Do You Know Your Investment Pathway?

With falling interest rates in the economy, many readers are facing the prospect of reduced incomes if they rely significantly on investments such as fixed deposits, whose returns are related to interest rates. While there are alternatives to interest related investments, how do you approach them as an everyday investor? We talked to Paul Wilson, CEO of Income2Wealth on how to approach investment in a general sense.

Paul Wilson, CEO of Income2Wealth

Q: Taking a helicopter view to investment, what are the ways forward that are available to investors?

A: Every investor's roadmap usually follows one or both of the main investment strategies. They either have a passive or active investment strategy or a mix depending on their needs and goals.

Passive Investment is where you essentially buy and hold an investment, whether it's shares, residential property or commercial property with a view to holding them for a minimum of 10 to 15 years to allow them to grow in value. The idea is to choose the right asset for your particular circumstances, risk appetite, timeline and objectives and then allow the investment to grow in value. Ideally, the investment also provides a regular income stream such as rental from a property or dividends from shares.

The second strategy is to be active with the investment you are making. It is easiest to illustrate this with a property example, where you are actively involved in ways to alter, improve and add value to your investment properties through renovation, subdivision or development. The intention is to increase the value of the asset ahead of the organic market growth, which you would see under a passive strategy – you, in effect, "manufacture the growth".

So buying a run-down property, renovating it and selling it on for a profit, would be an ideal example of an active investment strategy.

Q: Your company also has what you publicise as an Innovative Investment Strategy. What is that?

A: This is a less known strategy that until recently has been more common among sophisticated investors, however every day investors are now able to access these opportunities as well.

This investment pathway enables investors to invest in an AFSL Managed Fund Regulated Environment to access above-market returns on their capital while still having access to ongoing cash flow paid into their bank accounts each month.

The Innovative Investment strategy involves investing your capital into specific development projects or high returning capital investment funds, to secure high returns over a 12 to 48 month timeframe, without actually carrying any commercial risk or having to borrow money.

Q: With the old adage of 'the higher the return the higher the risk', what are the mechanisms in place to protect investors wanting to pursue an Innovative Investment strategy?

A: It's not the rate of return but more the structure which you invest under that reflects the level of risk. Investing within a regulated managed fund enables the AFSL to implement controls and structures within the fund to mitigate risks. We believe in implementing a comprehensive and collaborative assessment with potential investors to discover what they want to achieve with their investment portfolio, their current financial position, their objectives and a range of other important and customised criteria – there really is no "one size fits all" approach that ultimately works in an investors best interests.

Based on this assessment, the investor can make informed decisions as to which pathway, or mix of investment strategies, to embark upon – passive, active or innovative.

Beyond this, investors can be reassured that we operate in a tightly regulated AFSL managed fund environment. We also have diversified offerings so investors can manage their exposure across different industries and opportunities. Our Armchair Development program researches and secures large and profitable development projects with short to medium completion timeframes of 12 to 24 months. Further, the project will also usually have some borrowing from banks which allows investors to leverage off their expertise and rigorous due diligence in addition to our own.

Armchair Capital is another product which offers above-market returns to investors. Armchair Capital enables investors to join a collective fund of strategically selected Small and Medium sized businesses and then sharing in the ongoing profits of these successful businesses. This fund allows investors to nominate their preferred investment term with a pre-determined 8%, 12% or 14% annualised return paid monthly into their bank account – quite similar to a term deposit.

The fund does not invest in property projects, so investors can diversify their risk away from the property market. In terms of risk mitigators within the portfolio, we are aligned with a firm that has expertise and a strong track record in acquiring profitable businesses with a solid and reliable history of cashflow and net profits.

Q: From the point of view of the investor, how are these funds different from the passive strategies you outlined earlier?

A: One of the significant differences from, say, passive investing in shares, is that returns are fixed and paid monthly; whilst dividends from shares are paid usually six monthly, sometimes annually or sometimes not at all, if no dividend is declared.

Investors not only benefit from knowing what their returns are and when they will be paid, but having access to this predictable cash flow allows them the freedom to invest further according to their plan or, fund their desired lifestyle.

This interview is general in nature and is not advice. The contents of this article do not take into account the particular circumstances of any reader and should not be taken as a basis for making or not making financial decisions. You should seek specific advice from your own professional financial adviser before making any financial decisions. The views and/or claims expressed in this article are of the interviewee alone and the Australian Over 50s Living & Lifestyle Guide does not necessarily agree with those views or claims. The Australian Over 50s Living & Lifestyle Guide has not verified any claims that are made by the interviewee. The Australian Over 50s Living & Lifestyle Guide and its publisher, editor and agents take no responsibility or liability for the actions or decisions that a reader or readers may or may not take as a consequence of reading this article or any part of this article.