

ASX/Russell Long Term Investing

Report Highlights



In short

ASX/Russell Long Term Investing Report investigates the performance of various types of investments over the past 10 and 20 years. The performance comparison takes into account the impact of personal tax rates, the tax treatment of various assets, and the spectrum of costs associated with different investments, in an effort to show investors the real-life impact of tax and borrowing on ultimate investment returns. This aims to provide individual investors with a reasonable insight into how different investments have performed over the medium to long-term – in real terms.

The study found that the three top performing investments over the 10 year period were all ASX-listed investments – Australian listed property, Global listed property and Australian shares. The returns on each of these three investment types were at least three times the rate of inflation. All three sectors performed better than residential investment property over this period.

10 Year Performance Summary

Australian listed property achieved the highest return of:

- » 15.8% p.a. (before-tax and after-costs)
- » 14.2% p.a. at the lowest marginal tax rate (after-tax and after-costs)
- » 11.6% at the highest marginal tax rate (after-tax and after-costs)

Global listed property came a close second to Australian Listed Property with a return of:

- » 15.7% p.a. (before-tax and after-costs).

Australian shares followed with a return of:

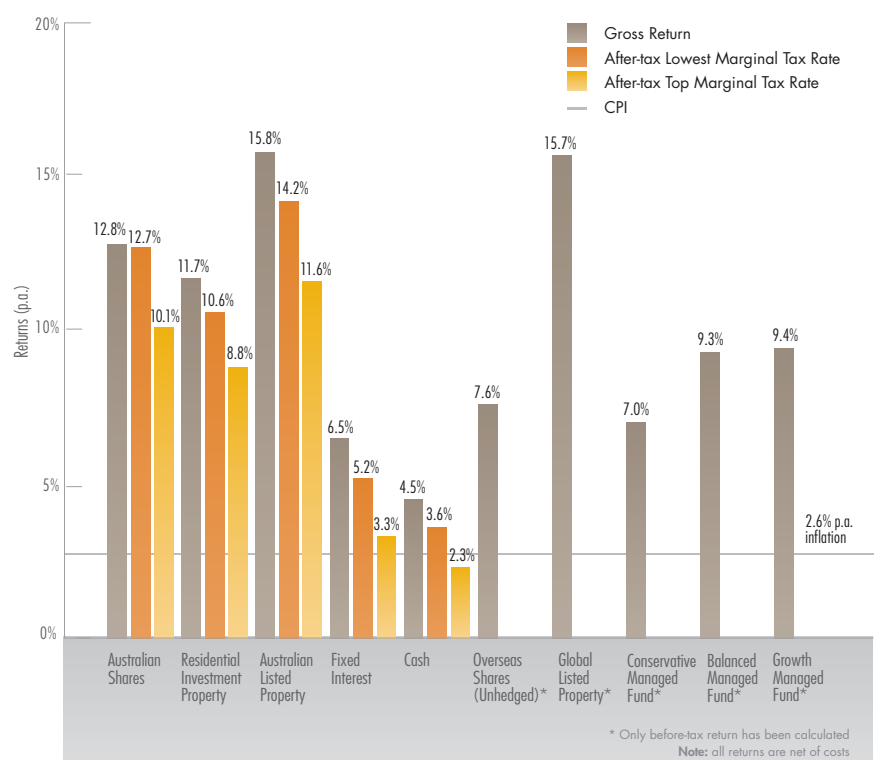
- » 12.8% p.a. (before-tax and after-costs)
- » 12.7% p.a. at the lowest marginal tax rate (after-tax and after-costs)
- » 10.1% at the highest marginal tax rate (after-tax and after-costs).

Residential property achieved a return of:

- » 11.7% p.a. (before-tax and after-costs)
- » 10.6% p.a. at the lowest marginal tax rate (after-tax and after-costs)
- » 8.8% at the highest marginal tax rate (after-tax and after-costs)

The following chart compares the 10-year performance of various investments (to 31 December 2006) before tax and after costs and after the highest and lowest marginal tax rates.

**Chart 1 – Comparison of various investments, at different tax rates.
10 Years to 31 December 2006.**



20 Year Performance Summary

Australian listed property achieved the highest return of:

- » 13.2% p.a (before-tax and after-costs)
- » 11.7% p.a. at the lowest marginal tax rate (after-tax and after-costs)
- » 9.6% at the highest marginal tax rate (after-tax and after-costs).

Australian shares followed with a high return of:

- » 11.1% p.a (before-tax and after-costs)
- » 11.3% p.a. at the lowest marginal tax rate (after-tax and after-costs)
- » 9.0% at the highest marginal tax rate (after-tax and after-costs).

Residential property also recorded a high return of:

- » 11.7% p.a (before-tax and after-costs)
- » 10.6% p.a. at the lowest marginal tax rate (after-tax and after-costs)
- » 8.8% at the highest marginal tax rate (after-tax and after-costs).

The chart opposite compares the 20-year performance of various investments (to 31 December 2006) before tax and after costs and after the highest and lowest marginal tax rates.

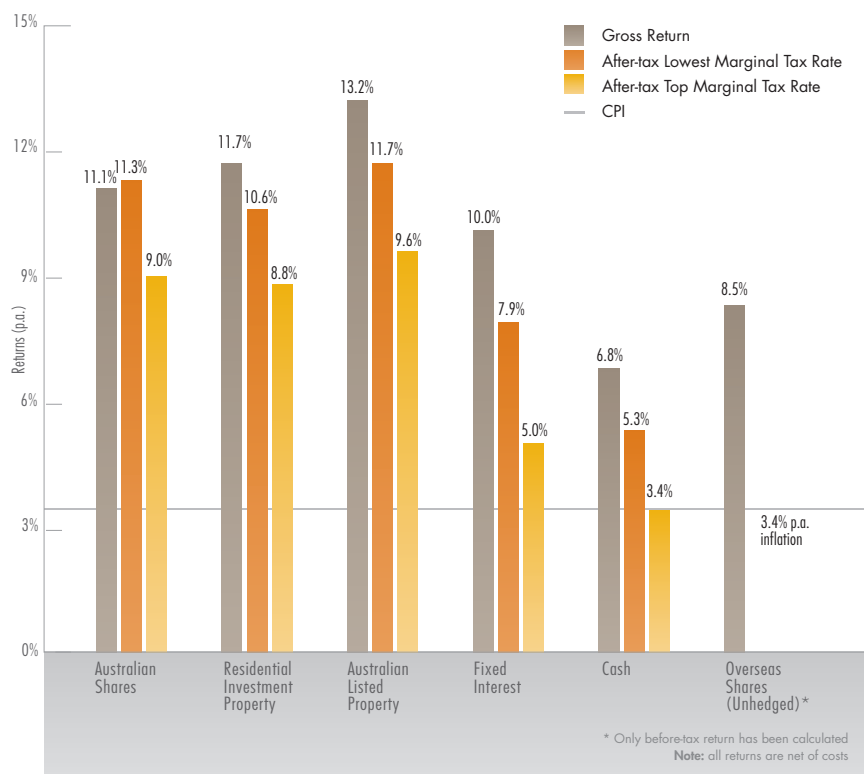
Taxation impacts:

The results of this study also show that personal tax makes a significant difference to the end outcome for various investments. The impact of personal taxation on Australian share returns has been less significant, due to franking credits.

Impact of Leverage:

Borrowing money to invest (i.e leverage) over the past ten years has effectively increased the after tax return of both Australian shares and residential investment property. The increase in performance of these two asset classes has more than offset the borrowing costs over the ten year period.

Chart 2 – Comparison of various investments, at different tax rates. 20 Years to 31 December 2006.



The full report also covers:

- » Comparison of Australian shares and residential property, with and without gearing.

Implications for Investors:

- » Patient investors may be rewarded by taking extra risk (i.e. investing growth assets, such as shares and property)
- » Diversified Managed Funds are valuable for investors with shorter time horizons or low tolerance for variability in returns
- » Personal tax rates make a significant difference to the end outcome for various investments

- » Personal tax has the greatest impact on fixed interest and cash investments; and a less significant impact on Australian shares (due to franking credits)
- » Borrowing to invest over the past ten years has effectively increased the after tax returns of both Australian shares and residential investment property
- » Relative performance trends are hard to predict – trying to time investment markets and chasing past performance are dangerous traps for investors
- » The report is not indicative of how investments might perform into the future.

The complete Report may be found on the ASX website at:

http://www.asx.com.au/about/pdf/asx_russell_long_term_investing_report_2006.pdf

and on-demand web-cast and summary may be found on the Russell website at:

<http://www.russell.com/au/investmentperformance/>

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