

Steps for investing in Managed Funds - By Michael Lannon

Investing in Managed Funds does not have to be complicated or confusing. Follow these seven principles for hassle free investing.

1. Choose funds that suit your goals.

Write down your goals. Once you have settled on how much you need to accumulate and when you will need the money then choosing the right managed fund will be much easier.

Consider the following question

- Why are you investing?
- For wealth building to meet long-term goals e.g. retirement?
- For college tuition that is just around the corner?
- For income to pay current expenses?

Chances are, you have several goals so you will need to match the funds you buy with at least one of them.

2. Diversify and develop an investment portfolio.

Develop an asset allocation plan and diversify. Your investment plan should include a mix of investments from different sections of the financial market. That way you won't have all your eggs in one basket and your financial future won't depend upon the success or failure of any one type of fund or investment.

3. Investigate Performances of Funds.

Look for funds (and fund managers) that have distinguished themselves over the long haul, through the ups and downs of the markets. Don't buy a fund just because it is doing exceptionally well at the moment. Look for consistency in results over the longer periods. Also compare the performance of fund companies that have similar investment styles and invest in similar types of securities.

4. Risk is as important as return.

Risk and return are closely related. If you want higher returns you will generally need to accept greater risk. Time in the market can mitigate risk however a good asset allocation plan can help you avoid unnecessary risk. Before you invest in a fund consider these factors:

- How much risk does the fund have?
- How does the fund affect your portfolio's overall risk?
- Can you tolerate that risk?

5. Explore fund costs.

Entry / Exit Fees and operating expenses (or management expense ratios) lower your overall returns. Every percentage point counts. Consider the following scenario:

\$10,000 at 10% interest over 30 years grows to nearly \$175,000.

\$10,000 at 10.5% interest (just 0.5% more) over 30 years grows to \$200,000.

6. Taxes matter.

Most funds tout pre-tax returns, even though after-tax returns gauge what you actually get to keep. Unfortunately, post tax returns are difficult to measure. But that does not mean they're not of crucial importance to you. The right planning can ensure that more of your funds' investment returns end up in your pocket rather than the government's coffers. So ask these tax-related questions before you invest in a fund:

Will the fund primarily generate dividends or capital gains? Dividends from fund generating income can be taxed at a higher rate than the capital gains that come from selling a security at a profit. The difference can have a big impact on your long-term returns.

Are you buying the fund for a tax-deferred account? Tax-deferred accounts such as superannuation defer taxes on investment returns. Thus, such accounts might be a good place for funds that have above average portfolio turnover or pay high dividends. Low tax funds are not appropriate for tax-deferred accounts, as much of the benefit of lower taxes is lost.

7. Sell smart.

When should you sell a fund? If you sell a fund just because the market is down, you may suffer losses and perhaps miss out on gains that might occur when the market rebounds. Likewise, individual funds sometimes post their biggest gains in the wake of a period of relatively poor performance.

At the time of your annual portfolio review, sell a fund when it no longer suits your investment strategy. This might occur because:

- A. You change your investment plan or objectives.
- B. A fund changes its investment strategy.
- C. The fund's poor results persist.

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