



IN COMMON WITH MOST OTHER WESTERN NATIONS, AUSTRALIA'S POPULATION IS AGEING. IN TIME, THIS WILL HAVE MAJOR IMPLICATIONS FOR PUBLIC POLICY. AS A RESULT OF THIS DEMOGRAPHIC SHIFT, THOSE IN THE WORKFORCE TODAY WILL BE REQUIRED TO PROVIDE FOR THEIR OWN RETIREMENT TO A FAR GREATER EXTENT THAN PREVIOUS GENERATIONS.

Many of these people, however, have yet to develop appropriate investment strategies for the brave new world of greater self-sufficiency ahead. Those who will receive large lump-sum superannuation payouts will have a special need to be aware of the basics of investment planning.

Most people have heard enough about financial planning to know that investment portfolios should include some component of shares, property and interest-bearing investments, these being the three main areas of opportunity for investment in the economy. The concept is that, by spreading investments over these three sectors, an investment portfolio is protected to some extent from adverse movements in one or other sector (usually a decline in share or property prices).

Developing an appropriate investment strategy therefore requires an understanding of equity (share) markets, property markets and interest-bearing investments. It also requires an understanding of the inter-relationships between these markets and a consideration of the role of an investor's individual personal and financial circumstances, philosophy, risk profile and goals.

Because of its central importance, the focus here will be on the question of overall portfolio balance between the various investment sectors. In particular, we will look at how movements in one particular sector (in this case, the equities market) can affect overall investment return.

## PORTFOLIO BALANCE EXAMPLES

Let's start our look at portfolio balance with a very simple example. Peter is a young, single man who has saved hard for several years and has accumulated \$30,000 in a term deposit. He has become disillusioned by the low return on offer in an era of comparatively low interest rates. Based on discussions with friends, he decides to put his \$30,000 into the stock market when the current term deposit expires.

He undertakes some research and decides to allocate the \$30,000 over five different "blue chip" stocks. He places his order through a broker and soon receives confirmation of his purchases. He doesn't worry too much about what he is hearing about instability on world financial markets because he has been told that

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