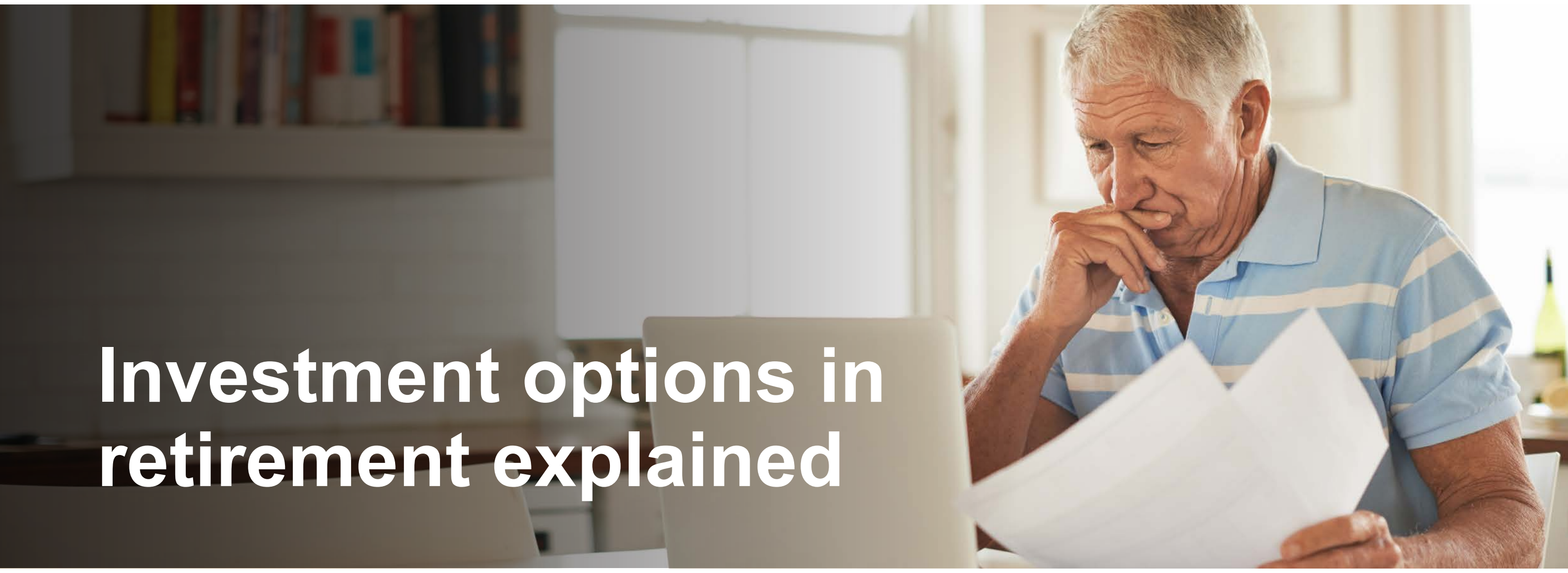

Investment options in retirement explained

Getting the balance right between a safe spending rate and having enough income to enjoy retirement takes some careful planning. Investing for a reasonable return is one approach to helping your savings go the distance.

Risk vesus return

There's a rule of thumb when it comes to investment risk. Generally speaking, the higher the expected return, the higher the risk involved. But taking on investments with the least possible risk can make it difficult to earn investment returns that keep up with inflation and any rises in living costs.

On the other hand, taking on too much risk could lead to steep falls in the value of your investments. This can have an even bigger impact when you're retired, because you can't expect to replace these losses from your salary or other types of income. Plus, you're relying on your 'nest egg' to provide at least some of your income. When you lose a portion of those savings to risky investments, you have less to spend for the rest of retirement and less to earn returns on over the long term.

Understanding the investments available to you, and their risks, will be crucial to looking forward with confidence in your retirement.

What is an asset class?

An asset class is a group of investments with similar characteristics and laws. They're typically grouped into two broad categories, defensive and growth. Defensive assets offer less opportunity for growth, and generally provide you with income stability and security for your original investment and income. Growth assets carry more risk, and generally provide you with more potential to grow your investment over time.

Here are some of the assets in each category that you might come across when exploring your investment options:

Defensive assets

Defensive assets include investments like cash, term deposits, fixed interest securities, and annuities.

Cash is considered the safest form your money can take but it typically generates the lowest returns. However, it can be good to have some cash in a bank account because of the safety it provides and because you can access it right away when you need it.

Term deposits are held for a set period of time with a bank, building society or credit union. The rate of return is fixed, and you can be certain of your income, but you should be prepared to have your capital locked away for the full term. Whilst term deposits offer this security, there is a trade-off. When markets perform strongly, your rate of return will remain fixed and you won't benefit from higher returns.

Fixed interest securities, such as bonds, involve you usually loaning money to a company or entity. You receive regular interest payments and can expect to get back the original sum invested at the end of the term, known as the 'maturity'. The underlying value of the fixed interest security can change with interest rate movements.

Annuities can also be viewed as a type of fixed interest investment. You invest a lump sum with an annuity provider and receive regular payments for either a fixed period or for the rest of your life depending on the type of annuity you choose. As with term deposits, your payment rate will remain fixed. So whilst you won't be affected by share market falls, you also won't benefit from higher returns when share markets perform strongly.

Growth assets

Growth assets include investments like property, shares and equities.

Property can provide you with rental income and potential for capital gains. In Australia property prices have generally performed well over the long term. However, property prices are notoriously difficult to predict due to the number of variables that impact them.

Investing in shares means buying a share of ownership in a company, usually on a stock exchange. The value of the shares are generally linked to a company's value and as a shareholder, you can be paid a share of profits as a dividend. Shares are generally considered to be a higher risk asset class as their value tends to be more volatile. You can control the amount of risk you take on by investing in share portfolios that invest in companies that have delivered consistent returns over the long term.

Investment strategies for retirement

Everyone has different investment goals. However, a common objective for many people investing for their retirement is striking a balance between maximising available cash flow and protecting the remaining savings. Your risk appetite will determine which investment strategy is right for you, and according to the Government website MoneySmart[1] may fall into one of the following four types:

1. **Cash:** Invests 100% in deposits with Australian deposit-taking institutions or in a 'capital guaranteed' life insurance policy. This option aims to guarantee your capital and accumulated earnings cannot be reduced by losses on investments.
2. **Conservative:** Invests around 30% in shares and property with the majority in fixed interest and cash. Aims to reduce the risk of loss and therefore accepts a lower return over the long term. There is less chance of having a bad year than in the balanced or growth options below.
3. **Balanced:** Invests around 70% in shares or property, and the rest in fixed interest and cash. Aims for reasonable returns, but less than growth funds to reduce risk of losses in bad years. Those losses usually occur less frequently than in the growth option. You may also be able to invest in a 'moderate' option with around 50% in shares and property.
4. **Growth:** Invests around 85% in shares or property. Aims for higher average returns over the long term. This also means higher losses in bad years than those you would experience with lower risk options. You may also be able to invest in a 'high growth' option with 100% in shares and property.

The importance of diversification

Diversification is a golden rule of investing. Spreading investments across different asset classes can strike a balance between security (defensive assets), and higher investment returns (growth assets). This can reduce your overall investment risk and the impact of significant market downturns, or poor returns from a particular business or sector.

1 https://moneysmart.gov.au/grow-your-super/super-investment-options

Contact your financial adviser to determine whether an annuity is right for you.

<insert adviser details here>

<Insert Disclaimer>

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