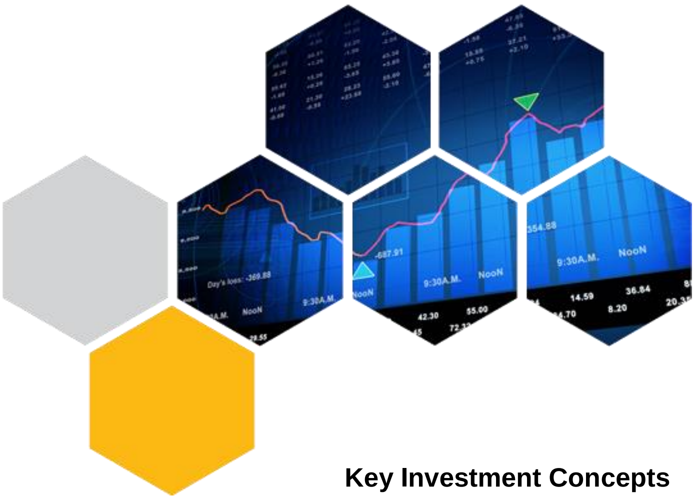

Key Investment Concepts

Direct verses indirect investing

Aon Hewitt Financial Education Series

When investing you have a choice of purchasing an asset directly, such as, buying BHP shares or investing indirectly through a managed investment. The table below sets out some of the key differences between the two:

	Investing Directly (for example through direct shares)	**Investing Indirectly (for example through managed investments)**
Ability to control the timing of realising capital gains	Returns and the tax implications from direct investments are generally more predictable, as you can determine the timing for buying and selling and therefore manage the gains and losses to suit your circumstances such as delaying capital gains to those tax years when you have offsetting capital losses, or a lower income.	Income distribution, franking levels and other tax implications from managed investments can vary greatly from year to year due to the adjustment made for realised capital gains or losses within the fund. You are not able to manage the capital gain distributed as income from a managed fund, however you can control when you sell the managed fund.
Choice of investments	Wide range of direct investments such as the various forms of property, shares, listed investment companies, infrastructure trusts, options, warrants, futures and many fixed interest investments. However, with limited funding, you may only be able to access one investment at a time.	Managed investments offer access to markets and investments that are not readily available to an individual retail investor. Managed investments can also provide exposure to international or regional markets such as emerging markets of China, India or Eastern Europe, alternative asset classes such as infrastructure or derivatives.
Control	Direct investing gives you a strong degree of control. You decide the companies you want to invest in. This might include a preference for certain types of shares in specific sectors where you have a strong interest or access to good research.	Although with managed investments, you have no control over which particular investments the fund manager chooses, you can have control over the type of managed investment you invest in, such as ethically responsible funds or global resources.
Costs	The costs of direct investment include brokerage, fees for financial planning advice and your own time. If you invest directly in a property you will have very large costs, including stamp duty etc.	You may pay an entry fee as well as an annual management fee, trustee fee and fees for financial planning advice.

	Investing Directly (for example through direct shares)	Investing Indirectly (for example through managed investments)
Diversification	The minimum upfront transaction costs for direct share investment make small investments across a range of equities uneconomical and difficult to manage.	The low minimum initial and ongoing costs of these investments give you easy access to immediate diversification across a number of asset classes and individual assets. You are able to invest in one managed fund and gain access to cash, fixed interest, property, Australian and international shares.
Flexibility	Regular small investments, switching in and out of cash and reinvestment of income are difficult and expensive.	The flexibility of ongoing investment, the ability to reinvest income and ease of switching investments make them very attractive.
Ongoing Management	Most people do not have the time, interest or expertise for day-to-day management of a portfolio of direct investments. This means you may not regularly review the suitability of your investments.	The day-to-day investment decisions for managed investments are made by professional investment managers.
Reporting	You will generally receive a number of documents outlining the amount of income/dividends paid, annual reports etc. You are required to maintain your own income and tax records including details on capital gains and capital losses.	Fund managers generally report on the fund's performance on a quarterly basis and provide an annual tax statement. This statement should provide details of assessable income, franking credits, as well as any capital gains tax liability or capital losses arising from the sale of units over the period.