



education series

Five investing terms you should know

People often think investing is complicated because many of the words used to describe investing are unfamiliar to them. Learning a few key terms can help take the mystery out of investing.

Compounding

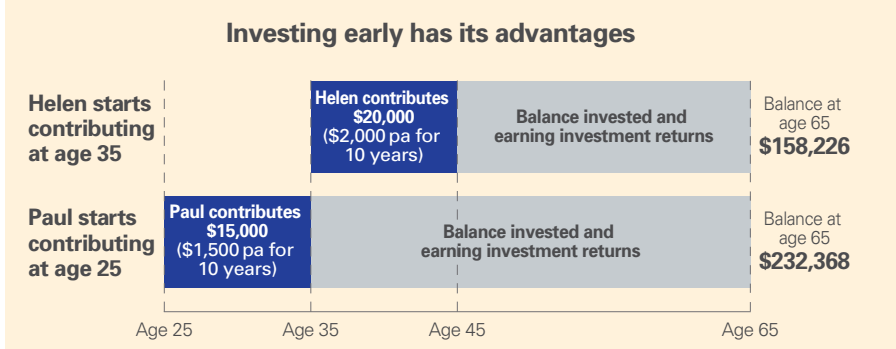
Compounding is what happens when your money makes money (through investment returns), and then that money makes more money – and so on. The earlier you begin saving for your future, the more you can benefit from compounding, as the following example shows.

Performance

Performance is how an investment has behaved. Performance is usually measured in the percentage return provided by an investment over a specified time period. Performance can be positive (you make money) or negative (you lose money).

Performance information for all our investment options is available at www.australiansuper.com/investments

Paul and Helen both contribute to their super for ten years. Over ten years, Paul contributes \$5,000 less than Helen, but he starts contributing at a much earlier age. He ends up with a higher balance as a result of compounded investment returns over a longer time.



Based on monthly contribution (post tax) for ten years and interest rate of 6% pa after investment fees. Interest is compounded daily. No other withdrawals have been accounted for. Starting balance of \$0 and monthly contribution applied last day of each month. Investment returns are not guaranteed as all investments carry some risk. Past performance gives no indication of future returns.

Real return

Real return is the term used to describe the return on your investment after it has been reduced by the value of inflation. A real return shows the true increase in the value of an investment, rather than an increase due to inflation.

Example

Adam has invested \$10,000 and it is earning 6% pa or \$600 per year. If inflation is 2% pa, then in real terms, Adam's investment has increased by 4% pa or \$400.

To get real growth in the value of your investment and keep up with rising costs due to inflation, the return you receive on your investment needs to be higher than inflation. That way, when you retire, you'll be better able to meet the higher cost of living.


Putting all your super in a low risk investment option may seem secure, but the reality is that less risky options usually provide lower long-term returns, which when held over many years may not be enough to keep pace with inflation.

What is inflation?

Inflation is the increase in the price of goods and services each year – so what you can buy with \$10 today, will be much more than what you can buy with the same \$10 in 10 years time. For example, a litre of milk that cost around \$1.30 ten years ago is now around \$2.50 today.

Diversification

Diversification describes an approach to investing where you follow a simple rule of thumb: don't put all your eggs in one basket. If your super is invested in different types of assets (such as shares, property, bonds and cash), it could help offset losses if one type of investment does poorly. Of course, diversification does not assure a profit or protect against a loss in a declining market.


 For more information, have a look at our factsheet *What is diversification?* at www.australiansuper.com/DiversificationBasics

Volatility

When investing, volatility refers to the rise and fall in value of an asset over a specific period of time. The more the value of an asset goes up and down, and the greater the extremes in value, the more volatile it is considered to be. For a super member, the volatility of an asset is reflected in its investment returns.

Historically, the most volatile asset classes have been shares and property. Over the 20 years from 1989 to 2009, the annual return from Australian shares has been as high as 29.2% and as low as -20.3%[†] Historically, the least volatile assets have been generally bonds and cash, so they usually have a smaller range of returns.

Commonly, the more volatile assets classes, like shares, provide a higher return over the long-term than less volatile asset classes. But in the short-term they can be riskier because of the tendency to rise and fall in value over short periods.

 Our *Investment Choice Guide* contains more information on volatility. It's available at www.australiansuper.com/InvestmentGuide

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[†]Based on the S&P/ASX 300 (All Ordinaries before 1/4/2000).

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