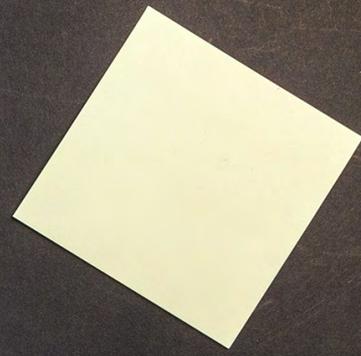




What is Investment Risk?



2. The risk of volatility

Investment volatility is the risk of the value of your investment moving up and down. With high quality investments, their values should move up more than they go down.

Investments which are expected to produce higher long-term returns (such as shares) tend to experience higher levels of short term volatility.

1. The risk of permanent loss of capital

Poor quality investments usually experience falls in their value from which they never recover. In extreme cases, their value can fall to zero.

Range of Returns (after inflation) - Australian Bonds

Long term average real return 4.1% p.a. (plus 4.9% inflation)



Source: Australian Unity Personal Financial Services. These figures are based on returns for 1975 to 2017 for the RBA Fixed Interest Index. Inflation average 4.9% p.a

Range of Returns (after inflation) - Australian Shares

Long term average real return 8.2% p.a. (plus 4.9% inflation)

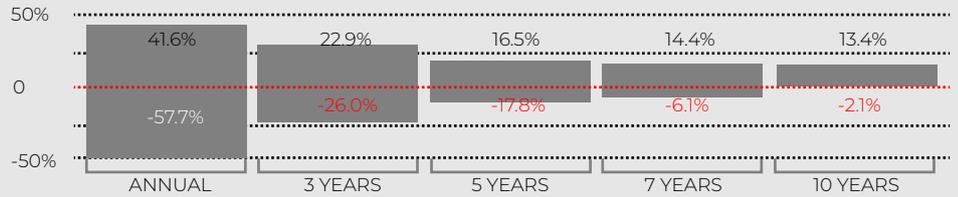


Source: Australian Unity Personal Financial Services. These figures are based on returns for 1975 to 2017 for the RBA Fixed Interest Index. Inflation average 4.9% p.a



Range of Returns (after inflation) - Australian Listed Property

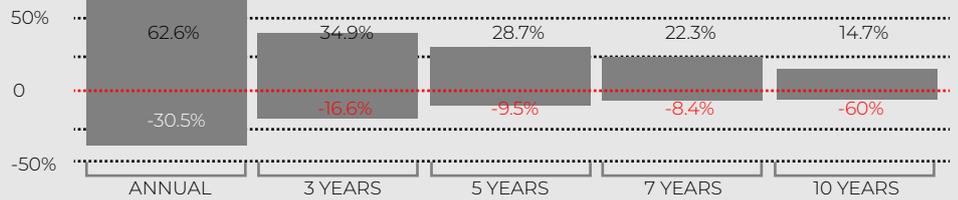
Long term average real return 6.6% p.a.
(plus 4.9% inflation)



Source: Australian Unity Personal Financial Services. These figures are based on returns for 1975 to 2017 for the RBA Fixed Interest Index. Inflation average 4.9% p.a

Range of Returns (after inflation) - International Shares

Long term average real return 6.9% p.a.
(plus 4.9% inflation)



Source: Australian Unity Personal Financial Services. These figures are based on returns for 1975 to 2017 for the RBA Fixed Interest Index. Inflation average 4.9% p.a

On the other hand, investments which are expected to generate lower long-term returns (such as bonds) usually experience less volatility in the short term.

This can be seen in the charts on page 1 which show the range of historical returns (after subtracting inflation) for various asset classes over various timeframes, as well as their long-term average returns. As you can see, the longer you hold your investments the less they are affected by volatility. For example, the range of returns for Australian shares in any single year has been -42.6% to 58.2%. However, the range for 10-year periods has been 2.9% to 14.6% p.a.

NOTE: Investors who redeem their investments after a fall in value turn a notional loss into a permanent loss. If they are high quality investments, this is usually a poor decision, because high quality investments should recover from falls in value.

3. Wealth risk

This is where your investments do not

generate sufficient returns to help you achieve your wealth or retirement objectives. This is typically the case when a person chooses not to employ an asset allocation which has a higher level of investment volatility (and also a potentially higher return). In that case, the person will need to lower their wealth or retirement expectations.

4. Credit risk

Credit risk usually applies to fixed term investments and means that the institution you have invested with may not be able to make the required interest payments or repay your money.

5. Inflation risk

This is where your money loses purchasing power because your investments do not keep pace with inflation. Cash is one investment which usually falls prey to inflation risk.

6. Liquidity risk

Investments which are fixed term expose you to liquidity risk. For example, if you need to access your money from fixed



term investments before the term expires, you may be prevented from doing so under the contract. Or, if you can access your money, it might take longer than you want, and/or you may be charged significant penalty fees.

Poor quality share and property investments also expose you to liquidity risk. The risk is that no one will want to buy them from you or will only buy them at a substantial discount.

7. Currency risk

When you invest overseas, your money is usually converted to the currency of the country in which you invest.

If the Australian dollar subsequently rises in value compared to the other country's currency, your investment will be worth less to you. On the other hand, if our dollar falls in value, your investment will be worth more.

How can you manage investment risk?

Investment risk can be managed using three prudent principles of investing:

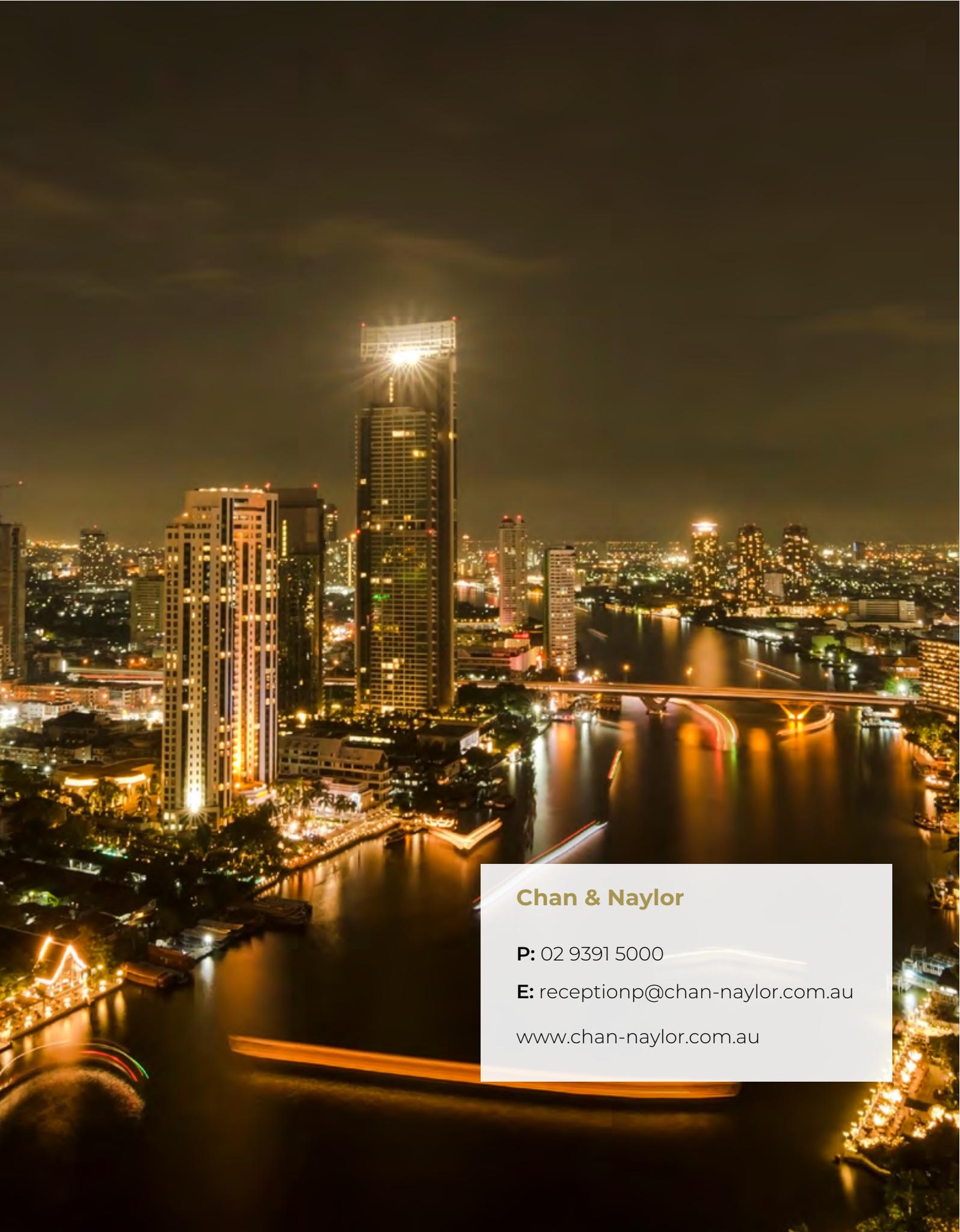
- Only invest in high quality investments, and
- Construct a properly diversified portfolio, and
- Regularly review your investments to ensure they continue to maintain their quality.

Disclaimer:

Before acting on any information you may have received during a strategic financial consultation, or read about on our websites, email communications, guides including our newsletters, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs.

If any products are discussed, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions. It is recommended to seek advice from a qualified Professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).





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