Intro to investing

MONEY BITES

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Rule 1: Set clear goals

1. Be clear and realistic about what you want to achieve.

2. Know the timeframe you need to invest for.

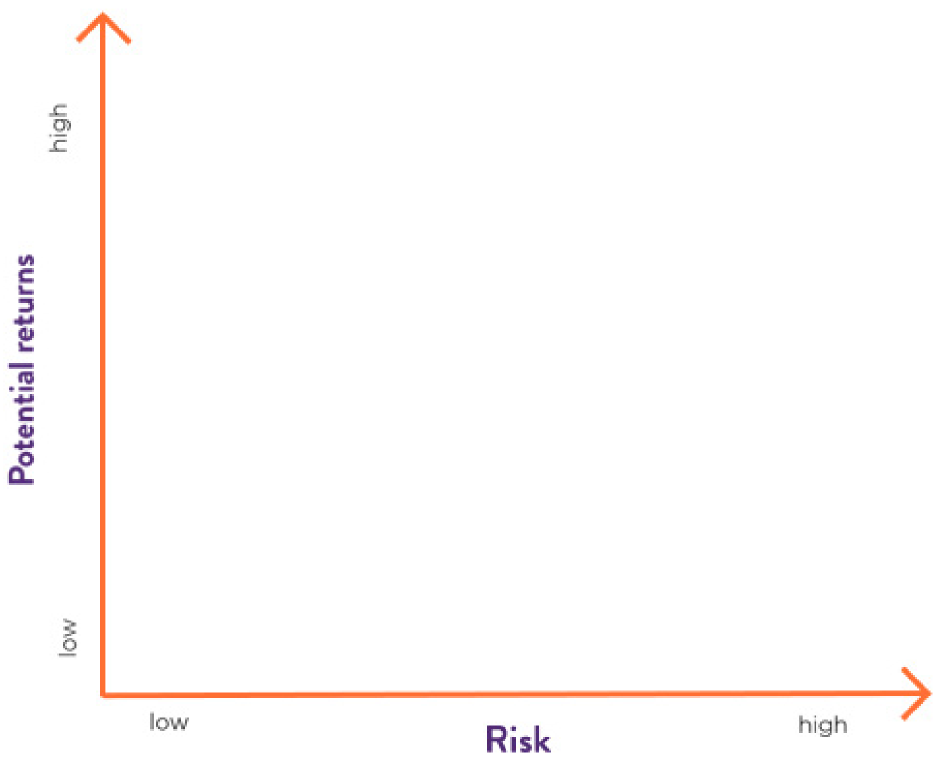
Goal	Timeframe	Goal $	Strategy
i.e. House deposit	*6 years*	*$100,000*	*Contribute 10% of income to a managed fund*

Rule 2: Find the right balance between risk and return

Assess how much risk is worth to take on and if it's worth the potential returns.

Plot the following asset classes on the graph below:

Shares, Property, Bonds, Cash



Rule 3: Learn your asset mix

Learn what type of investor you are and what mix of investments matches your investor type.

sorted.org.nz/tools/investor-kickstarter

For this goal I'm a ...	Cash	Bonds	Property	Shares
Growth investor	*4%*	*26%*	*10%*	*60%*

Rule 4: Don't forget to diversify

Spread your risk by not putting all your eggs in one basket.

My diversification strategy:

Rule 5: Do your research

Compare and review choices.

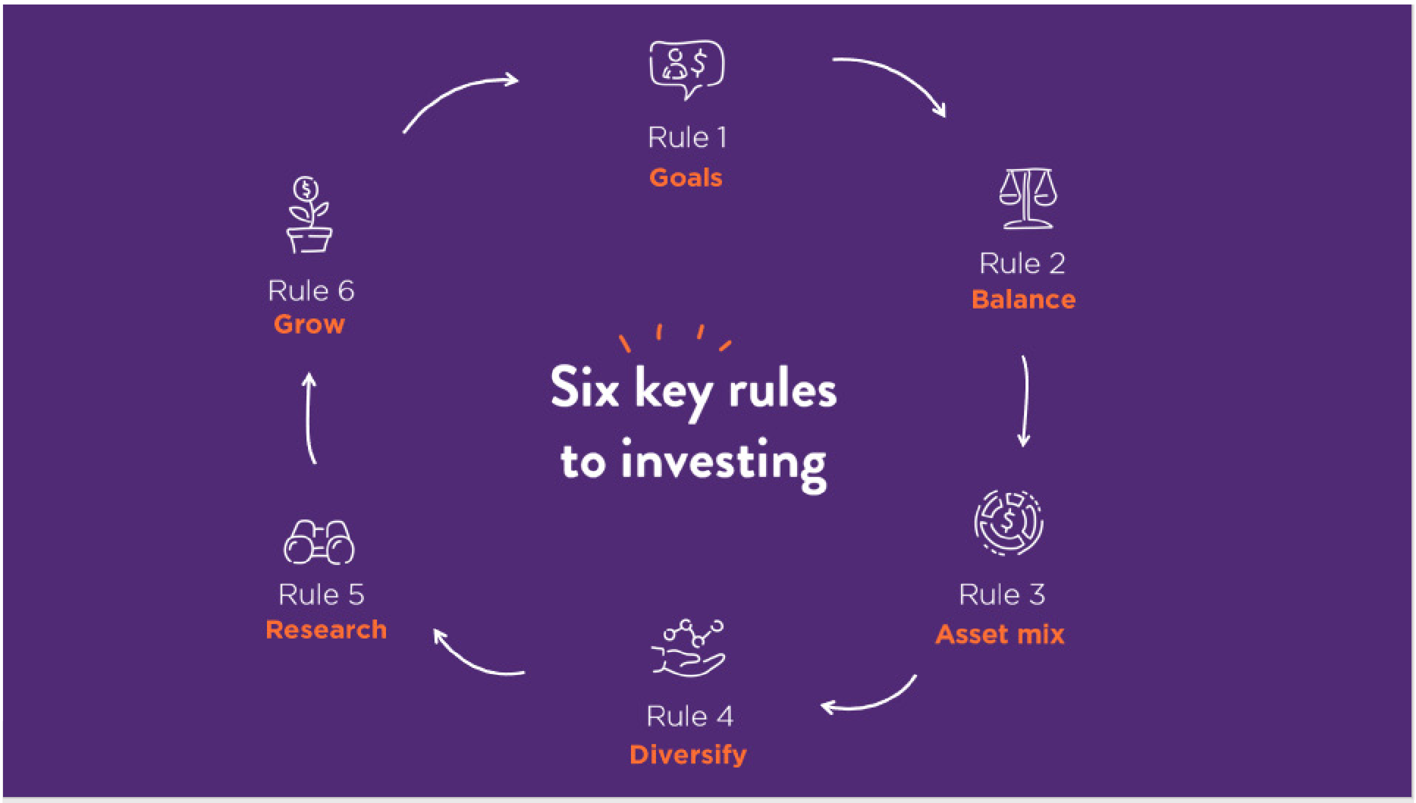
Smartinvestor.sorted.org.nz

My research strategy:

Rule 6: Grow your investments

Understand the power of compounding interest.

My grow strategy:



Four main investments (asset classes)

Shares
When you buy shares you are actually buying part of a company. You may receive a portion of the company's annual profit, called a dividend. You can buy shares through a stockbroker. They are medium to high risk because the prices of shares typically go up and down, which is called 'volatility'.

Property
Property refers to both commercial property and rental property (not the family home). Commerical property can be owned through property trusts or companies who own or develop property as their business.

With rental property, you receive income from rent, but you also have costs, such as mortgage, insurance, rates and maintenance. There is also a risk that your tenants may not pay or may cause damage to your property. You can make a capital gain when you sell a rental property (as you would with your own home) for more than you paid for it. However, house prices may fall and you may make a loss. Property investment is generally medium to high risk.

Bonds
When you buy bonds, you are effectively 'lending' your money to the other party (it could be a company, bank or local government organisation) for a number of years. This means your money is locked in. You can sell your bonds early, but the price you get back might not be what you originally paid. You can buy bonds through a broker.

Cash
Cash investments can include money in bank accounts, savings and term deposits. They provide stable, low risk income in the form of interest payments.

Managed funds

Include a mix of the four kinds of investments above. These are pools of money from many investors where an expert (a fund manager) decides what shares or other investments to buy. The risk of managed funds can range from low to high depending on the mix of investments it holds. KiwiSaver is a managed fund.

Alternative investments

Some of these you can speculate on whether their value will go up or not, and whether someone else will pay more for them in the future, which is not really investing.

Commodities
These include gold and silver. You buy and sell them at the price of the day, making either a profit or a loss.

Currency
You buy foreign currency and hope that exchange rates will move in your favour in the future when you can exchange your money for a better price.

Derivatives
These include options and futures. The concept allows people to protect themselves (hedge), against a future price movement.

Cryptocurrencies
Digital tokens you can buy through an online exchange or through Initial Coin Offers (ICOs). Many online exchanges are unregulated, so it's important to understand the risks before you invest.

More information **sorted.org.nz/must-reads/is-buying-bitcoins-really-investing/**

Glossary

Active funds
Have money managers who aim to get the best results by choosing investments and trading them. Passive funds are more 'hands off' than active funds – they simply follow a market's performance without the fund managers choosing investments and trading often. This generally makes them cheaper, so the costs eat less into the results.

Asset
Something you buy as an investment because it has the potential to become more valuable in time by being sold for a higher price, or because it produces a regular income, or both. An asset puts money in your pocket, as opposed to a liability, which drains it.

Actual asset allocation
The mix of investments that a fund holds at a certain time. This 'actual' mix can vary from a fund's 'target' investment mix, although fund managers typically aim to track their targets closely.

Asset classes
Kinds of investments, the main ones being shares, property, bonds, cash deposits.

Derivatives
A type of alternative investment. These include financial contracts whose value depends on the future value of investments.

Diversification
Not putting all our eggs in one basket, or spreading our risk by choosing different individual investments within an asset class. So instead of us buying a single share worth $800, we can buy 80 shares worth $10 in different companies, industries and countries around the world. Most managed funds like KiwiSaver are diversified for you.

Equity
The amount of something we own, typically in a property or business. If we sold the asset and paid back any money we owed on it, our equity would be what's left. For example, if we have a house worth $350,000 and a $300,000 mortgage, our equity in the house is $50,000.

Fixed interest investments
Long-term, interest-earning assets, such as bank term deposits and bonds. These investments are generally lower risk, and offer a reliable return that can be used as income.

Fund
A pool of money from many individuals that a fund manager invests. Each KiwiSaver scheme has a number of investment funds within it to choose from. There are different types, such as conservative, balanced, or growth, each with a different mix of growth assets and income assets.

Fund manager
A person or organisation who looks after some or all of a KiwiSaver scheme's investments on behalf of the KiwiSaver provider. Sometimes also called an investment manager.

Inflation
Inflation is the rate at which the prices of goods and services increase over time. This reduces our money's purchasing power. For example, if we buy something worth $1,000 now, and inflation were at 2%, in one year's time we would need $1,020 to buy that same thing. This makes it important to invest in a way that at the least out-paces inflation, so that we are not rolling backwards but rather truly getting ahead.

Index fund
A kind of fund that aims to hold investments that mirror a given index using passive management.

Investor profile
The type of investor we are, based on our capacity to invest, attitude toward risk and time horizon (duration). Our investor type will determine what mix of investments we choose, since different kinds of investments work in different ways and are suited for different purposes.

KiwiSaver default fund
A handful of balanced funds picked by the government, for KiwiSaver members who have not yet chosen the fund that suits them best. When someone is opted into KiwiSaver, such as when they start a first job, they are automatically funnelled into one of these default funds until they actively choose the fund they want to be in.

Liability
Something that drains money from our pockets; the opposite of an asset. Most things we buy each day are liabilities, but the goal of investing is to buy assets instead. For example, a holiday is a liability (even if it's a good one) and a bond is an asset (as long as it returns something to us). Liability can also refer to a debt or a promise to pay money for something in the future.

Liquidity
When we invest, we buy assets to gain returns. Liquidity refers to how easily we can turn our investments back into cash afterwards. Shares are more 'liquid' because they can be sold on a market quickly; property is less so because it can take some time to sell a house.

Managed funds
Pools of investors' money that are invested by specialist fund managers. KiwiSaver is a common example. With a managed fund, we're able to spread our investments much more widely than we could typically do by ourselves, with less money needed to get started.

Nominal return
The money we get back from an investment, without taking inflation into account. Our 'real' return, instead, includes the effects of inflation. If our investment achieved a nominal return of 5% and inflation was 2%, our real rate of return is 3%. This is good to keep in mind when looking at term deposit rates, for example.

Passive fund
Passive funds are more 'hands off' than active funds – they simply follow and track the performance of a given market, avoiding the costs of their fund managers choosing investments and trading often. This generally makes them cheaper than active funds.

PIE
A Portfolio Investment Entity is a type of savings or investment fund that has special tax advantages. KiwiSaver funds are examples. When we save through or invest in a PIE, we pay either 0%, 10.5%, 17.5% or 28% tax on our share of the returns, depending on our income.

PIR
Prescribed Investor Rate – the tax rate for our investment earnings from a PIE such as KiwiSaver. It's important to let your KiwiSaver provider know yours. If you do not check that your PIR is correct, you will be taxed at the highest rate (currently 28%). This money cannot be refunded to you, so it's important you check. For more information, see ird.govt.nz/toii/pir/.

Return
What we 'get back' when we invest. Returns typically come from your investment becoming worth more so that someone else is willing to pay more for it, or from the income it spins off, such as rent from property, dividends from shares, or interest from bonds and cash. Or both! Returns can be both positive and negative, and there is always a balancing act between risk and return. The higher returns we chase, the more risk we have to shoulder.

Risk
The chance that we might not reach our goals. Many kinds of risks come with investing, and the particular risks you face depend on the individual investment or fund. KiwiSaver funds are typically grouped by risk levels, with the amount of growth assets each holds determining the level. Growth assets tend to bring more risk.

Risks and returns go hand in hand in investing. Taking on more risk should mean the potential for higher returns over time, but also potentially larger losses if the market suddenly changes. Less risk typically leads to lower returns, but less volatility.

Risk can also be measured by how your investment or savings keep up with inflation.

Securities
A real or virtual document that proves ownership of shares, bonds and other investments. This term is sometimes used interchangeably with 'investments' and the shares and bonds themselves.

Shares (or stocks)
A kind of investment that gives part ownership in a company and can bring returns from profits shared by the company (dividends) or from selling the shares for more than you paid. Shares are growth assets and are also known as equities or stock.

Supervisor
A licensed entity independent of your KiwiSaver provider that supervises the provider's management of the scheme. KiwiSaver schemes are trusts, and (except in the case of a restricted KiwiSaver scheme) the terms of the trust deed state that the supervisor must hold all contributions and investments in trust for the investors. This means your funds are effectively ring-fenced in the event that the provider's business fails.

Term deposit
Money deposited for a fixed term – usually between 30 days and 5 years. If we want our money back before the term is up, we may have to forego a portion of our interest as a penalty.

Time horizon
In investing, the period of time before we need our money back. This is particularly important when we're choosing a mix of investments, to make sure the money will be there when we need it. Typical time horizons (also called 'duration') are 0–3 years (short term), 4–9 years (medium term), and 10 years or more (long term).

Unit
The measure of your ownership in the investments that your fund holds. You buy units by contributing to a given fund; you sell units when you withdraw money from that fund. The administrator of each KiwiSaver scheme keeps track of individual members' units.

Unit price
The price of buying or selling a unit in a fund. The unit price moves up and down, reflecting the value of the investments in a fund. Your balance is calculated by multiplying the number of units you have by the unit price on the day.

Unit trusts
A structure in use by many managed funds. Managed funds work by pooling money from a number of investors and then using this money to buy a variety of assets. In a unit trust, each investor owns a portion of the total fund.

Volatility
The ups and downs in value that an asset can have. Often mistakenly used interchangeably with 'risk'. Although the two are related, they are not the same. We might invest in a growth fund that has a lot of ups and downs (high volatility), but because we have a long time before we need our money (a long time horizon), there actually may be little chance (risk) of us not reaching our goals by investing.

Action plan

Goal

Actions	Get it done by	Done!

Goal

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Actions	Get it done by	Done!