NEWEALTH

AUSTRALIAN FINANCIAL SERVICES LICENSEE

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Information Guide Booklet

Investing

This Information Guide booklet provides you with general information only.

It will also help you to better understand any recommendations we have made for you.

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Information Guide
Investor Risk Profiles

January 2013

About Us

Newealth is an independently owned Australian private company. Not being owned by any banks, life insurance companies or fund managers has permitted Newealth to better service clients, identify strategies and recommend solutions that meet their needs.

This Information Guide provides you with general information only about the various risk profiles of investors and the risks they face when investing. It will also help you to better understand any recommendations we have made for you in this regard.

Investor Risk Profiles

Investing involves risk. Risk is the chance that an investment will not give you the returns you hoped for or that you will lose money. Almost all investments have risk, but some have more than others. The following is a listing of the terms used by Newealth for the various investor risk profiles along with a description of each type.

Defensive - Level 1 risk taker

You are a Defensive investor. Risk must be very low and you are prepared to accept lower returns to protect capital. The negative effects of tax and inflation will not concern you, provided your initial investment is protected.

You expect your investment portfolio to give low returns largely independent of the share market and show positive long-term returns but can accept a 5% downturn in the overall value of your portfolio on any one year every 15 to 20 years.

This means that you instruct us to make investment strategy recommendations based on the fact that you are willing to invest in such a way that the risk of capital loss at anytime over the next 15 to 20 years is as follows:

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Moderate - Level 2 risk taker

You are a Moderate investor seeking better than basic returns, but risk must be low. Typically an older investor seeking to protect the wealth which you have accumulated, you may be prepared to consider less aggressive growth investments.

You expect your investment portfolio to give modest returns with some minor fluctuations and show positive long-term returns but can accept a downturn 10% downturn in the overall value of your portfolio on any one year every 10 to 15 years.

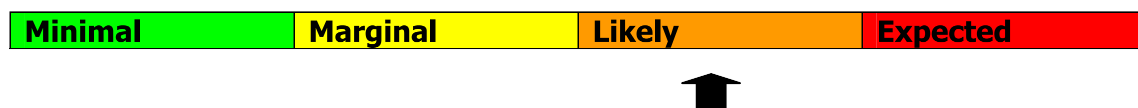
This means that you instruct us to make investment strategy recommendations based on the fact that you are willing to invest in such a way that the risk of capital loss at anytime over the next 10 to 15 years is as follows:

Balanced - Level 3 risk taker

You are a Balanced investor who wants a balanced portfolio to work towards medium to long term financial goals. You require an investment strategy which will cope with the effects of tax and inflation. Calculated risks will be acceptable to you to achieve good returns.

You expect your investment portfolio to give solid returns with some significant swings along the way and show positive long-term returns but can accept a 15% downturn in the overall value of your portfolio on any one year every 5 to 10 years.

This means that you instruct us to make investment strategy recommendations based on the fact that you are willing to invest in such a way that the risk of capital loss at anytime over the next 5 to 10 years is as follows:



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Growth - Level 4 risk taker

You are a Growth investor, probably earning sufficient income to invest most funds for capital growth. Prepared to accept higher volatility and moderate risks, your primary concern is to accumulate assets over the medium to long term. You require a balanced portfolio, but more aggressive investments may be included.

You expect your investment portfolio to perform well, but not as well as the share market and show positive long-term returns but can accept a 20% downturn in the overall value of your portfolio on any one year every 4 to 6 years.

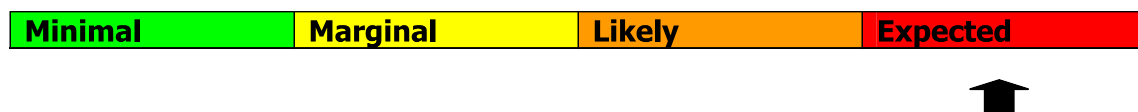
This means that you instruct us to make investment strategy recommendations based on the fact that you are willing to invest in such a way that the risk of capital loss at anytime over the next 4 to 6 years is as follows:

High Growth - Level 5 risk taker

You are a High Growth investor prepared to compromise portfolio balance to pursue potentially greater long term returns. Your investment choices are diverse, but carry with them a higher level of risk. Security of capital is secondary to the potential for wealth accumulation.

You expect your investment portfolio to keep pace with the share market and show positive long-term returns but can accept a 25% downturn in the overall value of your portfolio on any one year every 3 to 4 years.

This means that you instruct us to make investment strategy recommendations based on the fact that you are willing to invest in such a way that the risk of capital loss at anytime over the next 3 to 4 years is as follows:



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For a given Investor Risk Profile the target asset allocation between defensive assets (such as cash and fixed interest) and growth assets (such as property and shares) is as follows.

Investor Risk Profiles	Allocation
Defensive - Level 1 risk taker	
• Defensive Assets to comprise	80%-100%
• Growth Assets to comprise	0%-20%
Moderate - Level 2 risk taker	
• Defensive Assets to comprise	60%-70%
• Growth Assets to comprise	30%-40%
Balanced - Level 3 risk taker	
• Defensive Assets to comprise	40%-50%
• Growth Assets to comprise	50%-60%
Growth - Level 4 risk taker	
• Defensive Assets to comprise	20%-30%
• Growth Assets to comprise	70%-80%
High Growth - Level 5 risk taker	
• Defensive Assets to comprise	0%-10%
• Growth Assets to comprise	90%-100%

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Generally, investments that are expected to pay higher returns involve more risk. While these investments are likely to produce higher returns over time than more conservative investments, over short periods they can fall in value and lose money.

Volatility

Defensive

- Preservation of capital
- Low but consistent returns
- Steady levels of income
- Stability of capital over the time frame is required
- 3 years plus time frame
- Low to Medium levels of short term volatility

Moderate

- Prepared for small short term risk
- Steady levels of income with moderate capital growth
- Erosion of capital is a concern
- 3-5 years time frame
- Low to Medium levels of short term volatility

Balanced

- To achieve long term capital growth
- Moderate to high levels of income and growth
- Balanced exposure to growth and income assets
- 5 year time frame
- Medium level of short term volatility

Growth

- Comfortable with short term volatility
- High levels of capital growth with moderate level of income
- Invest in mainly growth assets
- 5 years plus time frame
- Medium to High levels of short term volatility

High Growth

- Increase risk of capital loss
- Very high levels of capital growth with moderate level of income
- Invest in mainly growth assets
- 5 years plus time frame
- High to Very High levels of short term volatility

Review

Your investor risk profile should be reviewed at a minimum of once per annum.

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Information Guide

Asset Classes

January 2013

About Us

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This Information Guide provides you with general information only about various asset classes for investment. It will also help you to better understand any recommendations we have made for you in this regard.

What is an asset class?

Asset classes are the building blocks of any investment. The three main asset classes are cash/fixed interest, property and shares.

Cash and fixed interest are what we call 'defensive' assets, which means they are designed to defend your investment from capital losses. These tend to be more popular for short-term or risk averse investors - those who prefer safer and more secure investments with consistency in returns.

Property and shares are 'growth' assets because they are designed to grow in value. These are higher risk and more volatile assets. They are designed for long-term or aggressive style investors willing to 'ride out' the peaks and troughs of their investment due to their potential for higher investment returns.

The most appropriate asset classes for your investment will depend on a number of factors, including your risk tolerance, how long you plan on investing for, and your financial objectives.

What are the asset classes?

Cash & Fixed Interest – Volatility is low and potential return is low (Defensive)
Cash is the generic term for investments that are highly liquid, designed to be extremely safe and invested for a short-term period. Cash also carries the lowest level of return and the investment may be affected by inflation. An example of a cash investment is a short-term bank deposit, bill or treasury note. Generally, cash does not offer investors the potential for capital growth.

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Fixed interest is more volatile than cash, but is less volatile than growth assets. Fixed interest investments include Government and corporate bonds. The issuer of a bond is effectively a borrower, and is required to pay interest to the investors throughout the life of the bond and return the money borrowed upon the maturity of the bond.

Fixed interest carries a low to medium risk and predominantly rewards investors through a regular income stream, usually higher than earnings from a cash investment.

Property - Volatility is high and potential return is high (Growth)

Property includes direct property and listed Real Estate Investment Trust (REIT) investments across residential and commercial sectors.

REITs are pooled property investments which are broken into units and listed on stock exchanges to provide liquidity to investors. REITs generally invest in a range of residential and commercial properties including retail shopping centres, office buildings, industrial factories, hotels and leisure centres. REIT prices fluctuate with underlying property fundamentals as well as with broader share market volatility.

Shares - Volatility is high and potential return is high (Growth)

Shares or stocks are securities representing ownership in a company. The value of the shares will typically fluctuate with general economic and industry conditions and with fluctuations in company profitability.

A company's value can fall due to poor management, changes in consumer tastes, changes in investor sentiment or a number of other unpredictable factors. Therefore shares carry more risk of capital loss than cash or fixed interest. Well managed companies can achieve high growth in value and earnings over time which can be reinvested back into the business or distributed via dividends to investors. Where Australian companies pay tax on their profits, the dividends paid to investors carry franking credits which provide tax benefits to the investors.

International shares can have the additional risk of fluctuations in exchange rates which can change the Australian dollar value of international shares. However, international shares, other benefits, including opportunities for country and sector diversification, access to industries not well represented in Australia and access to emerging markets.

Diversification

Diversification is an important way of managing the risks associated with investing. It involves spreading your money across different asset classes to provide more consistent overall returns. Sometimes underperformance in one asset class can be offset by positive performance in another asset class.

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Depending on how you diversify, you can also potentially smooth out performance fluctuations by investing in multiple asset classes and using professional teams to manage your investment.

Which asset classes are appropriate for your investment?

All investments carry some form of risk and you need to be comfortable with the amount of risk you are willing to take. Your investor risk profile takes into account your attitude towards volatility, need for income, and time horizon for your investment.

Review

Your asset allocation should be reviewed at a minimum of once per annum.

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Information Guide
Investing in Fixed Interest

January 2013

About Us

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This Information Guide provides you with general information only about investing in cash and fixed interest. It will also help you to better understand any recommendations we have made for you in this regard.

Cash

Cash generally refers to investments in bank bills, term deposits, money market funds, savings accounts and debentures which have a short investment timeframe. They provide a stable and low risk income in the form of regular interest payments.

For example, when you invest in a term deposit what you are really doing is lending money to a institution such as a bank, building society or credit union. In return you get interest payments from them at a fixed interest rate which will not change over the term of investment

Alternatively, you can also invest 'At call' which means that you can access your money at any time but some products still require 24 hour notice.

Fixed Interest

Differs from cash in that it is mostly government bonds, corporate bonds, mortgages and hybrid securities that generally operate in the same way as loans. The income return is usually in the form of regular interest payments for an agreed period of time but the minimum time frame is 1 to 3 years with some fixed interest securities having 30 or more years to maturity.

Fixed interest however does suffer from asymmetric risk which means that an investor could lose all their capital invested in the event of a default which is why diversification through holding significant quantities of fixed interest securities from different issuers will help to stabilise income returns and preserve capital.

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Features of Fixed Interest

Fixed interest securities provide two essential components to an investment portfolio - **a dependable level of income** and **asset class diversification**. Additional features include-

- usually higher yields than cash
- access to a range of maturity terms
- competitive pricing
- may suit investors of all risk profiles by offering diversification
- liquidity available from an active panel of fixed interest desks
- historical negative correlation of debt market returns to other asset classes such as shares
- allow investors to generate capital gains (or suffer capital losses) from changes in interest rates, for example, an increase in interest rates will cause existing fixed interest securities to fall in value because new fixed interest securities will be issued with a higher coupon rate
- usually require a minimum investment of $500,000 to purchase and hold directly

Review

A investment in fixed interest should be reviewed at a minimum of once per annum.

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Information Guide
Investing In Property

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About Us

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This Information Guide provides you with general information only about investing in property. It will also to help you to better understand any recommendations we have made for you in this regard.

Investing in Property

Property can play an important role in your overall investment portfolio by providing added diversification, as generally property can offer lower levels of investment risk (or volatility) than other asset classes such as shares. There are two main ways to invest in property; directly and indirectly.

Direct property investments

When you invest directly in property, you purchase actual real estate either individually or with other investors within a syndicate. Direct property investments can include residential, commercial, industrial and retail, properties. For the majority of investors, residential property, such as apartments, townhouses and houses are the most favoured option as residential property is generally more accessible than investing directly in more expensive real estate assets such as shopping centres or office blocks. Investing in residential property can offer investors a number of benefits:

- **Diversification**: Whilst many investors hold investments in traditional asset classes such as bonds and shares, by incorporating property into your portfolio you could reduce your overall risk. Returns on property historically have a low correlation to equity-type investments.
- **A tax effective investment**: All expenses associated with managing your investment property (including interest repayments, repairs and maintenance, and advisor fees) are fully tax deductible. You can also claim general wear and tear on fixtures. There are also tax advantages for negatively-geared properties.
- **Gearing**: Borrowing to invest in residential property allows you to leverage to a greater extent than if you were investing in another asset class such as shares.

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- **Control**: Investing in direct property has a number of advantages over investing in listed property trusts (LPTs). By owning your own property, you can continually monitor your investment and add value with simple maintenance and home improvements. You have control over the type of property you invest in, occupants, weekly rental yield, and level of gearing. These are outside your control when investing in an LPT.

Indirect Property Investments

To gain exposure to properties normally considered too expensive for most retail investors, such as shopping centres, office blocks and resorts, you can invest indirectly. Instead of buying physical real estate, you purchase units in a LPT, also known as an REIT (Real Estate Investment Trust). By investing indirectly in property through an LPT, you can buy and sell units on the ASX at any time, therefore providing a more liquid investment than directly owning a property. Unlisted property trusts are also available, however there are generally restrictions associated with trading in an unlisted trust.

Some of the benefits of investing in LPTs can include:

- access to a diversified portfolio of quality large properties
- portfolios managed by specialist fund managers with access to research not usually available to retail investors
- higher liquidity than investing directly in property because LPTs can be traded on-market at any time
- tax advantages available to the trust (such as depreciation) may be passed onto investors through dividends.

As with any investment, there are risks involved in investing in LPTs which include:

- volatility from the cyclical nature of the property market
- possible reductions in asset valuations and rental returns,
- management and board commercial and corporate decisions, and
- gearing risks where an LPT borrows a high proportion of a property's value, or in some cases, the entire property portfolio.

Australian Property versus International Property

Australiann REITs comprise a little more than 50 listed companies that are actively traded on the Australian Stock Exchange. These are either a mix of passive investment vehicles and active structures comprising development and construction.

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The advantage of widening the investment scope to include international property markets is that it opens up a broad range of opportunities from the underlying assets, pooled vehicles, debt products and listed REITs. It also avoids some of the problems of a lack of diversification in the domestic REIT market.

Review

A investment in property should be reviewed at a minimum of once per annum.

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Information Guide
Investing In Australian Shares

January 2013

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The Australian Sharemarket

Shares are one of the major asset classes and can be broadly categorised into Australian and International shares. Investing in Australian shares provides investors with a part ownership in the company, entitling the shareholder to a portion of the company's profits through dividends.

Although a large portion of stock performance is seemingly left to chance, the stock market has been around long enough for people to develop rules for investing their money in ways that will most likely provide adequate and anticipated returns. These rules aren't set in stone and are more like a generalized set of guidelines, but knowledge is power and every little bit helps.

Large-Cap: A cap is the market capitalization of a company that sells stock on the exchange. Like everything else, large-caps have strengths and their weaknesses. The potential for aggressive expansion is small, but these stocks are incredibly stabile.

They are much more likely to pay dividends, but the company's size can be confusing and provide a false sense of security. On the other hand, since large-caps are such large companies there is a wealth of information available on how these companies run and how to invest in them.

Mid-Cap: Investing in a mid-cap is something of a mixed bag. Many investors look at mid-caps as a long-term investment in a company's future. Essentially, when you invest in a mid-cap, you hope to help that company become larger over time.

There are however disadvantages to investing in mid-caps. For example, a mid-cap company is bound to fall harder in a failing market because investors tend to switch to the perceived safety of large-caps during such time.

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Small-Cap: While most investors will tell you that a mid-cap or large-cap stock is a safer investment, there are some advantages to investing in companies with a smaller cap. For example, some small companies are extremely stable and less susceptible to market changes than bigger companies. However the price of such stock may fluctuate more frequently and become quite illiquid during failing markets.

Benefits

Australia has a very competitive business environment that is driven by its stable politics, solid frameworks and proximity to rapidly growing countries. Some specific benefits to investing in Australia:

- **Franking Credits** – When a company in Australia pays dividends to shareholders, a portion of that dividend may be paid from profits on which the company has already paid tax. In this way franking credits may be attached to the dividend and can reduce the shareholder's overall taxable income.
- **Stable Politics & Economy** – Australia consistently ranks highly for political stability and government efficiency, while housing strong banks and a great fiscal balance sheet.
- **Solid Legal Frameworks** – Australia has strong corporate governance laws that ensure ethical behavior, as well as efficient legislation and intellectual property protection.
- **Natural Resources & Location** – Australia is situated next to the fastest growing regions in the world and remains one of the largest coal producers

Risk and Return

Over the longer term, Australian shares may provide investors with higher returns than other asset classes such as cash or fixed interest. Over the shorter term however, returns from Australian shares will be subject to higher volatility as sharemarkets rise and fall.

Ways to Invest

You can invest in Australian shares:

- by purchasing shares directly in specific companies through a stockbroker, or
- by purchasing units in a professionally managed investment fund, or
- by purchasing shares in a listed investment company (LIC) or
- by purchasing shares in a exchange traded fund (ETF).

Review

An investment in Australian shares should be reviewed at a minimum of once per annum.

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Information Guide
Internally Geared Share Funds

January 2013

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This Information Guide provides you with general information only about using internally geared shares funds for investment. It will also help you to better understand any recommendations we have made for you in this regard.

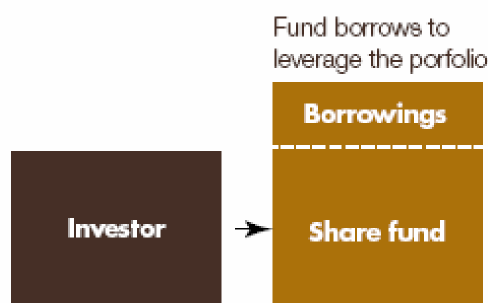
Leverage

Rather than you taking out an investment loan there is a potentially simpler way to implement a gearing strategy. It involves investing in an internally geared share fund. This is a professionally managed investment where the manager borrows on behalf of investors.

The fund typically borrows at wholesale interest rates which can be significantly lower than the interest rate you will pay if you arrange an investment loan yourself (eg via a margin loan or using a home equity facility).

How does the strategy work?

When you invest in an internally geared share fund the manager pools your money with other investors into a professionally managed share portfolio. Before the money is invested, the fund borrows so it can make a larger investment.



If the value of the investments falls to a level below the fund borrowings, investors are not required to pay back the shortfall.

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The funds are usually structured to be positively geared (ie the fund income exceeds the loan interest as well as any fees). As the fund income exceeds the loan interest and fees, the net income is distributed to investors.

Why use gearing?

- If the total return (income plus capital) is positive and exceeds the costs of borrowing the gain to the investors could be significantly magnified.
- If the implied dividend yield is in excess of the cost of borrowing the geared strategies could generate substantial income for investors.
- Using an internal geared share fund will almost always lower net borrowing costs for investors due to the fund manager's ability to operate as an institutional borrower and therefore borrow at competitive interest rates.
- Investors could gain increased franking credits received on income generated from borrowed funds.
- Variability of gearing may provide a partial natural hedge against falling markets as gearing level tend to decline as share prices become more expensive relative to their fundamental value or dividend yield fall.

Using internally geared share funds versus other forms for gearing

Advantages	Disadvantages
Interest Rate – Lower than Margin Leading and Instalment Warrants. Loan Recourse – Limited recourse loan compared to full recourse lending that applies to home equity and margin lending. Investor's liability is limited to their invested capital. Ease of Administration – Internally geared share funds have minimal ongoing investor administration requirements when compared to the monitoring required for other forms such as Margin Lending. Super Availability – Internally geared share funds are available investment options for superannuation. Super has restrictions on most other forms of gearing.	Management cost for internally geared share funds are more expensive than the non-geared funds. If the investment goes down in value, the gearing will magnify the losses. An internal geared share fund is not suitable for a short term investment strategy.

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Risks of Gearing

- The returns of the fund depend on not only the type of investments but also the level of gearing and the borrowing interest rates.
- High fluctuation of share prices force fund managers to change gearing level more often and hence generate extra trading costs. Also, through periods of high volatility the LVR of some internally geared funds may change on a daily basis due to factors such as share market movements, changes in forecasts net income, company applications, public announcements, withdrawals and changes in the opportunities to borrow
- Falls in share prices could trigger a breach of an LVR limit (margin call) forcing the managers to redeem assets at below their fundamental or market value. In certain circumstances withdrawals to investors may be suspended until breaches of the LVR are rectified
- If the total return is negative and taking account of the costs of borrowing, the loss to the investor will be magnified. As a result, a gearing strategy will entail increased downside risk.

As outline above a gearing strategy can increase your gains and your losses. Your capital is not guaranteed and may fluctuate significantly over time. Because of this potential volatility we advise that a minimum time from of 7 to 10 years is appropriate for any gearing strategy.

Suitable market conditions

In order for any geared equity strategy to outperform an un-geared strategy, financial markets should satisfy three major criteria:

- Have potential for positive returns,
- Have volatility in line with historic levels over the last 10 years and
- Have access to a relatively low cost of borrowing and or have a relatively high implied dividend yield.

Clearly investors should satisfy themselves that the entry point into the share market for any geared investment strategy (including internally geared share funds) is appropriate given the additional volatility that is experienced in utilising gearing.

Gearing should only be undertaken by assertive or aggressive investors who are committed to investing in growth assets for the long term and who have sufficient capacity to absorb significant fluctuations in capital.

Review

Investment in internal geared share funds should be reviewed at a minimum of once per annum.

NEWEALTH

AUSTRALIAN FINANCIAL SERVICES LICENSEE

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Information Guide
Investing In International Shares

January 2013

About Us

Newealth is an independently owned Australian private company. Not being owned by any banks, life insurance companies or fund managers has permitted Newealth to better service clients, identify strategies and recommend solutions that meet their needs.

This Information Guide provides you with general information only about investing in companies listed on international stock exchanges. It will also to help you to better understand any recommendations we have made for you in this regard.

Global Household Brands

You may be familiar with the benefits of investing in Australian shares, but did you know that many international companies have brand names that are recognisable around the world.

Chances are that most of the computer equipment you use, take-away food you eat, and medicines you consume were made by companies overseas or their Australian subsidiaries. For example, Microsoft, McDonald's and Johnson & Johnson are all based overseas.

Many of these companies are world leaders and can charge significantly more for their products because of their strong brands. You could share in the future profitability of these and other companies by investing in international shares.

The other 98%

With more than 2,000 companies listed on the Australian Securities Exchange (ASX), the Australian sharemarket might seem large. But when you compare its size by market capitalisation (i.e. the value of the sharemarket) to other countries, it only represents 2% of the value of the world's total sharemarkets. This is small compared to the US (50%), Japan (12%) and the UK (10%).

In fact, the Australian sharemarket is not much larger than some international companies. The combined size of the five biggest US stocks (Exxon Mobil, Microsoft, Walmart, Johnson & Johnson and Proctor & Gamble) is almost the same size as the entire Australian sharemarket.

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Advantages

There are around 14,000 listed companies to choose from on major overseas stock exchanges outside of Australia. With so many investment opportunities overseas, international shares can offer diversification benefits in several ways.

- **Across industries**; Financials are well represented in Australian for example but healthcare is not which could be advantageous over the long term given the Worlds aging population.
- **Across stocks**; The top 10 global stocks represent 8.6% of the global market as at 31 December 2009. In fact, the top 50 stocks represent 28.0%. This means that your investment is unlikely to be dominated by a few key stocks
- **Across countries**; Strong economic growth is not always a sign of how a country's sharemarket is performing. A well-diversified portfolio will minimise being over-exposed to any one economy or sharemarket.
- **Blending**; Combining Australian shares with international shares in your investment portfolio can lower your investment risk and potentially smooth out volatility. By having greater protection from wide swings in any one market or industry sector.

Disadvantages

Volatility is one major drawback to owning any listed company but then it is further complicated by the fact that when buying international shares, you buy them in the currency of their home country which means that you are holding overseas assets. The value of these assets (in Australian dollar terms) is affected by changes in the overseas currency relative to the Australian dollar. For example, a rising Australian dollar translates into a fall in the value of your investment assuming no change in the underlying stock prices.

Unfamiliar and unstable political and economic environments in foreign countries also makes investing in international companies a challenge.

Ways to Invest

- **Directly**- You can visit a stockbroker who will liaise with a foreign broker on your behalf. However, most investors don't have the time, knowledge or resources to continuously monitor foreign markets.
- **Indirectly**- You can use a professionally managed investment by pooling your money with that of thousands of other investors. It is then invested and monitored by professional mangers. You don't actually own the shares, instead you own units in the fund.

Review

An investment in international shares should be reviewed at a minimum of once per annum.