A 1 PAGE INTRODUCTION TO INVESTING

Source: Rob Garnsworthy, 2022. Written as an introduction to investing for his 18 year old grandchildren.

WHAT ARE ASSET CLASSES?

Essentially the broad name given to things you can 'invest in' – property; shares, which give you a fractional ownership of a company; bonds which are effectively 'loans' to companies or governments; then a whole range of things like gold, bitcoin [dumb], infrastructure, art, classic cars [!] and the list goes on.

'GROWTH ASSETS' VS 'SAFE ASSETS'

In simple terms, property and shares are regarded as 'growth' assets – they 'should' grow faster than inflation – some do, some don't. Over time, they have had very similar rates of growth BUT they can be volatile.

Bonds on the other hand have historically been regarded as 'safe' assets – returns will generally be lower but so will volatility. At times like this however, with all the geopolitical noise, Covid, Ukraine, China, nothing can be considered safe.

KNOW WHAT IT IS

If you do not understand something, do not invest in it.

TIME IS YOUR FRIEND

At your age, you have time on your side. You can weather the ups and downs, you can stay invested through the down times, indeed that is always the best time to invest, and you can allow the 'magic' of compound interest to work for you. Take a long-term view with a well-constructed portfolio and you will be ok – 7-10% over 50 years is powerful.

INFLATION IS YOUR ENEMY

Inflation 'eats' cash and spending power. It has been quiet for decades but now it's re-emerging. A cup of coffee that now costs you $4.50 will cost you $12 in 50 years if inflation rises at 2% per annum. The challenge therefore is to have investments that increase faster than inflation – inflation + 4-5% is a good target.

FINANCIAL INDEPENDENCE

Trust any government at your peril. There are two simple things you should aim for – to own your own home [lifestyle] and to be financially 'independent' [investment] in retirement. Tick both of those boxes and you will be ok.

ACHIEVING THE RIGHT BALANCE

Rough guide – if your 'lifestyle assets' are approximately equal to your 'investment assets' at the point of retirement, that is not a bad balance. You cannot 'eat' your home. If you have investments around 20 times your cost of living, that is also not a bad target.

SUPERANNUATION

Super is not an 'investment' per se. It is a tax-advantaged structure that 'holds' investments. The trade-off is that you cannot access it until you are in your 60s. If you live with it day to day, you can manage it yourself. If not, a l professional manager is the best option.

START YOUR JOURNEY EARLY

What we are doing here is but the start of a journey. By starting early and learning early, by going through cycles of euphoria and fear, you will learn. The challenge? To take responsibility for a future which is yours and yours alone.

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