

Property or Shares/ Managed Funds?



Keeping abreast of investment market cycles is critical to minimise your risk and maximise your return. A sound financial investment strategy will help keep you at the forefront of market trends.

PA&M Financial Advisors Pty Ltd (PAM), has many years of investment experience which they wish to share with you. PAM will be exploring different financial strategies and case studies over the next three editions of *National Newsagent*. Following is just one investment overview that could assist with your wealth creation strategy.

Property vs Shares/ Managed Funds

Australia is experiencing a housing affordability crisis. Interest rates rose three times in 2006 and it is uncertain as to whether they may rise again in 2007. As a result, price growth predictions for the majority of the Australian housing market are limited.

On the other hand, the share market has reached record levels delivering approximately 18–20% capital growth (or total shareholder returns) per annum over the previous three years. While growth is expected to slow during 2007, the strength of the market continues to be supported by underlying earnings growth.

Property Market outlook 2007

Home Loan affordability for most Australians is at an all time low. According to the Real Estate Institute of Australia (REIA) report, Australian families required 33.8% of family income to pay an average home loan in September 2006.

If interest rates continue to rise, the gap between average disposable income and the required income to buy a first home could worsen, this suggests that any chance of a housing recovery in the near future is unlikely. In these market conditions it is all too likely that people will overextend themselves with too much debt.

The REIA report suggests it's a slightly different scenario for those wishing to purchase property as quality long term investments and not seeking to gain short term capital growth. A tighter rental market offers significant opportunities for long-term investors, particularly in locations where house prices are decreasing eg Sydney.

Given the flat outlook for property in the near future, share market investment may offer a better investment option. Listed below are some advantages of share investment compared with property.

Advantages in Share/Managed Fund Investments

- 1. Shares/Managed Funds can perform better than property in the long term**
Over long periods of time, even small differences in rates of return make a huge difference in your total returns. Our advice is to choose carefully when choosing companies to invest in focusing on where growth and demand will be in the future. Invest in well managed companies with a good profit record and a solid dividend history.
- 2. Shares/Managed Funds can offer greater diversification of funds**
Your investment dollar can be spread across a variety of companies, sectors and regions.
- 3. Shares/Managed Funds can offer greater liquidity**
You can buy and sell shares/managed funds easily and quickly with proceeds of the sale of shares generally available within five working days. With property, you can't sell off the bathroom if you need to raise some fast cash!
- 4. Shares/Managed Funds have greater accessibility**
Investors can access the shares/managed funds with relatively smaller amounts of money.

5. Shares/Managed Funds offer lower trading and maintenance costs

When buying and selling shares/managed funds you will incur a brokerage cost of about 1% compared to buying and selling property which incurs significant costs such as stamp duty, agent's fees, conveyancing and other legal costs.

Property investment generally involves costs such as property maintenance, rates, land tax and potentially lost rent if you can't find a tenant. Shares do not incur any maintenance costs.

6. Shares/Managed Funds can be tax effective

Dividend income paid to you may be fully franked which means you get a credit for tax which has already been paid by the company. This enhances the after tax return on your investment income. Rental income has no franking credits attached to it.

As a share/managed fund investor you are no longer restricted to the Australian share market, you also have the choice to expand your share portfolio into global markets.

It is now possible to tap into just about every country in the world using derivative tools to increase your returns.

Best of both worlds — Listed Property Trusts (LPT's)

This type of investment is practically a hybrid of shares and properties. LPT's invest in property assets which are listed on the ASX. According to ASX/Russell Long-Term Investing Report they have been exceptional performers, achieving the highest before-tax but after-costs return of 13.2 percent a year of any asset class over the 20 years to December 2005.

Whilst the outlook for the property market remains uncertain share investment offers the small and large investor a cheaper, more flexible and tax effective investment option. But before stepping into shares, you need to know the risks and benefits.

PA&M will help you investigate your investment options and help to ensure you are making your investments work best for you. For further information on how to most effectively invest your funds and other financial strategies please contact Grant Arnold at PA&M Financial Advisors Pty Ltd on (02) 9585 1255.

This information is of a general nature only and has been provided without taking account of your objectives, financial situation or needs. Because of this, we

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recommend you consider, with or without the assistance of a financial adviser, whether the information is appropriate in light of your particular needs and circumstances.

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