

## Inflation – The Primary Investment Risk

### What are real returns?

In financial planning, it is important to protect income and capital from the primary risk of inflation. Inflation reduces the purchasing power of money. The return on an investment above the level of inflation is called the real rate of return. When investing, you should aim at the very minimum, to achieve a positive real rate of return.

### What returns can you expect?

With fixed interest investments, you can reasonably expect a real rate of return of around 3% *per annum* over the longer term. This rate of return reflects the relatively low level of risk associated with fixed interest investments (also referred to as bond funds). However, the level of return can vary widely depending upon economic and financial market conditions. For example, in the 1960s Australia's real fixed interest returns were sometimes negative. That is, these investments offered returns less than the inflation rate. More recently, in 1994, investors lost money on fixed interest investments even before taking inflation into account.

Growth investments, such as shares and property, tend to have higher real returns over the long term. This is because they offer compensation for the greater variability of returns and cashflow. Dividend payments on stocks are generally more variable than interest repayments on debt. Individual fixed interest instruments offer a predetermined repayment of capital at maturity. This certainty of an end-value is lacking with growth investments that have an indefinite life. Over a longer period of time, you can reasonably expect real returns of between 3% to 6% *per annum* on growth investments.

---

The advice contained herein does not take into account any persons particular objectives, needs or financial situation. Before making a decision regarding the acquisition or disposal of a Financial Product persons should assess whether the advice is appropriate to their objectives, needs or financial situation. Persons may wish to make this assessment themselves or seek the help of an adviser. No responsibility is taken for persons acting on the information provided. Persons doing so, do so at their own risk. Before acquiring a financial product a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.

GWM Adviser Services Limited ABN 96 002 071 749 trading as Garvan Financial Planning, registered office 105 – 153 Miller Street North Sydney NSW 2060, is an Australian Financial Services Licensee and member of the National Group of companies. From time to time Garvan Financial Planning, members of the National group of companies, associated employees or agents may have an interest in or receive pecuniary and non pecuniary benefits from the financial products and services mentioned herein.