



education series

# What is diversification?

When investing their super, most people want to reduce their risk of sharply fluctuating returns. One strategy for doing this is to diversify your investment – where you divide your super between different types of assets.

## Don't put all your eggs in one basket

Remember the old saying, "Don't put all your eggs in one basket"? Basically, diversifying your super is putting your eggs (or dollars) in several baskets (or types of assets). You can practise diversification when you choose to spread your super across different asset classes (shares, bonds, property, infrastructure or cash).

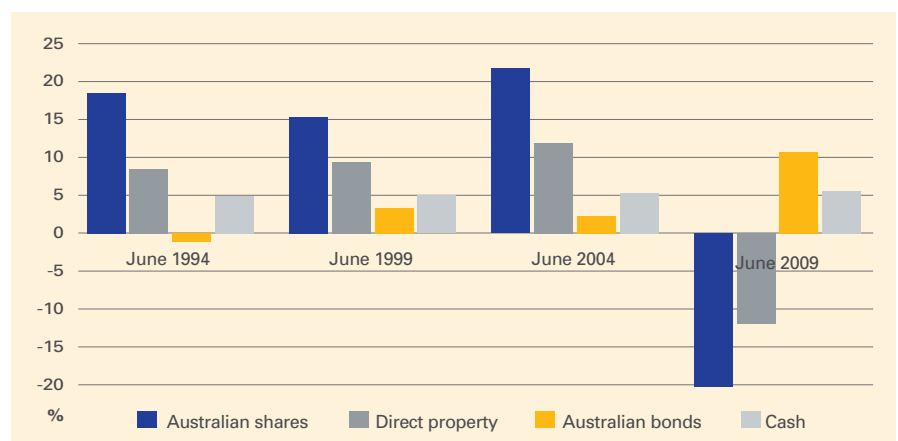
Diversifying can help reduce the overall market risk of your super (or, in other words, the risk that the investment returns in your super account will fluctuate significantly). This is because no single type of

asset class performs well all the time. When one type of asset class is in a slump, another is often performing well. If your super is invested in a range of assets, you reduce the risk of a substantial loss if one asset class is doing poorly. However, diversifying can't guarantee a profit or protect against loss when markets are declining.

The graph below shows how returns from different types of investments can vary in different years. It shows the annual return to 30 June in four of the last 20 years for Australian shares, direct property, Australian bonds and cash.

## Different types of investments perform well at different times

Annual returns from the main asset classes in different years



The information in the graph has been prepared using data from the following market indices: Australian shares – S&P/ASX 300 (All Ordinaries before 1/4/2000); Direct property – Mercer Unlisted Property; Australian bonds – UBSA Composite Bond All Maturities; Cash – UBSA 90 Day Bank Bill.

## Putting diversification into practice

The next question to consider is what mix of assets (shares, bonds, property and cash) may be appropriate for you? The answer depends largely on your investment timeframe.

Many people think about their investment timeframe in relation to when they will retire. Instead, think about how long your money will be invested, including the period during which you will be drawing on it as retirement income.

With average life expectancies increasing, investment timeframes are also increasing, so be aware of the risks of moving to more conservative investments too early and missing out on the continuing growth of your retirement savings.

When investing for the long-term, you want your super to grow over that time. That means you need an investment which includes assets that will provide strong returns over the long-term, like shares and property. The longer your super will be invested (including the years of your retirement), the more aggressive you can afford to be with your selection of assets. That's because you have more time to ride out any short-term market fluctuations.

## Your investment options

At AustralianSuper, we offer a range of PreMixed investment options that include combinations of all the major asset classes (shares, property, bonds and cash). Some of these options also include infrastructure and private equity.

Our PreMixed options are diversified for you already, which makes selecting an investment option easier.

You can also select your own combination of asset classes to suit you, with our DIY Mix options. These options are each made up of a single asset class.

 For more information about our investment options, have a look at our *Investment Choice Guide*, available at [www.australiansuper.com/InvestmentGuide](http://www.australiansuper.com/InvestmentGuide) or call us for a copy on **1300 300 273**. This guide is full of useful information, and includes profiles of each of our investment options including the assets making up each option, its investment objectives and level of risk.

## Different types of investment risk

Most of us think of investment risk as the risk of our investment rising and falling in value – this is known as volatility or market risk. But investment risk can come in other forms:

**Longevity risk** – the risk that your accumulated super may not be enough to fund your retirement for your life expectancy.

**Inflation risk** – the risk that inflation may be higher than the return on your investment.

**Currency risk** – the risk that the changing value of currency either in Australia, or overseas, may change the value of any overseas investment.

**Market timing risk** – the risk that the buying or selling of an investment is mistimed, resulting in a less than optimum investment outcome.

For more information on investment risk, download our Investment Choice Guide at [www.australiansuper.com/InvestmentGuide](http://www.australiansuper.com/InvestmentGuide).

## Would you like more information?

If you have any questions about the investment of your super or making an investment choice

Call AustralianSuper on:



**1300 300 273**

and ask to speak to a qualified financial adviser – they can provide over-the-phone financial advice at no cost.\*

Or visit our website at:



[www.australiansuper.com/investments](http://www.australiansuper.com/investments)

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