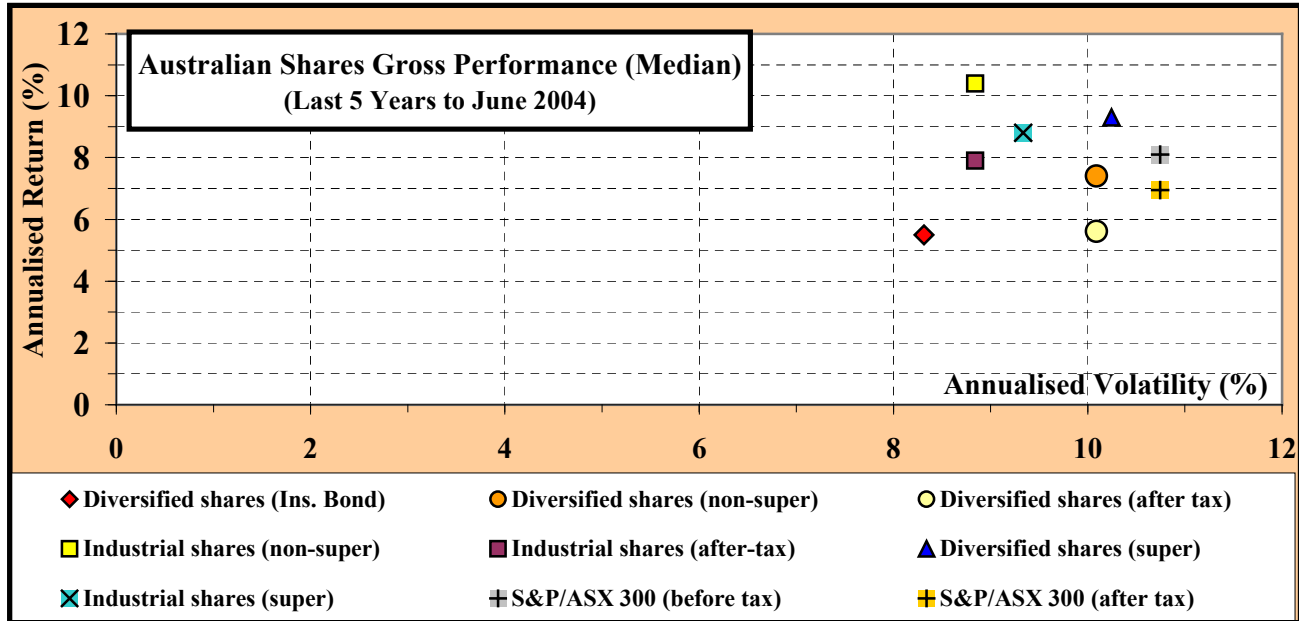


Various Investment Vehicles

Most people would wish to maximise returns, even if this means less control over the investments. Let's look at several investment vehicles that have different levels of personal control. For the sake of brevity in this document, we consider only one asset sector - Australian shares¹.

Next chart shows median returns² and risk,³ before and after tax, for the following investment vehicles:

- insurance bonds
- superannuation managed funds
- non-superannuation managed funds
- direct shares.



From this chart, we may conclude that for median performances:

- Net return of *insurance bonds* was much lower (3–5% pa) than same type of managed funds within *superannuation* (these performances are net of tax)
- *Industrial* managed funds (pre-tax) have outperformed by some 34% pa *diversified* managed funds, also had lower volatility
- For industrial funds in super have out-performed non-super industrial funds after tax
- If use the S&P/ASX 300 index as measure of **direct investor's** performance, then direct investors have had similar performance to diversified managed funds, but under performed by some 2% pa managed industrial funds.

Therefore we may conclude that, **on the balance of probabilities, the average direct investor did not out perform the average Australian share managed fund.** Many psychological studies show that most people are over confident, believing that they are one of the unique individuals who actually do out perform...

We strongly recommend all investors check their performance against objective benchmarks, such as the ASX accumulation index.

¹ Gross returns from *Assirt* Library to end June 2004. Indices based on: Non-superannuation managed wholesale Aust shares; superannuation diversified Aust shares; Insurance bond Aust. managed shares

² Returns are gross of management fees, but net of MERs. Net after tax return assumes investor gross income \$70,000 pa with average tax rate 30%; 4% pa return from dividends of which 60% are fully franked; 40% portfolio turnover pa.

³ Risk = volatility, quantified by the standard deviation of annual returns.