A GUIDE TO ASSET CLASSES AND INVESTING FUNDAMENTALS

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Starting as an investor can be overwhelming, but understanding asset classes is a vital first step. This guide outlines the main asset classes, their benefits and drawbacks, and strategies to manage risk effectively.

Key Points:

- The four main asset classes: cash, fixed interest, property, and shares.
- Defensive investments: cash and fixed interest.
- Growth investments: property, shares, and alternatives.
- Higher returns often come with higher risks.
- Diversifying your portfolio and investing long-term helps mitigate risk.

Understanding Asset Classes

Cash

Includes bank accounts, term deposits), and similar securities. Provides stable, low-risk income via regular interest payments.

- Time horizon: Short term
- Pros: Low risk, stable income
- Cons: Low returns

Fixed Interest

Investments include term deposits, bonds, and debentures. Returns are usually through regular interest payments, with potential capital gains for tradable bonds.

- Time horizon: 1–3 years
- Pros: Predictable income
- Cons: Vulnerable to interest rate changes

Property

Property
Invest directly (e.g., houses) or indirectly (e.g., property trusts). Includes residential, commercial, and industrial property.

- Time horizon: 3–5 years
- Pros: Potential for capital growth and rental income
- Cons: Illiquidity and high entry costs

Shares

Represent part-ownership in companies. Returns come from capital growth and dividends.

- Time horizon: 5–7 years
- Pros: High return potential
- Cons: Market volatility

Defensive vs. Growth Investments

Defensive vs. Growth Investments

- **Defensive: Cash and fixed interest aim for stability and regular income,**
- **with minimal capital growth. Suitable for risk-averse investors with short timeframes.**
- **Growth: Property, shares, and alternatives aim for capital appreciation**
- **but come with higher short-term volatility. Best for long-term goals.**

Managing Risk: Diversification

Diversification reduces risk by spreading investments across:

- Asset classes: Combine cash, property, shares, and fixed interest.
- Industries: Invest in multiple sectors when buying shares.
- Funds: Use various fund managers or types of funds.
- Geographies: Balance investments inside and outside of superannuation

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Key Investment Strategies

Dollar Cost Averaging
Regularly invest a fixed amount, buying more units when prices are low and fewer when prices are high. This smooths out market fluctuations over time.

Compounding
Reinvest earnings to generate additional returns. Start early and remain invested long-term to maximize growth

Matching Investments to Your Goals

- Short-term goals: Focus on defensive assets like cash or fixed interest for stability.
- Medium- to long-term goals: Include growth assets like property and shares for higher returns over time.

Asset Class Returns

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Annualised
Japan equities 9.9%	High yield 14.3%	China equities 54.3%	Cash 1.9%	U.S. equities 31.6%	China equities 29.7%	Commodities 38.5%	Commodities 22%	U.S. equities 27.1%	U.S. equities 25.1%	U.S. equities 13.1%
U.S. equities 1.3%	Infrastructure 12.4%	EM equities 37.8%	DM gov. debt -0.4%	Infrastructure 27%	U.S. equities 21.4%	REITs 32.5%	Cash 1.3%	Japan equities 20.8%	China equities 19.7%	Japan equities 6.6%
Emerging debt 1.2%	U.S. equities 11.6%	Europe equities 26.2%	IG credit -3.5%	Europe equities 24.6%	EM equities 18.7%	U.S. equities 27%	Infrastructure -0.2%	Europe equities 20.7%	Commodities 18.4%	Infrastructure 5.9%
REITs 0.6%	EM equities 11.6%	Japan equities 24.4%	High yield -4.1%	REITs 24.5%	Japan equities 14.9%	Europe equities 17%	High yield -12.7%	High yield 14%	Infrastructure 15.1%	Europe equities 5.6%
Cash 0.1%	Emerging debt 10.2%	U.S. equities 21.9%	U.S. equities -4.5%	China equities 23.7%	IG credit 10.1%	Infrastructure 11.9%	Europe equities -14.5%	REITs 11.5%	High yield 9.2%	High yield 4.5%
Europe equities -2.3%	Commodities 9.7%	Infrastructure 20.1%	Emerging debt -4.6%	Japan equities 20.1%	DM gov. debt 9.5%	Japan equities 2%	IG credit -16.1%	Emerging debt 10.5%	Japan equities 8.7%	Commodities 4.5%
High yield -2.7%	REITs 6.9%	High yield 10.4%	REITs -4.8%	EM equities 18.9%	High yield 7%	High yield 1%	Japan equities -16.3%	EM equities 10.3%	EM equities 8.1%	REITs 4.1%
DM gov. debt -3.3%	IG credit 6%	Emerging debt 9.3%	Infrastructure -9.5%	Emerging debt 14.4%	Europe equities 5.9%	Cash 0%	Emerging debt -16.5%	IG credit 10.2%	Emerging debt 5.7%	EM equities 4%
IG credit -3.8%	Japan equities 2.7%	IG credit 9.3%	Commodities -10.7%	High yield 12.6%	Emerging debt 5.9%	Emerging debt -1.5%	DM gov. debt -17.5%	Infrastructure 6.8%	Cash 5.3%	Emerging debt 3.1%
China equities -7.6%	DM gov. debt 1.7%	REITs 8.6%	Japan equities -12.6%	IG credit 11.8%	Cash 0.7%	IG credit -2.1%	U.S. equities -19.5%	Cash 5.1%	REITs 3.9%	China equities 2.1%
Infrastructure -11.5%	China equities 1.1%	DM gov. debt 7.3%	EM equities -14.2%	Commodities 11.8%	Infrastructure -5.8%	EM equities -2.2%	EM equities -19.7%	DM gov. debt 4.2%	Europe equities 2.4%	IG credit 2%
EM equities -14.6%	Cash 0.4%	Commodities 1.7%	Europe equities -14.3%	DM gov. debt 5.6%	REITs -8.1%	DM gov. debt -6.6%	China equities -21.8%	Commodities 0%	IG credit 1.9%	Cash 1.8%
Commodities -23.4%	Europe equities 0.2%	Cash 0.8%	China equities -18.7%	Cash 2.3%	Commodities -9.3%	China equities -21.6%	REITs -23.6%	China equities -11%	DM gov. debt -3.6%	DM gov. debt -0.6%

Key: Lowest return ----------- highest return

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index.

Working with a Financial Adviser

Your adviser will assess your:

- Risk tolerance
- Investment timeframe
- Financial goals

They will then design an asset allocation tailored to your needs. Regular reviews ensure your portfolio adapts to changing circumstances.

Key Takeaways

- Align investments with your risk tolerance and objectives.
- Diversify to protect against market volatility.
- Take a long-term approach to benefit from compounding and dollar cost averaging.
- Consult a financial adviser to optimize your portfolio and strategy.

By understanding these fundamentals, you can confidently build a portfolio that supports your financial goals.

Get in Touch for Expert Financial Advice

For more information about asset classes and the fundamentals of investing, contact GTM Finance. Our team can provide tailored advice to help you find the best approach for your unique financial situation.

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