bigwig

How to start investing.

Saving is the discipline needed to start putting money that you earn aside rather than spending it. Investing is how you make that money work hard for you. Investing is the difference between bank interest rates of close to zero and long term equity returns more like 8%. Bigwig is all about turning your savings into investments.

Why Invest?

If you have started saving and your savings account is looking healthy why not just keep saving? Why do you need to start investing? Here's a couple of reasons:

1. Cash Management Account (CMA) or savings account interest rates are currently 0% to about 1.5%. That's not enough to really make a difference to your life. A cash ETF (ie one that has a similar risk profile to the CMA) averages about 2% and a fixed income ETF about 3%.
2. If you are prepared to take more risk then the long term returns can be a lot higher. Past returns for property ETF's exceed 10%, international shares are about 10% and Australian shares about 7%.
3. If you had $2000 and you saved it and got the best interest rate for 5 years (1.5%) you would have $2155. If you had invested that money in the worst performing asset class above, (Australian Shares - 7%) you would have $2805. If you had invested in a Bigwig Balanced Model Portfolio you would have $3238. You have to be careful with these numbers they are past returns not future returns but you get the idea.
4. Of course to get those better returns you are taking on more risk and you need to be both aware of that and comfortable with it. In the shorter term it is absolutely possible that your returns by investing are less than if you had left the money in a bank account.

How to start investing.

There are many ways to invest and many things to invest in but we believe that if you are not a trained financial professional or you don't have millions to invest or even if you just don't have a great deal of spare time to devote to managing assets, the best way to start investing is with Exchange Traded Funds (ETF's). So here are some steps:

1. Think. Think about what the money is for and when you might need it. Your investments may be different if for instance you are saving for something really important next year as opposed to, you are saving just to create wealth or retirement.
2. Risk. Why you want the money and when you want the money will tell you how much risk you want to take. Really important and really soon = don't take much risk and long way off = take a bit more risk.
3. Attitudes. Your own attitudes to risk are important. If you are someone who really dislikes risk, if it makes you lie awake at night then tone the risk down.
4. When you have worked out what sort of an investor you want to be then you need to build a portfolio that suits your investment style.
5. Diversification. This is a big concept that you should get to know. It simply says that you can reduce the risk you take by spreading your investments across several asset classes. The main asset classes are Shares - both Australian and International, Fixed income (like bonds) both Australian and international, Property - both Australian and international, Cash, Commodities and Currency. You could divide it up further but those are the main ones. So make sure that your portfolio has a few different asset classes.
6. Those asset classes all have different risk profiles. Here they are in order of riskiness from least risky to most risky (generally speaking the first 3 are quite low risk and the rest are quite high risk):
    a. Cash - least risky
    b. Australian Fixed Income
    c. International Fixed Income
    d. Australian Property
    e. International Property
    f. Currency
    g. Australian Shares
    h. International Shares
    i. Commodities - most risky
7. So you build your portfolio by thinking about diversification, risk, returns and attitudes.

How Bigwig helps.

We can help you invest in a number of ways:

1. Learn. The first thing to do before you invest is try to learn a bit about investing and ETF's. The sort of stuff in the paragraph above. We have lots of info on our blog about investing. Start with "What sort of investor am I" or "How to build a successful portfolio"

2. When you think you are ready to invest, choose one of the following profiles:
    a. “Secure” - very little risk
    b. “Conservative”
    c. “Balanced”
    d. “Confident”
    e. “All-in” - the most risk
3. In “How to build a successful portfolio” you will find the % of each asset class that you should invest in if you want that profile.
4. You can choose one of our model portfolios or create you own using the %’s suggested above.
5. Invest. To use Bigwig to buy and sell ETF’s you will need a trading account with a linked CMA.

How does Bigwig earn money?

Bigwig earns a brokerage fee, whenever you buy or sell an ETF. You will pay $30 (or 0.1% whichever is higher) when you buy or sell an ETF on the stock exchange. That brokerage fee is split between Bigwig, Open Markets (our Market Participant Broker) and the government. This is the only fee that Bigwig charges so if all you do is save in your CMA then we will not charge you anything.

Here is a link to our Financial Services Guide