Antipodean Private Pty Ltd
133 Alexander Street
Crows Nest NSW 2065
Phone: 1300 101 250
Mobile: 0438 893 571
Email: michael@antipodeanadvisory.com
Web: www.antipodeanadvisory.com

What are the best investments for your retirement?

In the simplest terms, investing your money means buying an asset with the expectation of earning returns from ownership of that asset. If you own an investment property, for example, you can expect to receive rent as income. But if you then sell the property for a higher price than you paid, you've increased your returns from your asset even more. This is known as a capital gain – the growth in value of an asset over time.

Different types of investments are grouped together into asset classes – a group of investments with similar characteristics, such as term deposits, bonds, property or shares/equities. When it comes to choosing between different investment options, they generally fall into two broad categories, defensive and growth assets.

Defensive assets offer less opportunity for growth, but more stability and security for your original investment. A term deposit is an example of a defensive asset – the interest you'll earn is fixed but you're guaranteed to get your original deposit back at the end of the term. Growth assets, such as shares, carry more risk but offer more potential to grow your wealth over time.

Why diversification is important
When choosing growth assets and defensive assets to invest in you're looking at how much you can expect to earn compared with the risk of losing some of the original sum invested. Diversifying your investments can be a good way to strike a balance between risk and reward. Because different asset classes behave differently at different times, spreading your money across a number of assets can help you earn more stable investment returns overall.

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Investing costs
Every type of investment comes with costs. For buying and selling shares, you'll pay brokerage fees for each transaction. When you buy and own property, there are upfront and ongoing costs such as stamp duty, agency fees and maintenance costs. Plus, you'll be liable for tax on the income from your investments and on any capital gain you earn when you sell assets. These are all things you need to take into account when looking at different investment options.

Should you invest in a super fund?
You can invest in all sorts of assets outside of super, either directly or through managed funds. Most super funds will also offer a wide range of choices for investing your money, including their own blended investment options, such as growth, conservative (defensive) or balanced. So should you be investing your retirement savings in super or look elsewhere?

A key benefit of investing through your super fund is the potential savings on the tax on your investment income. Any investment earnings in your super fund are taxed at a maximum rate of 15%, regardless of the marginal tax rate on the rest of your income. The main drawback of investing in super is the money you invest and the investment earnings are locked away until you reach your preservation age and/or meet a condition of release. If you need access to the money you're investing in the short or medium term, then your super fund isn't the right place for it.

What about SMSFs?
If you're looking for more flexibility in your choice of investments than you can expect from a super fund, a Self Managed Super Fund (SMSF) could be the answer. However, there are significant costs involved in setting up and managing an SMSF so your freedom to invest super savings in property or collectibles, for example, comes at a price.

Your superannuation investment strategy
There's no one-size fits all when it comes to investing. Whether it's your investment strategy for retirement or another purpose, there are lots of personal circumstances and preferences to think about. Some of these include your investment timeframe, your appetite for risk and how much you already know about different types of investments. To find out more please contact us.

Source: FPA Money & Life