Australian shares give investors best 'real' returns over twenty-year period, says new Russell Investments /ASX report

2010 Russell Investments/ASX Long-Term Investing Report encourages investors to consider investment returns on an after-tax basis and stick with a long-term strategy

SYDNEY, 26 May 2010 – Australian shares have outperformed residential investment property to provide the best 'real' returns to local investors over the past two decades, according to this year's Russell Investments/ASX Long-Term Investing Report.

Commissioned by the Australian Securities Exchange (ASX) and prepared by Russell's investment consulting team, the Report investigates the performance of various types of investments over the past ten- and twenty-year periods to 31 December 2009. The Report considers the real-life impact of tax, costs and borrowing on ultimate investment returns. The aim is to provide investors with insight into how different investments have performed over the medium to long-term – in real terms.

Will Wilson, General Manager of Domestic Customer Management at ASX said the global financial crisis tested the resolve of many investors: "This Report offers investors some practical guidance on the benefits of ASX-listed investments compared to other investment types, and, in particular, underlines the importance of investing for the long term."

After-tax returns matter

Now in its 12th year, the 2010 Report found that Australian shares outperformed all other investment sectors, delivering the best after-tax and after-cost returns at the lowest and highest marginal tax rates across the last twenty-year period, with a return of 9.9 per cent p.a. and 7.8 per cent p.a. respectively. This was also the case at the superannuation tax rate.

However, on a before-tax and after-costs basis, figures for the twenty-year period show the residential investment property sector has outperformed all other sectors at 9.8 per cent p.a. Australian shares (9.7 per cent p.a.) and Australian bonds (8.9 per cent p.a.) were also strong performers over the period.

Overall, for the twenty-year period at the top marginal tax rate, Australian shares have the lowest effective tax rate payable at 20 per cent on investment returns, due to the Australian dividend imputation system, compared with residential investment property at 26 per cent. Cash and bonds have the highest effective tax rates, both at 49 per cent.

The most profound contrast in effective tax rates is between Australian and Global REITs at 26 per cent and 39 per cent respectively. The Report accounted for the 13 per cent difference as being a result of the tax deferral portion of distributions for Australian REITs.

Stanley Yeo, Senior Consultant, Investment Consulting for Russell, said many investors were unaware of the impact taxes and fees have on returns.

"It is important for investors to consider that tax is essentially a cost of investing. Our results show what a significant difference it can have on the end outcome for investors. We believe after-tax returns will have an increasing importance for investors against a backdrop of the financial services and tax reforms currently underway in the local market," Mr Yeo said.

The latest Report reinforces that superannuation remains the most tax-effective way to invest.

Gearing amplifies after-tax return over ten-year period

The Report also investigates the impact of borrowing on investment performance, factoring in a 50 per cent gearing ratio for the most commonly geared assets – Australian shares and residential investment property. In this scenario, at both the lowest and highest marginal tax rates, residential investment property outperforms Australian shares. According to the Report, this outperformance is partly a result of lower lending rates relating to residential investment property.

Short-term volatility is the trade off for higher long-term returns

The Report encourages investors to view volatile short-term return patterns as a normal part of investing in growth-type asset classes. Australian shares in particular experienced significant falls as a result of the global financial crisis. However, the powerful sharemarket rebound at the end of 2009 lessened the severity with an impressive return of 37.6 per cent.

"Our findings illustrate the importance of choosing an appropriate strategy for your financial circumstances and adopting a longer term perspective. Sticking with a long-term strategy and not attempting to time the markets ensures investors can participate in and take advantage of these sharp market rallies," Mr Yeo said.

About the Australian Securities Exchange

As one of the world's top-10 listed exchange groups, measured by its market capitalisation, the ASX Group was created through the merger of the Australian Stock Exchange and the Sydney Futures Exchange. The ASX Group operates under the brand Australian Securities Exchange. The Australian Securities Exchange spans the markets for corporate control, capital formation and price discovery and functions as an operator, supervisor, central counterparty clearer and payments system facilitator. The diverse domestic and international customer base of the Australian Securities Exchange includes issuers of a variety of listed securities, corporates, investment banks, trading banks, fund managers, hedge funds, commodity trading advisers and proprietary and retail traders.

More information on ASX can be found on our website www.asx.com.au

About Russell Investments

Founded in 1936, Russell Investments is a global financial services firm that serves institutional investors, financial advisers and individuals in more than 40 countries. Over the course of its history, Russell's innovations have come to define many of the practices that are standard in the investment world today, and have earned the company a reputation for excellence and leadership.

Through a unique combination of wide-ranging and interlinked businesses, Russell delivers financial products, services and advice. A pioneer, Russell began its strategic pension fund consulting business in 1969 and today is trusted by many well-known worldwide institutions for

investment advice. The firm has US$176 billion in assets under management (as of 31/12/09) in its investment funds, retirement products, and institutional funds, and is well recognised for its depth of research and quality of manager selection. Russell offers a comprehensive range of implementation services that helps institutional clients maximise their assets. The Russell Indexes calculate over 50,000 benchmarks daily covering 65 countries and more than 10,000 securities.

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