

## 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:

- Investment in a broad range of securities lessens the impact on a portfolio of one security failing.
- 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.

#### Diversified Portfolio Return:

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

#### Diversified Portfolio Volatility:

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

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.

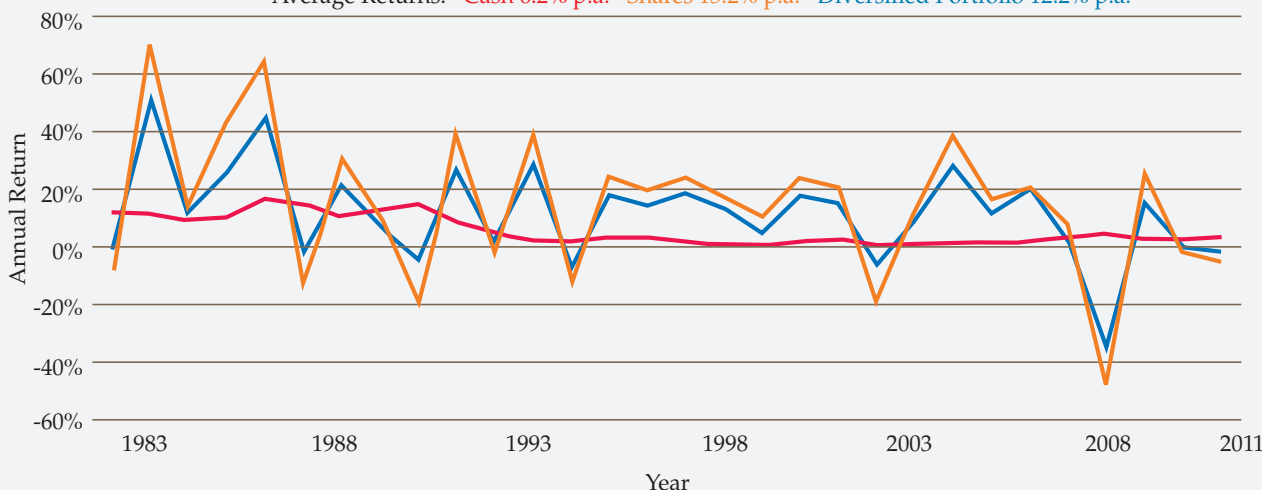
### Case study

Let's say you had \$100,000 to invest on 1 January 1983.

Chart 2 shows how much wealth you may have created by investing in certain assets by January 2012, assuming income was re-invested.

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

Average Returns: Cash 6.2% p.a. Shares 15.2% p.a. Diversified Portfolio 12.2% p.a.<sup>1</sup>



\*Sources: 1 Jan 1983 – 1 Jan 2012

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 XNJA1 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.

As you can see, if you had invested your money into term deposits, it would have grown to \$823,886.

But if you had invested in a diversified portfolio, you would have \$2,279,150. It's a \$1,455,264 improvement.

Now let's assume you retired at the start of 2012. What would be your investment income position?

Your diversified portfolio would be generating an income of something like \$131,034 this year (based on last year's income). On this, you and your spouse could expect to pay tax of \$7,795 (as shown in Table 1).

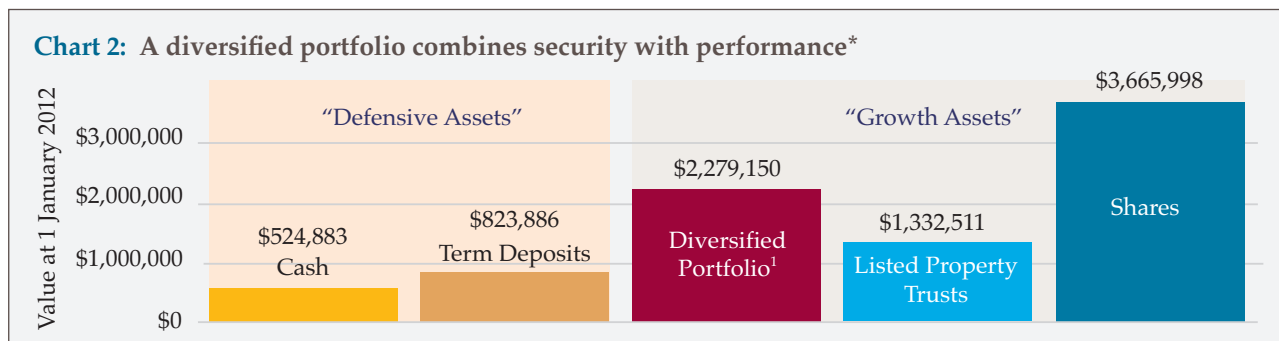
Compare that to the \$44,657 net income you would receive from term deposits this year (based on last year's income).

**Table 1: Retire 1 Jan 2012 after investing \$100,000 on 1 January 1983\***

	Diversified Portfolio <sup>1</sup>	Term Deposits
Capital value	\$2,279,150	\$823,886
Expected income (based on last year's yield)	\$131,034	\$47,733
Tax on income**	\$7,795	\$3,076
<b>Net Income</b>	<b>\$123,239</b>	<b>\$44,657</b>

\*\* Assumes income splitting and no other assessable income. Shares 80% franked. Income not re-invested in retirement. Tax rates 2011/12

**Chart 2: A diversified portfolio combines security with performance\***



## Who is Australian Unity Personal Financial Services?

We specialise in providing professional strategic advice to help you improve your current financial position and ultimately achieve your long term lifestyle goals.

Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

- Financial advice
- Retirement planning
- Superannuation
- Wealth creation
- Investments
- Home loans

- Commercial loans
- Equipment finance
- Personal estate planning
- Personal risk insurance
- Investment loans
- Car finance
- Business estate planning
- Business risk insurance.

Australian Unity has a proud 170 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services... each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

After all, your financial wellbeing is at the heart of everything we do.

**MoneyInsights<sup>®</sup>**  
with Australian Unity Personal Financial Services

Australian Unity Personal Financial Services is committed to providing Australians with a genuine understanding of their investment options. This is achieved via our comprehensive investor education program called Money Insights.  
*Because knowledge is the first step to creating a secure financial future.*

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