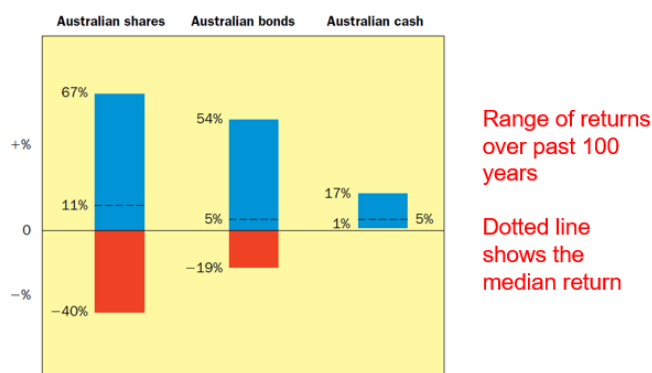


Direct Investment – Shares

Share Market

- Shares have historically offered **higher long term returns** than other asset classes
- Shares can offer both a regular income via dividends and strong capital growth
- Australian shares can offer the added tax benefit of dividend imputation
- Share investment has gained popularity in the last two decades
- Bulk of trading occurs on **stock exchanges**, with the **Australian Stock Exchange (ASX)** having a virtual monopoly in Australia

Short term volatility of shares versus bonds and cash:



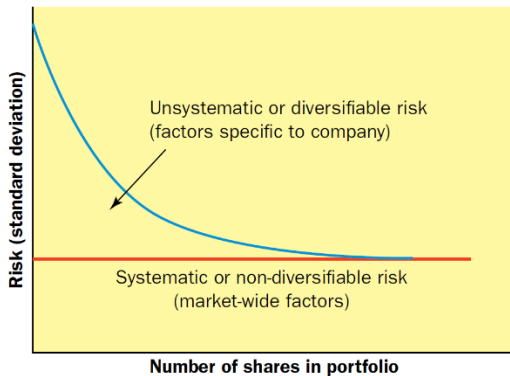
Analysis of share prices

- Market prices are determined by interaction of supply and demand
- Value of Australian shares are particularly influenced by:
 - **economic fundamentals** (interest rate levels, inflation rate, etc.)
 - company profitability and outlook, quality of management
 - government policy and announcements
 - **international capital flows**
 - international demand for Australian products (especially commodities)
 - **Australian dollar fluctuations** and changes in commodity prices
 - US share-market price movements
 - **domestic and international economic and political** events.
- Methods of share price analysis:
 - **Fundamental analysis** uses objective measures to analyse a company's current financial position
 - **Technical analysis** is concerned with how recent market perception of the worth of an investment is translated into market prices

Fundamental Analysis

- Fundamental analysis can involve many measures and should at least include a consideration of:
 - Liquidity
 - capital structure
 - profitability
 - market valuation
 - risk analysis.

- **Risk analysis and diversification:**
 - Total risk = systematic or market risk plus non-systematic or company specific risk
- We cannot diversify market risk but we can diversify company specific risk by holding shares in multiple companies — holding a portfolio of shares of 10 to 30 different companies will reduce non-systematic risk to very low levels



Technical Analysis

- Technical analysis is often referred to as charting:
 - plots historical share prices on graphs to identify past patterns and trends that are expected to be reproduced in the future
- Technical analysis is not generally supported by empirical research

Price-Earnings Ratio

- P/E ratio gives an indication of how the market is pricing the company's shares by relating the EPS to the current market price of the shares.
 - **P/E = price per share / earnings per share**
- *The P/E ratio calculates the number of years based on current earnings that it would take for a share to pay for itself.*
- An abnormally high or low P/E ratio relative to similar companies will indicate that the company is either over or under-priced by the market.

Growth vs Value Investment

- **Growth** — *investments with high P/Es and related low yields have potential for high future growth should be purchased now so as to enjoy to enjoy future gains*
- **Value** — *if a share is apparently under-priced (has a low P/E and relatively high dividend yield) it may be a good buy*

Ethical Investments

- Ethical investments are often referred to as:
 - **green investments**

- **socially responsible investments (SRI).**
- Seeks to allow for integration of investment objectives with personal values and social concern
- Investment options can be restricted by limited range of suitable investments and access to relevant information
 - *Product innovation in this space has rapidly increased the range of investment options available*

Property

Direct Investment – Property

- Property investment covers a wide asset class
- Investment in **buildings and/or land**
- Investment in property offers a choice of forms and types
- Purpose of investing both income and capital growth
- **Need to consider taxation effects**
- Role of property in an investment portfolio
 - Long term investment
 - Riskier than bonds but less risky than shares
 - Diversification benefits