



Zurich Investments

## Diversify your investments for more consistent returns

**If you are aiming for consistent returns from your investments, it is important to invest across a range of asset classes – the most common being shares, property, fixed interest and cash.**

This helps to reduce the overall level of risk because asset classes perform differently depending on the prevailing market conditions. Therefore, if one asset class doesn't perform well, any loss may be offset by an increase in the value of another. This mix, known as 'diversification', is an important part of any investment portfolio.

### What are the risks associated with your investments?

You may have heard about the 'risk' of investing in a certain asset class. This risk, which is also known as volatility, refers to the changes in returns experienced by the asset class.

Over the long term, cash and fixed interest have less volatility than property and shares, however property and shares generally provide higher returns. This is known as the 'risk/return trade-off'.

The performance of these asset classes is affected by many things – some of which we have outlined below.

When you invest in...	You are investing in...	Factors that affect performance	Your long term returns are generally...	Your risk is generally...
Cash	Bank bills and similar securities	<ul style="list-style-type: none"> <li>Rising and falling interest rates</li> </ul>	Low	Low
Fixed interest	Government and semi-government bonds, institutional bonds and mortgages	<ul style="list-style-type: none"> <li>Normally, the longer the term of the security, the greater the impact of changes in interest rates</li> </ul>	Moderate	Moderate
Property	Direct or listed property – can include retail, industrial, commercial or residential property	<ul style="list-style-type: none"> <li>Supply and demand for the underlying property</li> <li>Rental income</li> </ul>	Moderate	Moderate
Australian shares	Companies listed on the Australian Stock Exchange	<ul style="list-style-type: none"> <li>Company performance</li> <li>Competitiveness of products and services in market</li> <li>Social and political factors</li> </ul>	High	High
International shares	Companies listed on stock exchanges around the world	<ul style="list-style-type: none"> <li>As for Australian shares</li> <li>Exposure to movements in currency rates</li> </ul>	High	High

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## It is difficult to predict which asset class will perform the best

Because of the different factors affecting the returns of various asset classes, it is difficult to predict which one will perform the best in any given year. Many people try, but often get it wrong by investing in the previous year's best performer, only to find that returns in subsequent years are disappointing.

The following table shows the returns from each asset class, and highlights which one performed the best each calendar year. As you can see, cash provided the highest returns in only one of the past 10 years, while shares and property performed the best most of the time.

### Calendar returns for each asset class (%pa)

Year	Australian shares	International shares	Property	Australian fixed interest	Cash
1994	-9	-8	-6	-5	<b>5</b>
1995	20	<b>26</b>	13	19	8
1996	<b>15</b>	6	14	12	7
1997	12	<b>42</b>	20	12	6
1998	12	<b>32</b>	18	10	5
1999	16	<b>17</b>	-5	-1	5
2000	4	2	<b>18</b>	12	6
2001	10	-10	<b>15</b>	5	5
2002	-8	-27	<b>12</b>	9	5
2003	<b>16</b>	-2	9	3	5
2004	28	10	<b>32</b>	7	6
2005	<b>22</b>	17	13	6	6

Source: Zurich Investments. Returns to 31 December each year. Asset class performance represented by following indices: Australian shares – S&P/ASX 300, International shares – MSCI World Index ex-Australia, Property – S&P/ASX LPT 300 Index, Australian fixed interest – UBSA Composite Bond All Maturities, Cash – Bank Bill Index.

## Have a mix of investments, but also diversify within the one asset class

You can smooth the overall returns of your portfolio by investing across a range of asset classes. However, it is also important to diversify within the one asset class. For example, if you are investing in Australian shares, you should have a range of small and large companies from different industry sectors (eg banking and finance, media and resources, etc).

Fund managers use various styles and processes for investing, performing differently in certain market conditions. A mix of managers will give you a diversified investment approach, which may improve the performance of your portfolio overall.

## How to build a diversified portfolio

The combination of shares, property, fixed interest and cash that's right for you will depend on your goals, the time you have to invest, and how you feel about markets going up and down. Your financial planner can assess your circumstances and needs, and design a diversified portfolio to suit you. Alternatively, they may suggest that you invest in a diversified fund such as those offered by investment managers like Zurich Investments.

For more information please ask your financial adviser or call Zurich Investments on 131 551, or visit our website, [www.zurich.com.au](http://www.zurich.com.au).

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