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Smoother, safer returns

The benefits of regular investing

> "Regular investing removes the emotion from the investment decision. It ensures you don't get caught up in market hype and 'noise' – and buy when the market is peaking or sell just before a boom."

The logic of investment is simple. Just buy when the market is low and sell when it's high. However, even the most sophisticated, experienced investors have a hard time trying to perform such a feat consistently. That's because investment markets tend to be volatile – rising and falling suddenly for reasons which are often unexpected.

It's this volatility though, which also creates the potential for strong performance. By taking a disciplined approach to how you invest, you can make volatility work for you, ride out periods of poor performance and achieve smoother returns over the long run.

Slow and steady

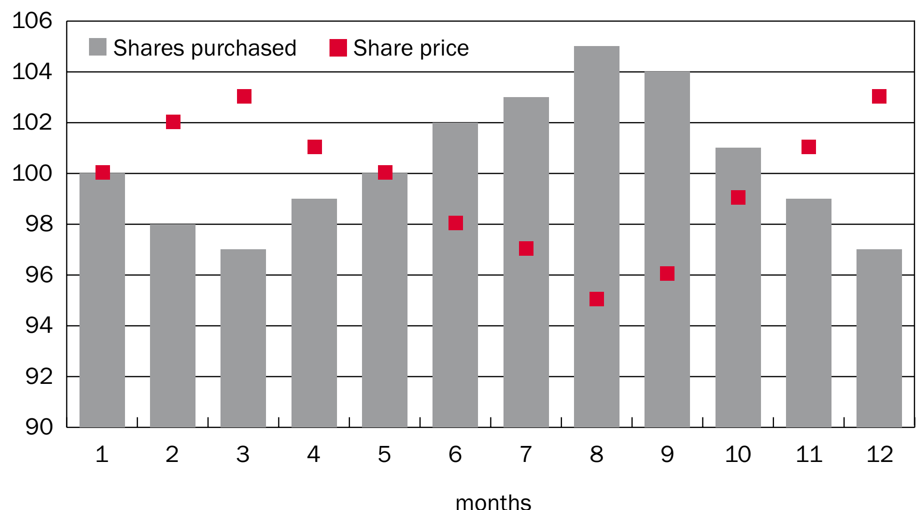
Successful investing does not mean sitting your cash on the sidelines waiting for the right time to invest or frantically trying to withdraw your money when times get tough. By investing a set amount regularly (say once a month), regardless of the market environment, you can take the guess work out of investing and harness the power of two simple, yet highly effective, investing principles – dollar cost averaging and compounding.

1. Dollar cost averaging

When you invest a set dollar amount at regular intervals, you may reduce the price you are paying for that investment by automatically buying more when prices are low and less when they are expensive. Over time this approach may reduce the impact of sharp market declines and help smooth your returns.

The chart below illustrates how, through investing regularly, fewer shares are purchased when the price is high and more shares when prices are low.

By taking this approach to investing you are essentially *averaging down* the price you pay per unit of the investment. And when you average down the price you pay to buy, you reduce the amount of growth you need to make a healthy profit. In other words, making money becomes easier.



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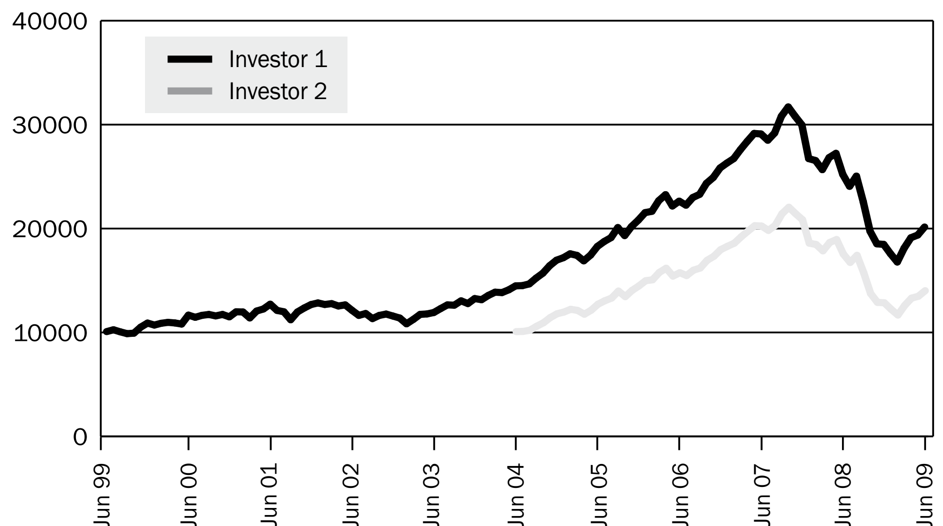
2. Compound interest

Another important benefit of investing regularly is that you *stay invested*. By keeping your money in the market, you reduce the transaction costs involved with buying and selling, and minimise the risk that you will miss out on gains. More importantly perhaps, you also allow your money to benefit from what Einstein called 'the most powerful force in the universe' – compound interest.

Thanks to the power of compound interest you don't need a huge sum of money to start building long-term wealth. In fact, the length of time you are invested can be as important (or even more) than how much money you invest. The chart below shows just how important it is to begin investing as early as possible.

The longer you are invested, the greater the accumulated effects of compounding will be (the more interest you earn on your interest).



Source: Investment Solutions BT Financial Group, as at 30 June 2009. Returns based on $10,000 being invested over stated timeframes (Investor 1, 30 June 1999 to 30 June 2009 and Investor 2, 30 June 2004 to 30 June 2009) in the S&P/ASX 200 Accumulation Index (the ASX Accumulation Index was introduced in May 1992, prior to this the ASX All Ordinaries Accumulation Index was used).

Your financial adviser can help you take a disciplined and consistent approach to investing. That will give you the ability to withstand periods of volatility and maximise your long-term wealth.

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Sydney	Melbourne	Brisbane	Perth	Adelaide
Level 12	Level 7	Level 16A, Central Plaza One	Level 38, Central Park	Level 2,
400 George Street	530 Collins Street	345 Queen Street	152 St George's Terrace	51 Pirie Street
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Perth WA 6000	Adelaide SA 5000
Telephone 02 9947 1288	Telephone 03 9941 3355	Telephone 07 3229 5888	Telephone 08 9415 5688	Phone: (08) 8424 5301
Facsimile 02 9511 2366	Facsimile 03 9941 3377	Facsimile 07 3229 5877	Facsimile 08 9481 4834	Fax: (08) 8424 5258

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