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Without the right tools you cant squeeze the most out of your investment returns

Some of the main keys to having a long-term successful investment portfolio are diversification, asset allocation, low costs and the relationship between risk and return. One of the best ways to construct such a portfolio is through the utilization of Exchange Traded Funds (ETF's).

Take the steps now to get the returns you desire

For the majority of Australian's who do not have a degree in economics or who have not developed real market experience over a period of time, you will not know much about capital markets and the many ways investments are structured and how they work based on many market factors.

The problem detailed above is that it is your money and you do not really know what is happening with it, has anyone from your current superfund ever talked to you about your investment goals or tried to educate you with what is happening with your money?

Empire SMSF Advisers are not active stock pickers. We are investment managers, not speculators!

We are a passive investment advice firm that invests your money according to our Investment Philosophy, which has our client's best interests at heart and sound and proven research to back it up. Our aim is to educate you to understand more about how markets work and how your money is being invested.

Our investment philosophy and portfolio construction methods are based on 5 key economic principles.

Key economic principles

- Capital markets work and build wealth over time
- It's time in the market, not market timing
- Risk and return are related
- Diversification is essential
- Markets are efficient at pricing and reflect value and information accurately and quickly

For those who have not studied economics you may not have heard of Harry Markowitz, Professor Markowitz won the Nobel Prize in economics in 1990, he proved that diversification reduces risk.

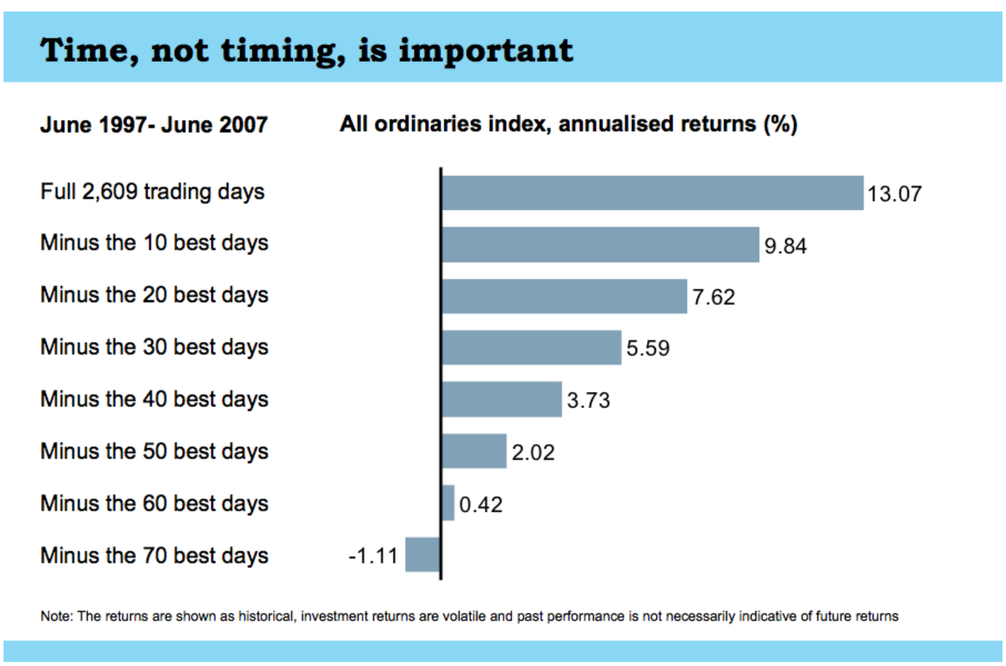
You may also not have heard of Professor Eugene F. Fama from the University of Chicago who developed the Efficient Market Hypothesis. This hypothesis asserts that prices reflect values and information accurately and quickly. That it is difficult if not impossible to capture returns in excess of market returns without taking greater than market level risks, that investors cannot identify superior stocks using fundamental information or price patterns.

So what does all this mean?

Simply put, it means risk and return are related. You cannot make excess returns without excess risk and the key to a successful portfolio when risk is taken into account is diversification.

At Empire SMSF we construct a long term, strategically constructed portfolio using exchange traded funds based on these principles.

We truly believe it is time in the market not timing. The graph below shows returns based on time in the Australian share market between 1997-2007. What you need to look for is the difference is the return based on how many days you were invested (if you missed the 10 best days out of a total of 2,609 your return was reduced by 3.23%, and so on). This shows the power of simply being invested and not trying to 'time the market'.



So what's an exchange traded fund (ETF)?

Managed Fund + **Share** = **ETF**

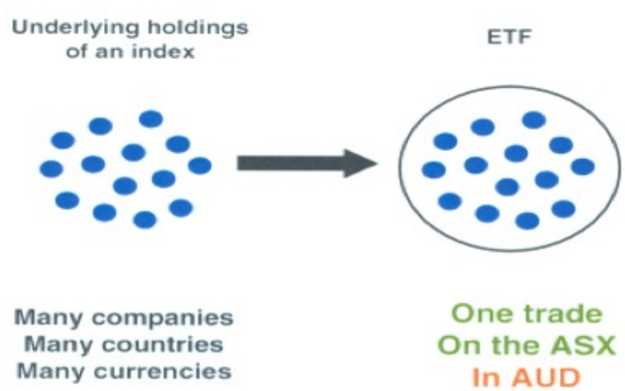
An ETF is an open-ended fund that trades like any other share on the stock exchange.

ETF's

- Track an index (e.g. ASX 200)
- Price through out the day

ETFs provide a cost effective way to buy a diversified holding of shares

Instead of buying multiple shares on a stock exchange, you can buy an ETF that will directly own each of the shares



An example ETF is the iShares S&P/ASX20 (ILC)

Basket of shares

Security Name	Number of Shares	Security Name	Number of Shares
AMP LTD	5776	ORIGIN ENERGY LTD	2179
ANZ BANK	5360	QBE INSURANCE GROUP	2275
BHP BILLITON LTD	6635	RIO TINTO LTD	901
BRAMBLES LTD	3135	SUNCORP GROUP LTD	2621
COMMONWEALTH BANK	3222	TELSTRA CORP LTD	25844
CSL LIMITED	1101	WESFARMERS LTD	2395
FOSTER'S GROUP LTD	3973	WESTFIELD GROUP	4365
MACQUARIE GROUP LTD	711	WESTPAC BANKING CORP	6220
NATIONAL AUSTRALIA BANK	4533	WOODSIDE PETROLEUM LTD	1249
NEWCREST MINING LTD	1574	WOOLWORTHS LTD	2509

1 ETF Unit = 100,000 shares of ILC

Source: Black Rock, September 2011

Benefits of iShares S&P/ASX20 (ILC)

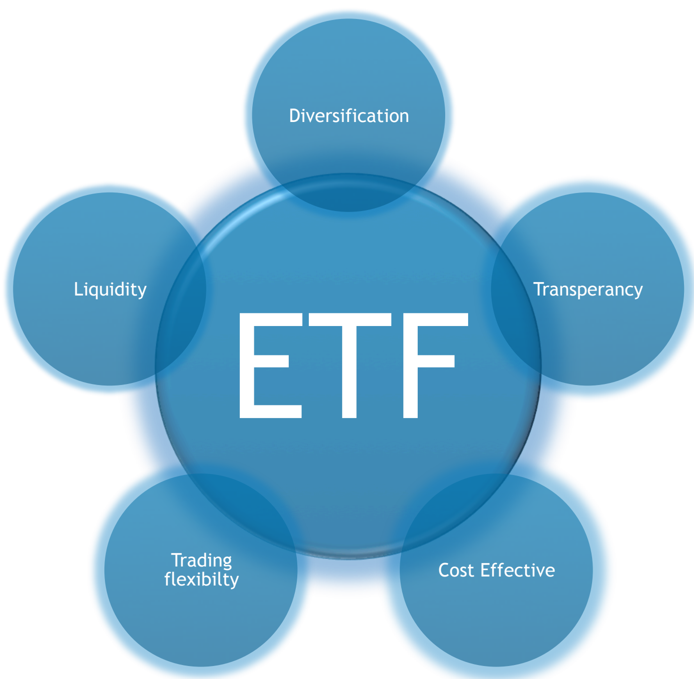
Australia's biggest companies in a single trade

- *Efficient exposure to 60% of the capitalization of all ASX-listed companies*
- *One trade to gain transparent exposure to the biggest companies in the country*
- *All the blue chip names that drive Australia*

ETF's provide a low cost option to enter the market

- *The average cost of an Australian Share ETF is approximately 0.32%*
- *The cost of an active Australian Share Managed Fund is approximately 1.80%*
- *ETFs can be up to 6 times more cost effective than active managed funds*

The best of both worlds



Understanding your options

	Share	ETF	Traditional managed fund
Diversification of investment	Low – Individual securities	High – Basket of securities	Depends on different funds – Basket of securities
Pricing	Continuous intra-day pricing	Continuous intra-day pricing	Daily quote after market close
Liquidity	Varies	Comparatively higher	Varies between daily, monthly and quarterly
Transparency	n/a	Fund holdings disclosed as often as daily	Varies
Fee	Varies, but multiple trades may increase transaction costs	Comparatively lower due to fewer trades and index style investing	Varies, but active funds generally incur higher management costs
Short-selling (of investment)	Yes	Yes	No
Limit order	Yes	Yes	No

Summary

Diversification:

- *A single trade provides instant exposure to a diversified portfolio of shares*
- *A single ETF can be as broad as a few hundred shares (top 200 shares), or as narrow as 20 holdings*

Cost efficiency:

- *More cost effective then purchasing a large number of individual shares*
- *Less expensive then investing in an actively managed funds*

Flexibility:

- *Can trade at any time during market hours like a share*
- *Daily priced and sold like a share through an adviser/broker*

Transparency:

- *You always know exactly what you own*
- *ETF are transparent around costs*

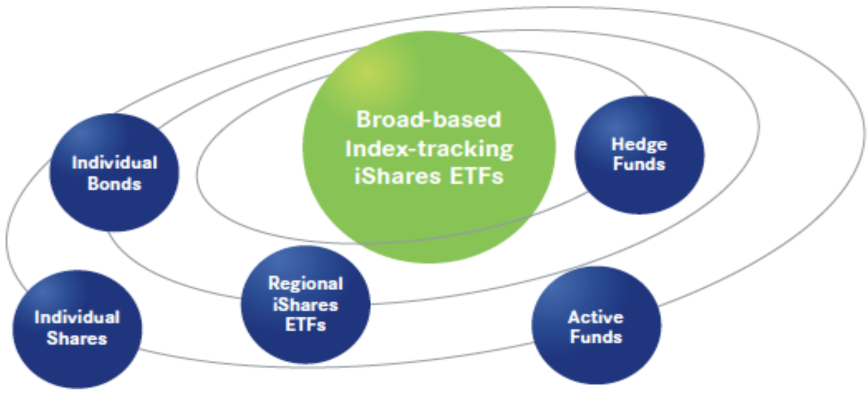
Liquidity:

- *As simple to buy and sell as individual shares*
- *The listed nature of ETFs provides the liquidity to react to changing market conditions quickly & simply*

Tax efficiency:

- *ETFs are generally more tax efficient due to lower turnover*
- *Trading in and out does not increase portfolio turnover, which can help keep tax efficient*

It's a big universe out there



The keys to creating a successful investment portfolio are diversification, low portfolio management costs and the right advice.

What are you waiting for?

Book an appointment via our website for your free one on one consultation to see how we can help you get started. Or why not give us a call and have a chat.

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