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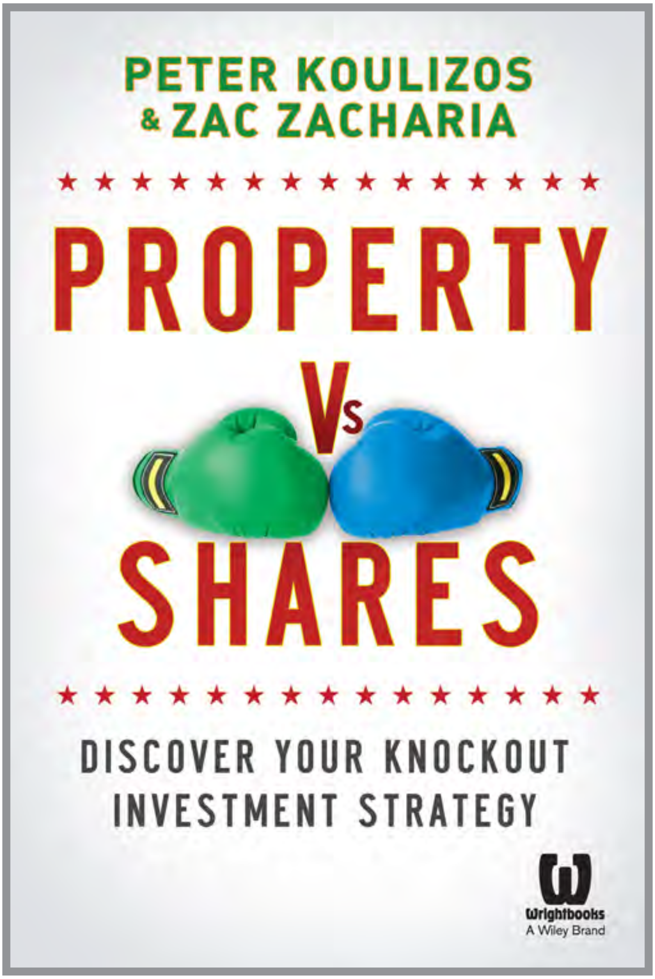

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ABOUT THE AUTHORS

Peter Koulizos

Peter 'The Property Professor' Koulizos is coordinator of the property and share investment courses for TAFE SA. He also teaches in the Victoria University property investment workshop in Melbourne, Sydney and Brisbane. In addition to his teaching in property investment, he teaches property, valuation and property economics at the University of South Australia. Peter holds a teaching degree, a graduate diploma in property and a master of business (property). Peter also personally invests in property and currently holds several investment properties. Peter's previous book is entitled *The Property Professor's Top Australian Suburbs*.

Zac Zacharia

Zac Zacharia is founder and managing director of a financial services business, the Centra Wealth Group, through which he provides financial planning, investment advice and education services to his clients. Before founding Centra Wealth, Zac had worked as a senior private client adviser at one of Australia's most respected financial services businesses. He lectures to students of the share investment course at TAFE SA as well as providing training services to students and members of Kaplan. He is a sought-after speaker and regularly contributes articles and investment opinions to numerous publications.

Zac's qualifications, together with his personal investment and trading experience have provided him with the street smarts and intuition to understand how global investment markets interact, so as to provide dynamic investment strategies for his clients and fulfil his passion for helping people change their lives financially for the better.

INTRODUCTION

Finally, here is *one* comprehensive book that covers *both* property and share investment! Many books deal with property *or* shares, but this is the first to provide the facts about both of these asset classes, side by side, in a tell-all, no-holds-barred style.

Is one kind of investment better than the other? Does one provide more capital growth? Is one better for income? What about the risks? This book will dispel the myths and break through the misinformation about both of these asset classes. You will learn the facts, benefits, risks and much more about each of these investments so that you can decide for yourself which, if not both, is good for you.

Our motivation behind writing the book is to help answer the endless stream of questions we are asked regularly that boil down to: Which is the better investment—property or shares?

We believe that a lot of people have a vested interest in promoting either property or shares—but we would like to present the facts on both so that people can formulate their own opinions.

This book:

- is set out in an easy-to-read format
- is divided into succinct chapters, covering issues related to both property and shares
- is written by professionals who not only teach but also personally invest
- provides helpful tips on what to buy, and when to buy
- includes details on what to look out for, such as property and share investment scams
- provides an unbiased point of view on both asset classes

- includes case studies that aim to provide guidance to readers on their investment strategies
- is supported by our website at www.propertyvsshares.com.au.

Property Vs Shares is intended to serve as a reference guide to potential and existing investors in each asset class. Whether you have already invested in shares or property, or you are just starting to consider investing in these assets and want to find out about the risks and benefits of each, this book provides the necessary information to help you make an educated and informed decision based on your own investment goals.

Our website

We have created an exclusive website for readers of *Property Vs Shares* to supplement your learning beyond your reading and study of this book. The website address is www.propertyvsshares.com.au.

It includes a bonus chapter available for you to download that contains our top picks for property and shares until 2020. Through our website we will keep the material in this book up to date and relevant — and continue the debate about which is best: property or shares!

Our website will also keep you updated as to our current opinions on the property and sharemarket, as well as provide you with a wealth of resources and helpful hints and tips.

Round 1

THE BASICS OF INVESTMENT

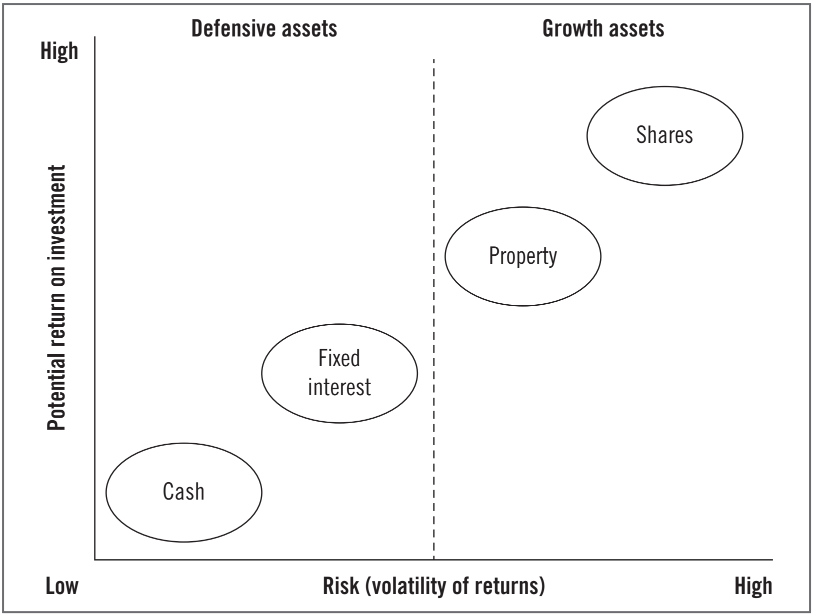
Investing requires you to give up the opportunity to spend money you have *today* in order to earn more money (that will be available for you to spend) *in the future*. In other words, you are making a sacrifice of a *certain amount* today for the potential to receive an *uncertain amount* and benefit from the investment at some point in the future. An investment in a growth asset does not carry a guarantee of how much money you will receive in the future, but you can expect that it will be more than you initially invested.

When you make an investment, you do so because you expect the investment to grow in value, or to provide you with a regular income, or both.

Asset classes

Investors can generally choose to allocate their money to any of four types of investments, or asset classes. Two of these have defensive characteristics, which means that they provide guaranteed and virtually certain returns, but they do not provide you with opportunities for growth, or increase in the capital value of the investment. The other two types of asset have growth characteristics: they do not provide a guarantee of what your return will be, but they do offer the potential for capital growth. Each asset class therefore has unique advantages and disadvantages for the investor, and also unique characteristics and influences. Importantly, each type of investment also has a different risk–return profile — in other words, a different level of potential return on your investment that rises as the level of risk rises. This is shown in figure 1.1 (overleaf).

Figure 1.1: the different types of investments and their risk–return profiles



The four asset classes and their characteristics are as follows.

Cash

This asset class includes any investment that is essentially cash-based or that can easily be converted to cash. It has the lowest risk of a capital loss. Cash includes physical notes and coins, but more commonly the term is used to refer to short-term interest-bearing investments, such as bank bills, commercial bills and fixed term deposits and cash management accounts.

The most common way for people to invest in this asset class is to put money away in a bank account. Compared with the other asset classes, you will receive a relatively low return (currently around 3 per cent per year), but cash is considered to be a very low risk investment: you are virtually guaranteed that not only will you get your money back but you will also earn 3 per cent interest on the money you invested. Your cash deposit won't grow in value: you'll just receive the income based on how much you invested, how long you invested for, and the interest rate. You have very good access to your money, as you can generally walk into a bank or make a phone call or access your account on the internet and have your money in a matter of minutes.

Fixed interest (including bonds)

This asset class is also defensive and includes securities such as bonds. Bonds are like an IOU. You are in effect lending money to a government or corporation such as a bank (also known as the issuer). In return for your money, the issuer promises to pay you a fixed rate of interest for the life of the bond and pay back the original amount, known as principal.

The returns you receive will be relatively low (currently around 4.5 per cent per year). Fixed interest is also considered a low risk investment: your money is guaranteed by the government or corporation issuing the bond. You should get all your money back in addition to receiving interest earned at periodic intervals. But the safety of your investment will always depend on who the issuer is: your money is safer in a government bond or bank term deposit than it is in a corporate bond issued by a small company. Your initial investment might not grow in value (if you hold it to maturity) but you will receive income from the interest earned. You have reasonably good access to your money, as you should be able sell your bond on the market within a day.

Property

This asset class is a growth asset, just like shares. However, it carries a lower level of investment risk than shares, as you will see in Round 7. Property investment can be direct—which means that you buy the investment yourself (such as houses, offices or factories)—or indirect—which means that you buy an investment in an entity, such as a property trust, which in turn buys and holds one or more properties. These property trusts can be listed on a stock exchange or unlisted.

Compared with the other asset classes, property has a moderate return, which is accompanied by a moderate risk. Historically it has been shown that the capital growth in property (about 9 per cent per year) is slightly less than the capital growth from shares, but so is the associated risk. Investors and owner-occupiers are often attracted to property because of the security it offers. People can make a profit from holding property if it is well located and they are willing to hold onto it for a period of time. However, some people have lost money on property; this is generally because they bought the wrong type of property, at the wrong time, in a poor location. Property buyers generally find that the value of their property increases over time and, if they are investors, they also receive income in the form of rent. On the negative side, property has low liquidity, meaning that you can't sell it and access the funds quickly as you can with the other asset classes, and you have to sell the whole investment, even if you only need a smaller amount of cash.

Shares

This asset class is also a growth asset, but depending on the shares you invest in, carries the highest level of investment risk. When you buy shares in a company, you become a part-owner of that company. As a part-owner, you are eligible to a proportionate share in the company's performance. This includes a share in profits (that you take as dividends) as well as capital growth (that you earn through the value of your shares increasing). Shares can be bought as a direct investment in companies listed on the Australian Securities Exchange and international sharemarkets, or as an indirect investment through a managed fund that invests in shares.

People are attracted to the sharemarket because of the relatively high returns. Compared with the other asset classes, shares have the highest potential to provide you with capital growth (on average investors can expect growth of 7–10 per cent per year from a portfolio of blue chip shares), but they are also accompanied by the highest level of investment risk. Share investors expect their shares to grow in value (capital growth) and they will earn a dividend (income) while they hold onto the shares. While this is the case most of the time, it is not a certainty. People can lose money on the sharemarket when the value of their shares drops or dividends are reduced or no longer paid. On some occasions, companies go broke and investors can lose most, if not all, of their money. On the positive side, you have very good access to your assets, as you can generally sell all or just some of the shares on the sharemarket within a day. This makes shares more liquid than property.

Why does the sharemarket exist?

Sharemarkets exist to provide businesses with a source of funds (called capital) with which they can expand and grow their business. It also exists to facilitate a way for existing owners of the business (the shareholders) to sell their shares to new buyers, and vice versa.

One of the ways that a company can raise money to finance its business is to 'go public'—that is, to become listed on a stock exchange. It does this by issuing shares in the company to the general public. Investors receive shares in the company in exchange for their money, effectively becoming part-owners, or shareholders, of the company. Money raised in this way is called equity capital. This differs from debt capital (such as corporate bonds), which is borrowed money—equity capital does not need to be repaid to the investor, while debt capital (raised through bonds, for instance) does have to be repaid. Equity capital represents continuous ownership of the company.

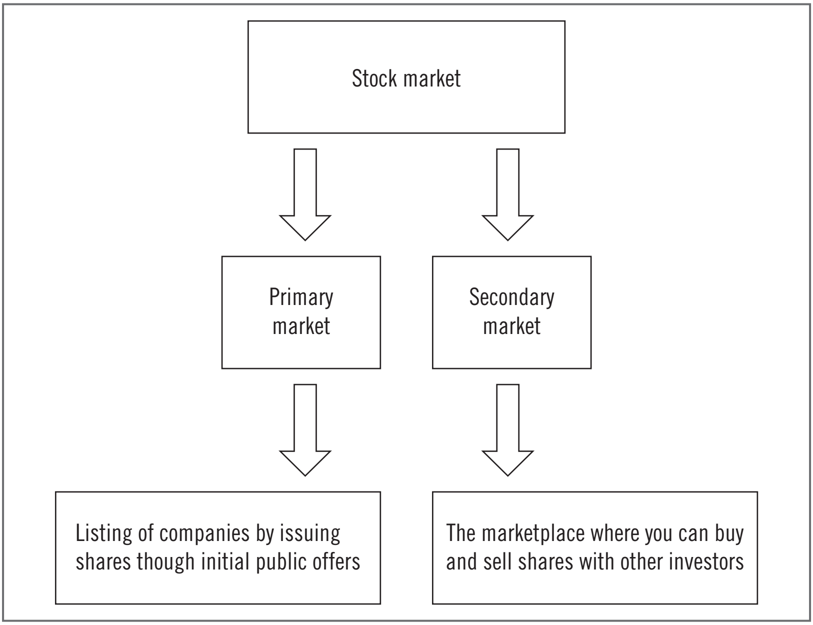
In return for the funds investors provide, the business issues shares in the business. As shareholders, investors effectively become a part-owner of the business—and they can share in the benefits of being an owner of the company, including distributions of profits (through dividends), and of course through the increase in the value of the company (through the share price of the company increasing).

It is important for an investor to understand the difference between the primary market and the secondary market (see figure 1.2, overleaf).

The primary market facilitates the raising of capital for a company—for example, through the issue of shares directly to shareholders. This is during the IPO (initial public offering) phase, where a company lists on the market for the first time; or after a listing, where a company goes to the market again to raise funds (for example, through share purchase plans, rights issues and other forms of equity issues, such as bond or preference share issues). Funds raised in the primary market go directly to the company, where they are used by the company according to the plans the company set out in the prospectus issued for the capital raising.

The secondary market is where most people buy and sell shares, and it is the market that facilitates the buying and selling of shares between shareholders. As a general rule, investors are trading with each other in this market, rather than providing funds for the benefit of the company.

Figure 1.2: the primary and secondary markets



Before you make the decision to invest, you also need to consider the following points, and this is where a good financial adviser can help you.

- Why are you investing—what are your investment goals?
- What types of investments should you consider?

- What is your investment time frame—when will you require the use of your investment funds?
- How much money (capital) can you afford to invest?
- How much risk are you willing to take with your investment—how much can you afford to lose without the loss affecting your lifestyle?
- How will you diversify your investments to minimise your risk—will you allocate your investment funds across different asset classes?
- Will you use the concept of compound interest—will you add to your investments regularly and also reinvest your income or dividends from your investment?
- What investment structure will you use for your investments—your own name, a partnership, a trust, a company, a super fund?
- Should you consider borrowing funds to use for investment?

Peter's property insights

Property has proven to be a relatively safe way of making money in the long term. The threat that the value of your property will plummet overnight is minimal, and you will receive frequent and regular income through rental payments.

Zac's share insights

There is no doubt that you can make more money by investing in shares than any other asset class—but with higher potential returns comes higher risk (or volatility). You can also lose much more money if you invest in the wrong shares at the wrong time.

Conclusion

Table 1.1 summarises the relationship between the asset classes—including their similarities and differences in terms of return, risk, capital growth, income and liquidity.

Table 1.1: the asset classes and their characteristics

Asset	Return	Risk	Capital growth	Income	Liquidity
Cash	Very low	Very low	No	Yes	Excellent
Fixed interest	Low	Low	No	Yes	Good
Property	Moderate	Moderate	Yes	Yes	Poor
Shares	High	High	Yes	Yes	Good

To be a smart investor you need to create wealth, but also to minimise the associated risk.

So far as property is concerned, success is about buying the right type of property in the right location in order to maximise your profits.

When it comes to shares, success is about buying the right share at the right time—and, importantly, selling it at the right time. Ultimately, an investor should hold a diversified investment portfolio that is allocated across all asset classes in accordance with their investment profile, needs and tolerance for risk. Therefore, holding some shares, some property and some cash in a portfolio is the formula for successful investment.

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

Property, shares or both?

If you're like most investors, you deliberate over which form of investment is better: property, shares or both. *Property Vs Shares* cuts to the chase and outlines the facts, benefits and risks of each so that you can make an informed decision about where to invest.

Whether you're hoping to supplement your income or give up your day job, this book offers succinct, easy-to-use explanations on:

- how property and shares have performed historically
- how to research your investment options and find advice
- how to avoid scams and schemes
- what the implications are for purchasing properties overseas
- what to consider when investing through an SMSF
- what to ask a broker or agent.

Property Vs Shares shows you how to achieve success across both asset classes, so you can develop a diversified investment portfolio that helps you achieve the lifestyle you've always wanted.

Peter Koulizos is the author of *The Property Professor's Top Australian Suburbs*. He is a lecturer in property, a highly sought-after speaker and a contributing writer to News Limited, www.realestate.com.au and *Money* magazine.

Zac Zacharia is founder and managing director of financial services company, The Centra Wealth Group. He is a lecturer in share investment at TAFE SA and a trainer for Kaplan. Zac is a regular speaker at investment seminars and contributes to numerous publications including *inBusiness* magazine, *The Advertiser* and the *Sunday Mail*.

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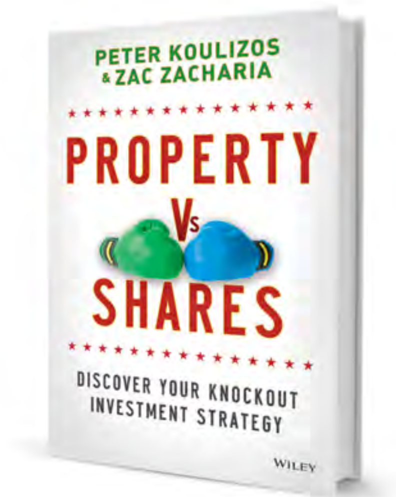

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The Book

A comparison of property versus shares and how to find the right mix for a profitable portfolio

Almost every investor eventually considers the question: which is the better investment, property or shares? The answer isn't as simple as one or the other, since both asset classes offer different benefits and risks. And if the best answer is a mix of the two, how do you strike the right balance for sustained returns? This book takes an unbiased look at these two asset classes, explaining the risks and benefits of each, dispelling stubborn myths, and giving you the facts you need to find what's best for you and your portfolio. Offering a point-by-point comparison of shares versus property, this easy-to-read guide argues that a combined strategy is smartest and safest for most investors. It then goes on to give you the information you need to tailor your portfolio to your own level of acceptable risk versus desired reward.

The Author

Peter Koulizos is the author of *The Property Professor's Top Australian Suburbs*. He is a lecturer in property, a highly sought-after speaker and a contributing writer to *News Limited*, www.realestate.com.au and *Money magazine*.

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