfolio smooths your investment returns\* – income re-invested



\*Sources: 1 Jan 1982 – 1 Jan 2017 Cash: RBA cash management accounts at banks (\$10,000). Term Deposits: RBA Stats Banks' fixed deposits (\$10,000). Shares: The All Industrials Accumulation Index to 31/12/01 and the S&P/ASX XNJAI thereafter. Property: The S&P/ASX 200 Property Accumulation Index. Diversified<sup>1</sup>: Portfolio based on 50% shares, 25% property, 5% cash, 20% term deposits. Note: Tax and fees are not taken into consideration. Income is re-invested. Past performance is not an indicator of future performance.

### Case study

Let's say you had \$100,000 to invest on 1 January 1982. Chart 2 shows how much wealth you may have created by investing in certain assets by January 2017, assuming income was re-invested.

As you can see, if you had invested your money into term deposits, it would have grown to \$984,987.

But if you had invested in a diversified portfolio<sup>1</sup>, you would have \$3,911,807. It's a \$2,926,820 improvement.

Now let's assume you retired at the start of 2017. What would be your investment income position?

Your diversified portfolio would be generating an income of something like \$167,860 this year (based on last year's income). On this, you and your spouse could expect to pay tax of \$9,230 (as shown in Table 1).

Compare that to the \$24,132 net income you would receive from term deposits this year (based on last year's income).

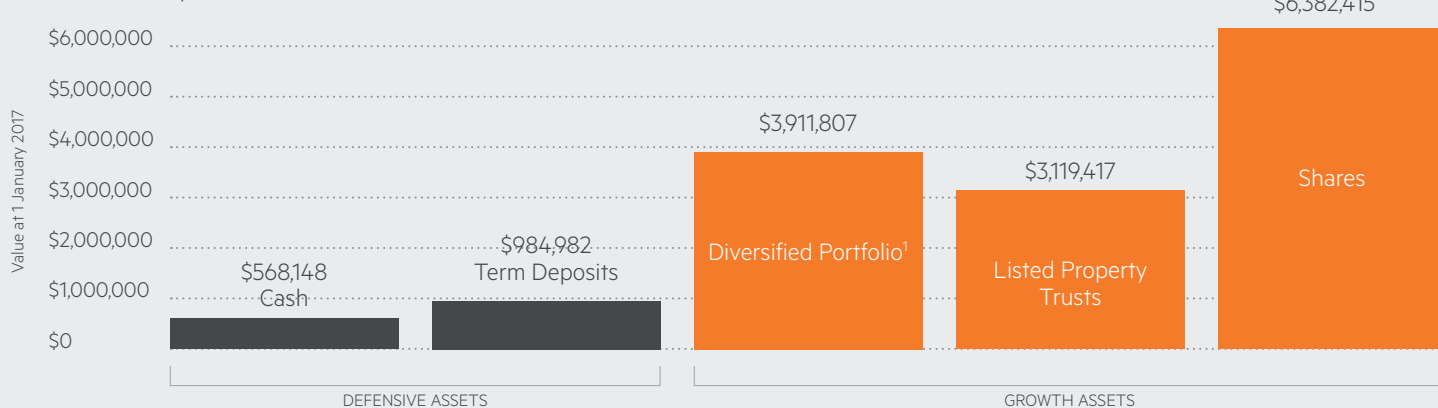
**Table 1: Retire 1 Jan 2017 after investing \$100,000 on 1 January 1982\***

	Diversified Portfolio <sup>1</sup>	Term Deposits
Capital value	\$3,911,807	\$984,982
Expected income (based on last year's yield)	\$167,860	\$24,132
Tax on income**	\$9,230	\$0
<b>Net Income</b>	<b>\$158,630</b>	<b>\$24,132</b>

<sup>1</sup> Portfolio based on 50% shares, 25% property, 5% cash, 20% term deposits. Past performance is not an indicator of future performance. \*\* Assumes income splitting and no other assessable income. Shares 80% franked. Income not re-invested in retirement. Tax rates 2016/17.

**Chart 2: A diversified portfolio combines security with performance\* (start date 1 Jan 1982) – Income re-invested**

Value at 1 January 2017



## Our services



### Health

- Health insurance
- Overseas visitors cover
- Dental services
- Chronic disease management
- Hospital in the home



### Wealth

- Investments
- Estate planning
- Trust and estate administration services
- Financial planning
- Investment, education and funeral bonds
- Banking and home loans
- General insurance



### Living

- Aged care and accommodation
- Personal and business insurance
- Aboriginal home care
- Disability services
- Retirement communities

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