

A new decade of opportunity?

Smart investors review their investment strategy on a regular basis because circumstances can and do change.

Investment markets have been considerably less volatile recently than they were in 2008 and early 2009. This change in the market cycle should prompt you to consider if your current investment strategy is going to help you achieve the growth you need to meet your goals.

The truth about cash

While you can be fairly confident that your capital's safe and you'll get interest on your investment, the fact is that the combined effect of tax and inflation erode the value of a cash investment over time. The risk with a strategy that relies heavily on cash is that your investment won't grow enough to help you reach your goals, and that your purchasing power is eroded due to inflationary effects.

Changing markets

At the height of the recent financial crisis, no one could predict when the markets would reach their lowest point; but it looks like they did in March 2009. The Australian All Ordinaries index of 500 companies ended 2009 at 4882.7, a 33% improvement for the year to December 2009. In hindsight, an investment in shares at the market's lowest point to December 2009 would have given you a double-digit return. You also have an added tax benefit from shares.

Tax savings on shares

The imputation system for Australian shares, where you receive a 'franking credit' for the tax paid by a company on its share dividends, can potentially make shares a more tax-effective investment than, for example, a term deposit.

As the table shows, \$10,000 invested in shares in XYZ Company generates a higher yield after taking franking credits into account.

This example assumes both investments generate the same gross yield and the investor's marginal tax rate is 45% plus Medicare levy of 1.5% (total tax rate 46.5%).

Diversity is the key

It would be ideal if we could predict market movements, investing our money in the next big winners and avoiding the losers. But not even the experts can accurately predict which asset class will be the next top performer. Spreading your investments over a variety of assets means the good performers balance out the bad, so you lessen the risk of loss.

Changing markets create new opportunities for investors. Talk to your financial adviser today about strategies to help you take advantage of the opportunities in 2010.

	675 shares @ \$16 per share in XYZ Company	Term deposit
Total investment	\$10,000	\$10,000
Gross yield	7.5%	7.5%
Fully-franked dividend income (\$1.20 × 625 shares)/interest @ 7.5%	\$750	\$750
Franking credit	\$321.43	
Taxable income	\$1,071.43 (\$750 + \$321.43 franking credit)	\$750
Tax payable @ 46.5%	\$498.21	\$348.75
Less franking credit offset	\$321.43	
Net tax payable	\$176.78	\$348.75
Net income	\$573.22	\$401.25
After-tax yield	5.73%	4.01%