Transcript

The Ideas Exchange

Episode 39: How to start investing

May 2024

Rory Cunningham (00:00):
Welcome to The Ideas Exchange by ASX, connecting you with investment experts, market updates and ideas. I'm Rory Cunningham, senior Manager of Investment Products at ASX, and this is our regular podcast covering everything from investment trends through to different ways to invest using a variety of products.

Disclaimer (00:19):
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Rory Cunningham (00:47):
Hello and welcome to The Ideas Exchange. I'm your host for today, Rory Cunningham, from the ASX. Now, today is going to be quite a different episode from what you are probably used to. I'm very pleased to be joined today by my colleague and someone that you know quite well, Jacinta King, also from the ASX. Jacinta, welcome to The Ideas Exchange.

Jacinta King (01:09):
Thank you so much. I'm in the hot seat today. So it's nice to be interviewed, but maybe I'm a bit nervous.

Rory Cunningham (01:18):
I'm sure you're going to do fine. So what we thought we'd do for our audience today is go back to basics really and talk about how to get started in investing. Now, this is a presentation, I suppose, or content that we've got available on the ASX in a few different formats. We've presented this content at ASX Investor Day, which is our retail investor road shows that are held around Australia twice a year. We've also got numerous booklets available on the ASX website that can help investors understand how to get started in investing. But what we thought we would try to do is bring this content to you in the podcast format. So we will see how it goes.

(02:02):
Now, just to set the scene, what I thought I might do is just share some findings from the ASX Australian Investor Study from 2023. This is a study that ASX does every two to three years. What it tries to do is find out the key trends amongst Australian retail investors, how they're investing, their attitudes towards investing, what their goals are, what their fears are when it comes to investing. And there's some really interesting findings from that study. Just a few things I'd like to highlight before I start to grill and interview Jacinta.

Jacinta King (02:41):
Okay, I'm ready and waiting.

Rory Cunningham (02:43):
So across Australia, 51% or 10.2 million of all Australian adults hold investments outside of their primary residence and super. Interestingly, that's up from 46% in 2020. So there's an increase in the number of investors since we last ran this survey in 2020. That actually makes it 1.2 million new investors from 2020 to 2023. And some background to that, we saw a huge increase in the number of investors coming to the market, investing in shares, exchange traded funds during that Covid lockdown period as people were at home on the couch and wondering what to do with their savings.

(03:27):
Now on exchange investing, such as investing via a stock exchange like the ASX, is still the most dominant way in which people invest in the 7.7 million Australian investors that hold investments through a stock exchange. Exchange traded funds or ETFs are one of the fastest growing products with 20% of investors holding ETFs, up from 15% in 2020. And 34% of Australian adults would use a financial adviser, but say they're too expensive. So there's a really interesting dynamic here, which is that we've got more investors coming to the market, we've got more investors using the products, the securities that are available through a stock exchange like the ASX. We've got more investors using exchange traded funds, which are pooled investment vehicles.

(04:21):
But unfortunately, we're in a situation where advice is too expensive. The number of advisers that are leaving the industry has increased over the last number of years. And I dare say it is hard or expensive for everyday Australians to get access to financial advice.

(04:43):
Just further building on what I've commented on there. In relation to the most popular ways in which investors invest, 58% of Australians hold shares such as Commonwealth bank shares, BHP shares. 35% hold residential

investment properties, 28% own term deposits, 20% own exchange traded funds, and 16% of Australians own international shares.

(05:15):
And last but not least, I need to mention cryptocurrencies. Interestingly, 15% of Australian investors own cryptocurrencies, so we might talk a little bit about that as well. So with all these new investors coming to the market, with all these product options that are available to investors, we thought we would go back to basics so that investors can understand how to get started investing and really how to build an investment plan, the fundamentals of building an investment plan. So this is where I might throw over to my colleague, Jacinta. And Jacinta, just to put you right on the spot, how should investors build an investment plan?

Jacinta King (05:52):
Rory, great question. And before I tackle that with you, I just want to on some of those key findings and statistics that you've just run through. You mentioned 1.2 million new investors since 2020. When I look at that and talk to people about those stats, I think that we should commend ourselves as a community and finance industry in the work that we are continually trying to do and educate people about investing. It shows that Australians are really taking an interest and a concerted effort to understand and learn better. So we just want to continue that hopefully. And this is what our plan is today, is to talk about some of the ways that people can look at investment plan.

(06:34):
So I guess really there are lots of books, articles, education. If like me, you might've joined different newsletters and mailing lists and attended different events. It can seem a little bit overwhelming, but really there are just four key features to consider. So goal setting comes into play here, looking at your savings and contributions is really important. Thirdly, your investment selection. And then fourthly, you want to consider a periodic review.

(07:05):
So it's about also looking at what is your investment time horizon, your age and stage, and your risk appetite. So that's something that we'll touch on later as well. But just sticking with these investment plans, firstly. Setting clear and appropriate goals. You want to look at how much you want to invest in, how long it will take to save this much and be really clear and specific about that. So rather than saying, "I'm going to save some money for a housing deposit or some investments, I want to save 20,000 in five years." I had [inaudible 00:07:40] because I thought in Sydney, if Sydney speak, he'd really be saying 200,000, wouldn't you in 10 years? So unfortunately we have a much higher benchmark in some of our major cities. But not impossible if you set a plan. Savings and contributions is really important to look at. Be realistic about the upfront amount that you can put away. And then realistic again about the monthly contributions.

Rory Cunningham (08:04):
I might just jump in there. Before we go on to savings and contributions, let's just stick with goal setting for a moment because setting a goal can be challenging, right? So what's a framework that you think investors can use when trying to set goals?

Jacinta King (08:21):
Yep, good question actually. And there are a few frameworks. One of the probably most effective ones is the SMART goals. So that's an acronym for being specific, measurable, achievable, relevant, and time bound. Research tells us that 92% of people don't achieve the goals that they set each year. So I have to throw back and say, do you look at goals each year? Do you set New Year's resolutions at all?

Rory Cunningham (08:48):
I set New Year's resolutions, but I would definitely say that I fall into that 92% of people that don't achieve goals every year.

Jacinta King (08:54):
Me too. And I realized that quite young and I stopped setting New Year's resolutions and rather looked at assessing goals more regularly throughout the year. Why does it have to be in the new year? January, I'm at the beach, I don't want to be adulting. I want to be relaxing and enjoying the summer. So at different times it suits you. It's important to look at those goals. So if I just break it down a bit, goals should be clear and specific. So that comes to that first point there. So instead of saying, "I want to save money," you can be really specific and say, "I want to save that 200,000 over 10 years or 20,000 over five."

Rory Cunningham (09:34):
Or $20,000 for a car.

Jacinta King (09:36):
So then now you know. You've got a vision even. You've got a clear objective. You've got a purpose. So then you want to be measurable about it and track your progress. So you can just simply do a regular transfer into your savings account as soon as that paycheck comes in, make that happen automatically. You can track it in a spreadsheet. There's also some really good money apps that banks and financial institutions offer where you could measure that as well.

(10:03):
Achievable. So be realistic, look at your financial situation. And then there are some tools that you can use as calculators. InvestSMART offers some great calculators. Also MoneySmart, which is the government website. Make them relevant. So you said a car there, that's really important. I know when you're

younger, that's probably one of your first priorities you think about when you finish school and move out of home.

Rory Cunningham (10:28):
Oh, now that I'm older, it's still a priority. I have to get my kids to school.

Jacinta King (10:32):
Actually, you're right. My husband often is talking about the ute that he wants to purchase next, so yeah. So they stay relevant, don't they, throughout the time.

(10:39):
And look, lastly there is time bound. When I was thinking about that one this morning, I remember when I was young my priority was to travel and it felt insurmountable because it cost quite a lot of money to take time from work and head off overseas. But a friend said, "Just buy your ticket and you'll be surprised how much money you'll save between over the next six months." And I did it. Probably a bit of a risk, but yeah, I had a deadline and I worked towards it. It gave me focus.

Rory Cunningham (11:08):
Yeah, I think one of the important things there that you said is make sure that it's achievable as well. So tools are a great way for investors to understand if their goal is achievable. Quite simply, you can start with what your end goal is. So using our example there is $20,000. You can insert the timeframe of your goal there. So let's choose seven years. You can also choose what your starting investment is, what your regular contribution is, and also what the level of risk is that you're willing to take on when it comes to investing.

(11:43):
So for example, are you investing in a high growth portfolio or low growth portfolio for that period of time? Because obviously, the level of risk you take has a determining factor in terms of the level of return that you're able to achieve. So those tools are really useful, I think, in helping investors to understand if their goal is achievable. And as you mentioned, InvestSMART have great tools. I would also give a shout-out to the MoneySmart website that is run by a regulator, ASIC. They've got some great tools available on that site as well.

Jacinta King (12:17):
Absolutely. And because those calculators too will build in things like inflation, which is important to consider. That's something that even I might forget. And that $20,000 goal now might not be 20,000 in five to seven years time because of inflation. It can erode that capital that you're trying to save. So you actually need to have a slightly higher goal over the long term.

Rory Cunningham (12:40):

That's right. Okay, so we've covered step number one, which is setting a goal and making sure that it's a SMART goal. Now, number two, you said, in terms of developing an investment plan, is determining what the regular contributions might be to help you achieve your goal. Why is that important? What is the impact that regular contributions have in terms of helping you to achieve your investment goal?

Jacinta King (13:06):
Rory, they have meaningful impact on the final investment balance. So if you think about starting... I'm going to change the deposit here to about 10,000 and just let's assume that you're getting a return of 5%. And you're not able to, or you choose not to contribute a monthly deposit. Secondly, alternatively, you could start with that $10,000 deposit. We'll still assume a return of 5%, but you'll make a monthly contribution of $100. So what comes into play here is compounding. So people will probably have heard of that, but compounding is a process in which an asset's earnings from either the capital gains or the interest are reinvested to generate additional earnings over time. So time is what helps here.

(13:52):
So in strategy one, as I mentioned, we started with 10,000, but we didn't contribute to it over a 10-year period and it earns you 15,000. If you look at strategy two, you've taken that same 10,000, you've assumed the earning of 5%, but you've contributed regularly monthly at $100, you'll have 30,000 over that 10 year period. So you've actually doubled the amount of money. So that's some of the important factors. And it might seem difficult to go, "Oh, I've got to commit to this monthly contribution." But that comes back to measurable and achievable goals. So be realistic. I'm quite conservative, so I'll always go, "Okay, I want to contribute $500 a month." But there'll be some months or quarters where incidental costs come up or unexpected costs. So then I'm going to drop that down to 250. And when I can, I'll chuck in 500, but I'll average it out 250. And then it's more measurable and achievable because nothing worse than not achieving goals. And then you can feel a bit deflated and give up a bit.

Rory Cunningham (14:54):
Yeah, I think it creates good discipline to try and put a regular contribution into your investment to help you achieve your goal. And as Jacinta mentioned, the power of compounding interest really assists in boosting that final investment balance depending on how long you are leaving your money there for.

(15:14):
Now, we might move on to number three, which is, how do we select an investment? So we've set a goal, which is point number one of developing investment plan. Number two, we understand the importance of making regular contributions and compound interests, but now number three is we

actually need to choose something to invest into. So the question is, Jacinta, how do we make that selection?

Jacinta King (15:40):
Sure. Look, for me, this is the really interesting, potentially exciting part, but also equally challenging because there are several different types of asset classes. So we've got cash, we've got fixed interest which are bonds, property shares and there's also alternative investments. So there are quite a variety of things to consider there. There's also market and sector that you want to look at and different percentages that you might want to balance across all those different asset classes. Again, coming back to your goals, what I always say is your age stage investment, time horizon, and risk appetite. So if you want me to break those down a bit, I can sort of go into a bit more detail about what those different asset classes are.

Rory Cunningham (16:27):
Yeah, well there's a couple of asset classes there that investors might not be familiar with. Most people are familiar with investing in cash or term deposits. That's pretty straightforward. You mentioned fixed interest there. So can you talk to us a little bit about what that asset class is and why investors might invest in fixed interest over other asset classes?

Jacinta King (16:47):
Certainly. So fixed interest comes with slightly higher risk, but also has slightly higher returns than your cash there. So what is a bond? Effectively, your lending money to whoever is the issuer of that bond? So we can buy Australian government bonds. We can buy international bonds or corporate bonds. So they may be companies that are listed on the ASX that are raising debt from investors.

(17:10):
Fixed interest investments, they pay out a set amount as an interest or as a dividend to the investor. And they typically have a set end, so a maturity date where the principal investment is also returned. But it's important to know that terms and conditions can vary greatly. So it's very important to understand that and seek advice where needed. But as an asset class, the risk level is considered low to medium and it depends on the quality of the issue. So they are far more stable than some of your more growth assets like property and Australian and international shares, but the average long-term returns are lower.

Rory Cunningham (17:48):
That's right. The next asset class moving up the risk and return spectrum is property. Now most investors are familiar with investing in residential real estate. Either you live in a home or some investors will own an investment property. That's a physical property property, I suppose. What are the upsides and downsides to choosing that as your investment selection?

Jacinta King (18:15):
Well upsides, that you're physically holding something that could have potentially great value over the longer term. The downsides, and let's call them challenges rather, is the upfront costs. As we know, I mentioned earlier, I live in Sydney, so I've also gone through that stage of taking a long time to find that initial deposit. And then once you achieve that, there's extra costs, isn't there? The transactions and the administration. We are a building, so there's probably unforeseen costs that are coming my way. So you have to be prepared for all of that.

(18:48):
The other thing you might've heard of is with property, it's relatively illiquid asset. So what that means is just illiquidity of an asset is the timeframe in which it can be sold. So as you know, property might go, "Well, I need some cash this year," but it might take you two years to get the price that you want for that property or longer. I know for example, my parents, my dad, it was several years. He was prepared to wait, but he had to wait for the market to return before he sold the property to the value that he was looking for when he was trying to downsize. So that can have a knock on effect to some of your other goals that you're trying to set there. But as I mentioned, you are moving up the risk scale, but with that comes potential growth. Those first two assets we touched on are defensive assets, but now we're looking at the growth side.

Rory Cunningham (19:37):
Then let's move on to the key asset class or the main asset class that investors would be familiar with, which is shares. As I mentioned, that's the most popular asset class that investors invest in Australia. But what are some of the pros and cons of investing in shares that investors need to be mindful of?

Jacinta King (19:54):
Yeah, well, investing in direct shares. You can either do that or you can do it through the ETFs that the ASX provide or some active ETFs where you're getting a basket of shares. But moving up the growth profile there. So you've got greater chance of making some gains in your investment, but with that comes potential volatility. So what that means is there might be movements within a sector or the actual direct asset class. If you're holding banks, a couple of banks and the whole sector, people are pulling out of that or selling that in a quarter or a period, then you might be affected by that. Even if you might just be holding one bank, say Commonwealth Bank, and it's doing okay. But if the whole sector is down, then you're going to be affected by that.

(20:41):
They are more liquid, meaning you can sell them more quickly and move that money in and out. But then with that volatility, you might be considering

selling, but the price is much lower than you're prepared to accept for the sale. So then again, you might want to wait or you might have to accept selling at a lesser or a loss than what you purchase them at. But they do offer the highest possibility returns. They are riskier, so they're in that high risk as an asset class.

(21:12):
I think the important thing here is Australians, we talk about there is a bias towards Australian shares, but you can still diversify by considering international shares as well because if you don't consider that in your portfolio, missing out on things such as Amazon, Starbucks and Google, some of those really incredibly big companies that can give you a good growth in your investment portfolio over the long term.

Rory Cunningham (21:36):
Yeah, I think that's a really important point you made there, Jacinta, about the volatility of shares. While they may have high returns, they can also experience periods of volatility. I think there's some really interesting research that investors or listeners can look at in relation to this. There's one study that was actually produced from Vanguard. Vanguard looked at the return profile of shares from 1980 through to 2022. What they found is in periods of market incline or what we call a bull market, the average total return in that bull market period of shares was 96%. So quite a high total return there for investors that are holding on to shares during a bull market.

(22:24):
One of the considerations though that investors needs to be mindful of is what happens in a bear market. And during a bear market, the research from Vanguard showed that the average total return during that period was minus 29%, though almost 30% decline in the value of someone's investment during a bear market. So for investors, they really need to be mindful. While if they're investing in shares, they can achieve a high total return during that bull market period. If they are caught in a bear market and want to withdraw or sell their shares down, they may be taking a loss on their investment. So again, just a consideration for investors to understand not only the upside but the risks when making an investment.

(23:08):
So Jacinta, you covered the key asset classes, cash, fixed interest or bonds, property, shares, and also alternative investments. If you're trying to sum it all up, what are some of the kind of key challenges that investors face when they're trying to decide how to invest?

Jacinta King (23:28):
Well, some of the questions that people might ask, and these are really valid questions, is, "Can I outperform the market? Should I try to time the market? And what do I do happen to pick the right stocks of timing the market?" And

again, if we look at some of the statistics, and this was sourced from S&P Index and also Wells Fargo, in the US, 91% of large cap equity funds underperformed the S&P 500 over 10 years. And in Australia, 78% of equity funds underperformed the ASX 200 over that 10 years.

(23:58):
So it's difficult to do in short. So if an investor missed the best 10 days on the S&P 500 over a 30-year period, the annual return declines from 7% per annum to 5% per annum. And if an investor missed the 50 best days, the return drops considerably to minus 99%. So really what that is telling us is that 91% of a portfolio's return is driven by strategic asset allocation. So that's what we're talking about why it's important to look at those asset classes when you put your portfolio together and then try and understand how to blend that appropriately to achieve those goals and objectives that you have in the timeframe that you've set. So stock selection and market timing accounts for 97%.

Rory Cunningham (24:44):
Okay, so let's just recap there because there's a fair bit to it to one pick.

Jacinta King (24:48):
Yes.

Rory Cunningham (24:48):
First of all, what you're saying is that it's difficult to outperform the market. So the market is the S&P ASX 200 index. That's usually what we define as the market or the S&P 500 index. Now, some investors may think that they'll pick a few shares as part of their portfolio and try to outperform the S&P ASX 200 index or the S&P 500 index. But what you're telling us is that the research shows that even professional managers really struggle to outperform the market.

Jacinta King (25:20):
Potentially, yes. And I think that draws back to the other point that you just drew out that over that 30 or so year timeframe. You'll have periods where you go, "Wow, really they're shooting the lights out. Look at that. What a great return." But then in that same timeframe, you've also picked up some of that drop in investments because of the downturn in the markets.

Rory Cunningham (25:42):
Yep. The next thing you mentioned was don't try to time the market because we all know the old adage, buy low, sell high, but the reality is that that's difficult to do, right? One of the key challenges in trying to buy lows and sell high is that you need a number of things to go right for you. I think if you're trying to sell high, first of all, you've got to get your timing right, not only of when you sell. But then when you buy back in, you've got to get your timing right again. And as you've shown in the research there, it's really difficult to

do and to get that timing right if you actually miss those. The best 10 days on the market come right at the bottom of the market in those first couple of days after the bottom of the market. So you need to get your timing absolutely perfect, and that's really difficult to do.

(26:33):
And then the last thing was what happens if you do actually happen to pick the right stocks, which we said is really difficult to do according to the research. Or what happens if you are able to time the market and buy low and sell high, which as the research shows is really difficult to do. Even if you're able to do those two things, it doesn't really matter when it comes to your portfolio's return in any event, because 91% of your portfolio's return is driven by, as you said, strategic asset allocation.

(27:05):
So let's dig into strategic asset allocation because that's quite a mouthful for anyone that's getting started in investing. You've already covered our key asset classes. Let's recap them again. Cash, fixed income or bonds, property and shares, those are our key asset classes. Strategic asset allocation, what is that?

Jacinta King (27:28):
Well, this is now, now that you've done the work to understand those asset classes, it's then how do you balance that together in... I'm talking percentages here. So what percentage are we thinking that we want to allocate to each of those asset classes? Is it an even spread? These are the questions that come into play, and then you've got to answer them for yourself what is right for your investments? So what are the percentages that we're looking at here?

(27:52):
Now, bearing in mind that we are also considering that some are defences and some are growth. So always going back to your goals that you're setting and the timeframe that you have, so how much time... I'm maybe not so young now, but I'm younger than a retiree and I still have a longer investment timeframe, but I don't like taking a lot of risk. So I might wait my portfolio into something more defensive.

(28:19):
So the ways to think about it is starting at the more conservative end, you've got your lower expected risk. And then you can move up a little bit and your risk and go into conservative balance. And then you can go into balanced portfolio, balanced growth, or then a growth. So looking at balance as an example, that's a simple 50/50 split. So you might just split 50% in defensive and 50% in growth assets. So what does that look like?

(28:48):

Or you might go look at global bonds and put 35% into global bonds, and you might put the remaining 15% into Australian bonds. And then you might split your growth assets between Australian shares and international shares. You might be really biased to Australia because you love some of the companies that we got here. Maybe you're working one of these companies so you might put 20 or 30% there and then you can put the balance into international shares.

(29:16):
And again, there are ways to... It's important to look at if you're looking at specific investment products that the ASX offer, it's important to look at the product disclosure documents. So you'll hear that to refer to as a PDS. And there's also the target market determination. And within those documents, I know they're detailed, they're really thorough and there's a lot of information there, but don't skip over them because you can find worked examples and it will advise you on the suggested timeframe so that you understand before you invest in that what your expectations are.

Rory Cunningham (29:52):
So let's stick with that balanced fund example for a bit. So what you're saying there is that instead of investing all your money in cash, which is the most conservative asset class or investing all of your money in shares, which as we discussed is the highest growth but also highest risk asset class, what you can actually do is blend those two together as well as throw in some fixed income and property so that you're sitting 50/50 in terms of that expected level of risk. You've got 50% of your portfolio, more defensive, more conservative asset classes and 50% in those higher growth asset classes such as Australian shares and property.

(30:35):
But my question is going be, okay, say I want to develop and build a balanced portfolio. How do I do that? Am I going to go out and am I going to... Say I've got $10,000. Am I going to invest $2,000 in a cash account, $2,000 in a term deposit, $2,000 in fixed income, $2,000 in Australian shares, and then $2,000 in international shares. And hopefully that's come to $10,000. I've lost track. But you get my point. Are we going to select each of those asset classes directly or what are the different ways that we can build that balanced portfolio?

Jacinta King (31:15):
The short answer is you can. So you can go direct and you can take those parcels of $2,000 each and go to each different institution, whether your bank or a term deposit, bonds, property shares. The complexity with investing directly in shares and even international shares is some of those currency costs and transactions for individually purchasing those stocks.

(31:39):

Now, there's obviously brokers and wealth advisors who can assist you with that, but an alternative is to look at investment products. So we have over 320 products on the ASX, which are a combination of ETFs, exchange traded funds, and also exchange traded managed funds. So what that is, is a basket of stocks. So the investment manager or the ETF has pulled together those individual stocks for you and put that into one grouping. And then you're just purchasing the number of the units that you want in that particular fund in one transaction. So it's efficient and the cost can be quite effective because some of those ETFs come with very minimal administration costs.

Rory Cunningham (32:30):
Okay. So I can do it directly, but some of the considerations there are obviously the time to go out and select each of those asset classes, or the transaction costs of selecting those asset classes. Perhaps also it's difficult to diversify across those asset classes. So for example, if I'm buying shares and I want to get diversification across sectors, across geographies that can be quite hard to do if I'm selecting individual companies.

Jacinta King (33:01):
Yes, it can. So with ETFs, sometimes there might be a basket of 500 to 700 a thousand, sometimes much more. And so you might be getting exposure to the ASX 200 across all of those best companies that are listed on the exchange or the S&P 500 if you're going across to the US.

Rory Cunningham (33:22):
Okay. Now obviously selecting an exchange traded fund or any investment product needs to come with understanding what the considerations are. So if I'm trying to choose a product to carry out that investment selection for me, what's some of the guidance that you can provide in terms of how to actually choose an investment product or the considerations when choosing investment product?

Jacinta King (33:47):
Yeah, key considerations are, you want to look at the investment objectives. So does the fund objectives align with the outcome you're seeking to achieve? So that comes back to how I mentioned, look through the product disclosure document or seek advice to understand the objectives of the fund.

(34:03):
Disclosure. So what information does the fund manager provide about the number of holdings, the concentration in particular sectors or companies or geographies? That comes down to what we call the portfolio disclosures, which are available on the ASX and also the investment product provider's website. And then look at how this compares to the benchmark.

(34:25):

So risk is a really important factor. We've, I think, come back to that throughout our conversation. So does the fund match your risk tolerance? I would suggest be really realistic about that. You want to look at the investment strategy, the liquidity. We touched on the availability for you to be able to sell at the time that you want to. Look at the pricing risk when you're looking at investment products or direct shares in international markets that can come into play currency risk. And also regulatory changes might be a factor there.

(34:58):
Access. So accessing is important. How do you access it? We touched on if you do it directly yourself, it could be an administrative burden if you have a busy job or travel a lot and you don't have time to run your own administration. So is there flexibility entering and exiting the purchase of these products? And are there any minimum investment amounts? Because some funds might have a minimum of 20,000 or 50,000 or even 100,000. So that's a factor to consider. And lastly, we touched on the costs. So there's costs to access. There could be. And there could be management costs, regular management costs, and there could be performance fee costs that come into play.

Rory Cunningham (35:39):
Okay, thanks, Jacinta. So we've covered, I suppose, three parts of developing the investment plan. One is to set a goal. And the framework that you've given us there is a SMART goal. Make it specific, measurable, achievable, relevant, and time-bound. Number two is you discuss the importance of contributing regularly. Not only does that enable and give investors a level of discipline in that they're contributing regularly to their investments, but it allows compounding to take effect assuming that the investor is holding those investments for a long period of time.

(36:20):
You also went into point number three, which is then selecting your investments. Using the example of a balanced portfolio, an investor might want to have 50% of their assets in more conservative asset classes, such as cash or fixed income and 50% of their assets in more growth orientated asset classes such as property and shares. And then in order to implement that, we can either do that directly. That would involve choosing each of those asset classes directly. Or we can look at using investment products to implement our investment strategy.

(37:00):
Point number four. What is the fourth and last point in developing our investment plan?

Jacinta King (37:04):
Fourth and last one, Rory, is periodic review. You might've heard the term rebalancing your portfolio. You might want to do an annual rebalance and review. You might want to do that quarterly or half-yearly. I think that touches on what we began with, is how setting goals or New year's resolutions, 92% of us, that's pretty much all of us I would say, don't achieve those. So it, I think, can make it feel more achievable if you just set a regular timeframe to think about, "Are the objectives still relevant? Have circumstances changed? Have I changed jobs? Have I had a financial windfall? Or have I had some financial challenges? And so the plan that I put into play six months, 12 months, two years ago, may not be as relevant. And does that need to be adjusted?"

(38:00):
But more specifically to the investments in times of growth, it might have adjusted. So if we are looking at that 50/50 portfolio and there's been a period of growth in some of the assets that you're holding, you might now be weighted too heavily to growth and you've lessened your exposure to your defensive assets. So you can do what's called portfolio rebalancing. And so you could potentially look at selling out of some of those growth assets and then shifting back into your defensive assets if you choose to keep that 50/50. Or your circumstances might have changed, you might go, "No, I'm happy to be more weighted towards growth now." Or, "No, actually I'm getting older. I want to retire early, so I'm going to look at more defensive so I can have some income."

Rory Cunningham (38:45):
Great. Now, naturally, education is really key here. So Jacinta, I'm going to ask you, what are some of your favorite sources for investment education?

Jacinta King (38:55):
Oh, I've got quite a few favorites. I would say I've joined a few newsletters. InvestSMART is one that I enjoy receiving information from. Yes, I work at the ASX, but even before I did, I referenced the ASX a lot and I would jump on there to look at the prices of things and some of the research and data. There's some short education modules that people can just Q&A style where you can work through those.

(39:24):
Also, your individual investment managers. So for example, the stocks that you hold directly or the investment managers, the funds that you may hold, they often provide under titles such as investor education or investor hub and things like that. That is a really great source because you want to really stay across what you're invested in. And so I find that... I read regularly and I make sure that I stay across what I'm invested in and what the investment managers are producing.

Rory Cunningham (39:57):
Cool. And the other one I'd throw in there as well are our brokers. So ComSec, Bell Direct, NabTrade, these are some of our online brokers. They put a lot of time and effort into producing investment education for their customer base. So I think that's something that investors should be leveraging as you're looking to build out your education. And finally, of course, you've mentioned it already, but the ASX website. For anyone that is interested in learning more about how to get started investing and some of the considerations when starting to invest, check out the ASX website. We've got presentations, videos, and also booklets catered towards that.

Jacinta King (40:41):
And some of the research houses such as Morningstar. Yes, a lot of this information is behind paywalls, but I know that like Bell Potter and Morningstar, you can get some summary research papers, which will also help you get your head around a particular investment or sectors.

Rory Cunningham (41:00):
Great. Jacinta, thanks very much for coming on the podcast.

Jacinta King (41:04):
Thank you so much, Rory. Yeah, I'm really pleased to be here in the hot seat.

Rory Cunningham (41:08):
And thanks to all our listeners for joining us today. We look forward to seeing you next month on The Ideas Exchange.

Investor Day (41:14):
Visit the ASX website, asx.com.au, and register for the next Investor Day, our premier education event providing timely market insights and ideas from a range of industry experts.