

Which asset classes should I choose?

Diversifying your investments.

Different asset classes – like shares, bonds, property and cash – carry different levels of risk and return. Investing in a single asset class can be risky when you consider that no one asset class has consistently outperformed another on a regular basis. For example, let’s look at the Australian real estate investment trusts (AREITs), shown in light green in the adjacent table. As shown, over the past six years, it has been the top performing asset class twice and the worst performing asset class twice!



Series: Let's get back to basics.
Complexity: **Beginner**

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	BEST ANNUAL PERFORMANCE
INT. SHARES \$A HGD 27.7	AREITs 17.9	AREITs 15.0	AREITs 11.9	INT. SHARES \$A HGD 28.3	AREITs 32.2	AUS. SHARES 22.5	AREITs 34.1	AUS. SHARES 16.2	AUS. BONDS 15.0	AUS. SHARES 37.6	↑ ↓ WEAKEST PERFORMANCE
INT. SHARES 17.1	AUS. BONDS 12.1	AUS. SHARES 10.5	INT. BONDS 11.6	AUS. SHARES 15.0	AUS. SHARES 27.9	INT. SHARES \$A HGD 18.8	AUS. SHARES 24.5	INT. BONDS 6.6	INT. BONDS 9.2	INT. SHARES \$A HGD 27.0	
AUS. SHARES 16.1	INT. BONDS 10.1	INT. BONDS 7.4	AUS. BONDS 8.8	70/30 BALANCED 9.6	70/30 BALANCED 17.3	INT. SHARES 17.0	INT. SHARES \$A HGD 17.6	70/30 BALANCED 6.2	70/30 BALANCED -22.2	70/30 BALANCED 16.8	
70/30 BALANCED 11.1	70/30 BALANCED 5.6	AUS. BONDS 5.5	70/30 BALANCED -6.8	AREITs 8.8	INT. SHARES \$A HGD 15.4	70/30 BALANCED 15.3	70/30 BALANCED 15.9	INT. SHARES \$A HGD 6.2	INT. SHARES -24.9	INT. BONDS 8.0	
INT. BONDS 0.8	AUS. SHARES 4.8	70/30 BALANCED 3.0	AUS. SHARES -8.6	INT. BONDS 6.6	INT. SHARES 10.3	AREITs 12.7	INT. SHARES 11.7	AUS. BONDS 3.5	AUS. SHARES -38.9	AREITs 7.9	
AUS. BONDS -1.2	INT. SHARES 2.2	INT. SHARES -9.7	INT. SHARES \$A HGD -23.0	AUS. BONDS 3.0	INT. BONDS 8.9	INT. BONDS 6.6	INT. BONDS 4.4	INT. SHARES -2.1	INT. SHARES \$A HGD -39.1	AUS. BONDS 1.7	
AREITs -5.0	INT. SHARES \$A HGD -9.2	INT. SHARES \$A HGD -14.6	INT. SHARES -27.2	INT. SHARES -0.5	AUS. BONDS 7.0	AUS. BONDS 5.8	AUS. BONDS 3.1	AREITs -8.4	AREITs -55.3	INT. SHARES 0.8	

So which asset class should I choose?

The most widely accepted way you can help reduce the risks associated with investing is through diversification. This means spreading your money across a variety of asset classes, like in a balanced portfolio. The balanced portfolio, coloured black in the above chart, gives you more consistent returns over the long run.

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Sources for the asset classes and sample diversified portfolios are as follows:

Australian Shares: S&P/ASX 300 Accum Index; prior to 31 March 2000 - ASX All Ordinaries Accum Index; Australian Bonds: UBS Warburg Aust Comp Bond Index; International Shares: MSCI World Net Div Reinvested Accumulation Index (\$A); International Shares \$A Hedged: MSCI World Net Div Reinvested Accumulation Index \$A Hedged; International Bonds: Lehmann Bros Global Aggregate Index \$A Hedged; Saloman Smith Barney World Government Bond Index \$A Hedged; Property Securities: S&P/ASX 300 Property Accumulation Index; prior to 31 March 2000 - ASX Property Trust Accumulation Index; The diversified portfolio is hypothetical only and is calculated by a weighted average of the asset class index returns shown in accordance to the following asset allocation - 70/30 Balanced Portfolio consists of: 32% Australian Shares, 15% Australian Bonds, 5% Cash, 20% International Shares, 10% International Shares \$A Hedged, 10% international bonds, 8% AREITs.

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