

Managed fund is a better gift



This week's answers provided by Brad Hodge CFP of BDH&Co. in Epping, an authorised representative of Hillross Financial Services (AFSL no. 232705), a principal member of the Financial Planning Association.

My parents love my kids and are always buying them toys but they have so much already that I want to ask them to buy shares or something instead of wasting money on the other things — something that will benefit them later. What shares should my parents buy or is there a managed fund they can contribute to — they spend about \$500 a year on each of the kids.

I think that is a great idea. In my view, buying managed funds or shares for your kids is like giving a perpetual gift — it is the gift that keeps on giving each year.

One important aspect of investing in the sharemarket that is often overlooked is that Australian companies on average pay out 50 per cent of their profits in dividends and retain the other 50 per cent for reinvestment.

Assuming the investment also grows 10 per cent a year, by investing \$500 in year one, after five years the children's investment should be worth \$608. They should also have received \$137 in dividends. The children will soon learn that they can spend the dividend each year in the knowledge that the investment is still in place and will produce more income the following year. It really is the gift that keeps on giving!

There are a number of highly rated Australian share funds but you will need a personal assessment to determine the most appropriate fund in which to invest. Van Eyk, a research house, currently has the following managed Australian share funds rated as an A grade investment (over 3-5 year period) — Perpetual Industrial Share Fund, Deutsche Aust. Alpha Fund, Schroders Aust. Share fund to name a few.

Investing via managed funds as compared to investing in direct shares will give you considerable diversification advantages. By investing through the managed funds you will effectively be investing in over 40 different companies.

By diversifying, your returns will be less volatile as different companies will experience varying levels of performance in differing economic climates. Given that you are only investing \$500 you may only be able to buy a shareholding in one company — a riskier proposition. *Answers should be used as a general guide only.*

Professional advice should be sought before making investment decisions. For a referral to a financial planner, or for more information on the FPA, call 1800 626 393 or visit www.fpa.asn.au.