Fact sheet

What is the benefit of investing in shares?

Australian and international shares (and managed share funds) are expected to generate higher returns than cash and fixed interest investments over the long term. The return from shares may comprise a growing income stream (dividends) as well as capital growth.

How do shares generate a growing income stream – and capital growth?

Over time, well researched shares (and managed share funds) may generate a growing dividend stream for investors. As you can see in Chart 1*, the annual income generated by a $100,000 investment in shares since 1983 (with income not re-invested) started off low, but then gradually built up. In fact, last year's income was $69,175, or 69% on the initial $100,000 investment.

The reason for the increasing dividends from shares is that businesses do not distribute all of their profits to shareholders. They retain some of their profit each year and use it to invest in the business – to help it grow.

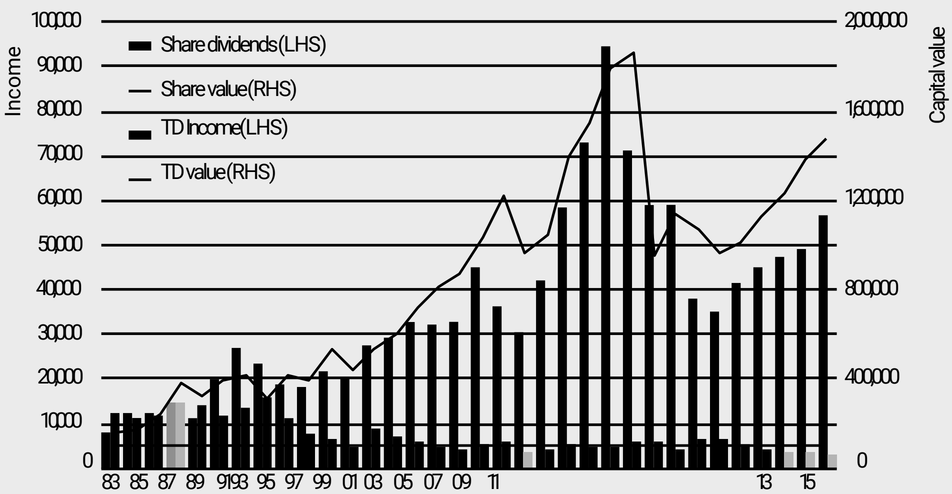
If this is done well, it means they'll have more profit the next year – from which they can afford to pay shareholders a higher dividend than they did the previous year. Plus they will again retain some profit for reinvestment. So the next year their profits will hopefully be higher again, allowing the company to distribute an even higher dividend while still retaining more profit for reinvestment. And even more the next year. And so on.

Of course, the more the value of the company grows as a result of the reinvestment of the retained profits, the more the market will recognise this and people will pay more to buy their shares. Hence the capital growth.

Compare the income stream from shares to a well known income producing investment – the term deposit. As shown in Chart 1, a $100,000 investment in term deposits since 1983 did well while interest rates were at historical highs, but then income dropped away to just $2,450 or 2.45% in 2016. Compare that to the $69,175 income from shares last year.

In fact, since 1983, the $100,000 investment in term deposits generated a total income of just $238,700 compared to $1,249,579 from shares. Add to that the $1,322,405 in capital growth from shares – as at 1 January 2017 – and you have a total return of $2,571,984 from shares, compared to $238,700 from term deposits, as shown in Table 1.

Chart 1:
1 Jan 1983 to 1 Jan 2017 ($100,000 invested)



*Assumptions and sources: Assumes $100,000 was invested in the relevant index at 1 January 1983 and income was not re-invested. Shares: These figures are derived from the All Industrials price and accumulation indices to 31/12/2001, and then the S&P/ASX XNJ and XNJAI price and accumulation indices. On an annual basis the percentage increase in the accumulation index less the increase in the price index reflects the dividend generated. Franking credits have been ignored. Term. Deposits: 1 year Bank Fixed Deposits – Reserve Bank Australia. Term Deposit is rolled over every year. Past performance is not an indicator of future performance

Table 1:
Shares ahead by $2,333,284 since 1983*

1 Jan 83 – 1 Jan 17	Shares	Term Deposits
Total Income	$1,249,579	$238,700
Growth	$1,322,405	NIL
Total	$2,571,984	$238,700

What is the risk of investing in shares?

All shares and managed share funds experience volatility. Their values all go up and down – on a daily basis. That's because shares are easily traded on the stock exchange. You can buy and sell shares almost whenever you want. The trade-off for that liquidity and convenience is a bumpy share price.

Investments with a higher level of risk such as shares can have vastly different returns over short one year periods when compared with relatively low risk investments like cash and fixed interest. However, in general, with shares (and managed share funds) you'll notice that over time their prices go up more than they go down. And historically, the magnitude of the price rises has generally been greater than the price falls, as shown in Chart 2 of annual sharemarket returns.

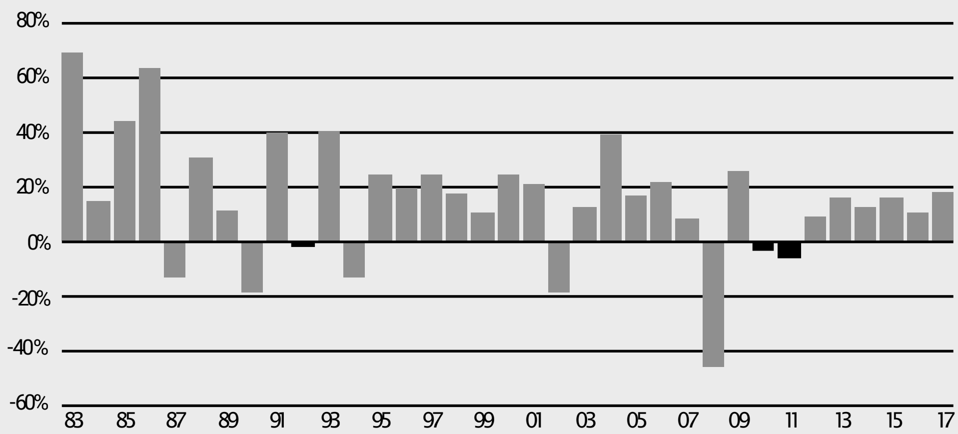
As a result, over time your shares may be expected to generate solid capital growth. In fact the longer you hold your shares or managed funds the less likely you will have a negative return, as you can see in Chart 3.

How can you manage investment risk?

Investment risk can be managed using four prudent principles of investing:

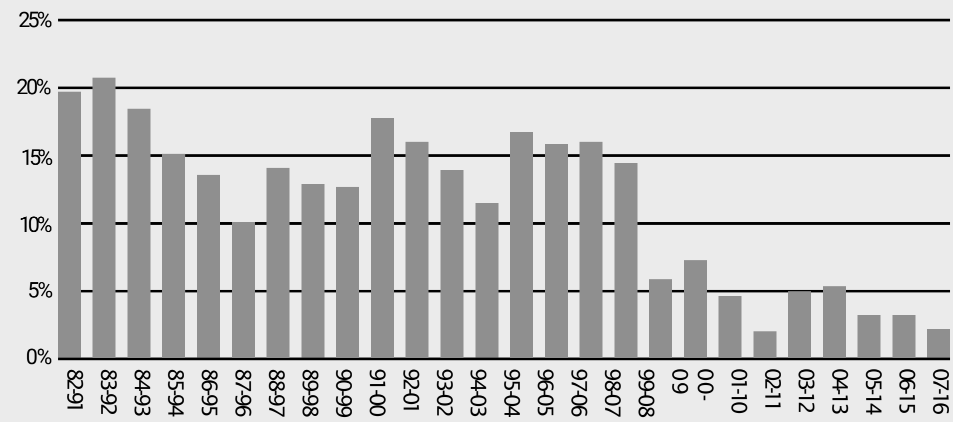
- Only invest in well researched investments, not making investment decisions in response to short-term events. Investors who redeem their investments after a fall in value turn a notional loss into a permanent loss. This may be a poor decision, because well researched investments should recover from falls in value over the long term
- Construct a properly diversified portfolio aimed at reducing the impact that poor returns in one asset class, sector or single product will have on your total investment portfolio.
- Invest with the time horizon in mind. Generally, the higher the level of volatility of an investment, the greater is the recommended investment time horizon.
- Regularly review your investments to ensure they continue to meet your objectives.

Chart 2:
The prices of quality shares go up more than down S&P/ASX All Industrials Accumulation Index (1 Year Annual Returns)



This graph is for illustrative purposes only. Past performance is not an indicator of future performance.

Chart 3:
Shares perform consistently over the longer term
10 Year Rolling Average - S&P/ASX All Industrials Accumulation Index



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