

Investing

with a purpose

What do you want your money to do for you?

It may seem a simple question but it's an important one, because investing only really makes sense if you have some purpose in mind. Investing without knowing what you want to achieve is a bit like driving a car without knowing where you want to end up.

Your goal might be:

- to save enough for a deposit on a home;
- to buy your child a car for their 21st birthday;
- to provide yourself with some extra income to make life more comfortable;
- to pay for your children's or grandchildren's education;
- or simply to have built enough wealth to feel financially secure.

Saving and investing - what's the difference?

The goals we've been talking about are some way into the future. They're things you want to achieve over a period of years. That's what investing is all about, and it's not the same as saving.

Your **savings** are money you put aside for things you need – or might need – in the near future. That includes money for emergencies, for things you have to buy that you hadn't planned (like a new fridge if the old one packs up), or perhaps for next year's holiday.

This is short-term money, and the best place for it is in a savings account where it will always be available.

Your **investments** are different. This is money you want to work harder for you, and for a longer period of time. It's money you don't expect to need access to at short notice, because it's designed to build towards your longer-term goals.

That's where managed funds come in. They're for investment, not for short-term saving. Some managed funds make it easy to put aside a small amount of money regularly, but even so you need to remember that you've invested that money, not just saved it.

Different funds for different folks

Whatever your goals are, there are managed funds that can help make them a reality – provided you have time on your side.

Some funds aim mainly for **capital growth**, in other words increasing their value over time. There are other funds that set out to provide you with a **regular income**, and still others that provide a **balance** between capital growth and income.

It's a matter of 'horses for courses', and with some good advice you can find a fund that should be just right for you.

Funds that aim to provide **income** generally invest in cash, fixed interest and bonds. On the other hand, funds that invest in shares and property will generally provide some level of income, but focus more on **growing** the overall value of your investment over time.

Ben and Sarah's goal is to buy their own home in the next three to five years. They've already saved \$10,000 towards the deposit, and they want to add small amounts to this when they can afford to. Both Ben and Sarah pay a marginal tax rate of 30% on their incomes.

The savings account they're using doesn't pay high interest, and they lose nearly a third of it in tax anyway. After getting some advice they're going to invest their money into a balanced managed fund which includes a mix of fixed interest, shares and property investments. Over their investment timeframe, they hope to achieve higher returns than their savings account, and with less tax to pay.*

That way, they expect to be in their home sooner rather than later.

**This fund will give them a return that includes a mix of income and capital growth. The income component of their return is assessed for tax purposes in the year it is earned. The capital growth component of their return however is included for tax purposes in the year it is realised. This means this tax may be deferred. Furthermore, a discount on Capital Gains Tax applies after an asset is held for 12 months.*