



Investment concepts



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We have listened to you and heard how difficult it can be to explain some concepts to investors, particularly those new to the world of investments. As such, we have devised the Zurich Investment Concepts booklet, filled with key concepts to assist you to explain some preliminary investment concepts to investors.

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The traditional risk versus return concept

Shares are traditionally the riskiest asset class, however, they also tend to provide the biggest reward if investors are prepared to ride out the short-term fluctuations. At the other end of the spectrum, cash is a relatively low risk investment, however, the earnings potential reflects the relatively low risk.



Source: Zurich Investments.



The highs and lows of market volatility

This chart illustrates how the worst performing asset class can quickly become the next year's best performing asset class. Don't underestimate the opportunity cost of remaining heavily invested in a more conservative asset class. Whilst cash offers consistent returns, you may be missing out on much greater returns offered by other asset classes.



Source: Bloomberg. Returns to 31 December each year.



Reasons to invest in small companies

This chart illustrates the long term returns achieved by a median small cap manager versus a median Australian share manager. The median small cap manager has outperformed with better long term returns.



Source: Mercer. Returns to 31 December 2011.



Dangers of looking at short-term performance

Remember to consider your long-term investment plan and not focus on the short-term volatility associated with investment markets.



Source: Bloomberg. As at 31 December 2011.



Don't panic when markets fall

This chart illustrates the performance of the American S&P 500 Index in the year of and the one year following a major crisis. As you can see, the rewards for those investors who bought more quality shares after a market fall were substantial in most cases.



Source: Bloomberg.



Focus on your long-term strategy

One year performance figures illustrate the volatility inherent in investment markets. Investors need to focus on the long-term to average out short-term fluctuations.



Source: Bloomberg. Performance for the 12 month period ended 31 December each year for the ASX 300 Accumulation Index.



Bull versus bear markets

The table illustrates the total return and average duration of both up and down markets.



Source: Bloomberg and Zurich Investments. Adapted from The Australian 1/10/03 pp 4 using source of Clarington Fund Inc. and Yahoo Finance.



Tax effectiveness of shares over term deposits

Australian shares provide tax benefits that increase your returns. Discover how dividend imputation can show you the true value of your Australian share investments.

Initial Investment	Sharoc \$10,000	Torm doposit \$10,000	
	Shares \$ 10,000	terni deposit \$10,000	
Dividend income return of 5% fully franked	\$500	-	
Interest return of 5%	-	\$500	
Plus imputation tax credit	\$214.29*	-	
Taxable income	\$714.29	\$500	
Tax payable at 46.5%**	(\$332.14)	(\$232.50)	
Imputation tax credit	\$214.29	-	
Tax payable	(\$117.85)	(\$232.50)	
After tax income	\$382.15	\$267.50	
The after tax benefit is significantly greater with shares than a term deposit for most taxpayers.			

* Tax credit on grossed-up income assuming corporate tax rate of 30%. ** Highest Marginal Income Tax Rate from 2010/2011 financial year includes Medicare Levy of 1.5% Source: Zurich Investments.



Effect of a changing Australian dollar

A key point of difference between owning domestic and overseas assets is that foreign investments expose your portfolio to changes in exchange rates. The tables below illustrate the effect of a changing Australian dollar.

Stock Quantity	Stock Price \$US	Value \$US	Exchange rate \$A/\$US	Value \$A
1000	50	50,000	0.70	\$71,429
1000	50	50,000	0.80	\$62,500
As a result of the rising Australian dollar, the share value denominated in US dollars has fallen by \$8929.				
AUD \$ 🕇 = International investment value 🖖				

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Australia is only a small part of the world



Source: MSCI Barra. MSCI World as at 31 December 2011.



Local or global shares?

This chart illustrates that international valuations are cheaper than their domestic counterparts across many sectors.



Source: Bloomberg. As at 8 March 2012.



International shares are not that foreign

By investing in international shares, you can benefit from the world-wide success of many well-known brand names you come across everyday.



Source: Zurich Investments.



Different markets, different opportunities

This concept illustrates the concentration of industries currently in the Australian sharemarket, compared to international markets. You can clearly see that the Australian market is heavily skewed towards financials and resources (materials). By accessing international markets, you are literally opening yourself up to a world of opportunities not available in Australia.



Source: ATI & MSCI Barra. Data as at 31 December 2011.



Don't put off today what will help you tomorrow

This chart illustrates the cumulative effect of investing \$1000 today and \$250 per month over the stated time periods at different interest rates. If you start investing today, your total investment pool has the ability to grow stronger and benefit from the power of compounding.



Source: Zurich Investments. Note: Figures shown are gross of tax and do not take into account the potential impact of inflation.



Profit from dollar cost averaging

Let's assume an investment of \$500 at each period in a savings plan. When the unit price falls, \$500 buys more units which enables investors to buy cheaply during a falling market.



Comparison of results	Amount invested	No. of units purchased	Value at end*
Dollar cost average	\$5,000	891.6	\$8,916
Invest all at beginning of period	\$5,000	500	\$5,000
Invest all at end of period	\$5,000	500	\$5,000

*This example has been prepared to illustrate the effects of dollar cost averaging. It is not intended to be a guide as to the future performance of any product or fund, and should not be relied upon for those purposes.

Source: Zurich Investments.



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Our dedicated Investment Business Development Team is committed to providing you with ongoing support for Zurich's range of investments. For more information, to order investor support flyers or to make an appointment with your local Zurich Business Development Manager, please call 1800 004 480.



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