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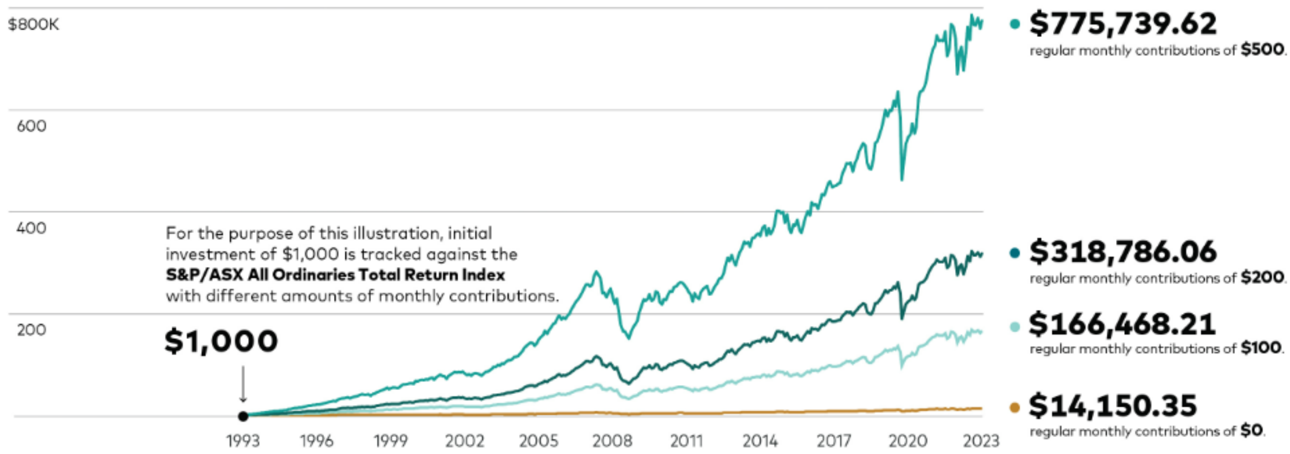
Financial Planning Weekly

Consistent contributions make a lasting impact

We regularly talk about keeping it simple, having a strategy and focusing on the long term with your investments. Something we haven't touched on previously is the benefits of regularly contributing towards your investment portfolio.

The broad ASX All ordinaries total return index has delivered an average annual return of 9.2% since 1993. If you had invested only $1,000 into the Australian share market in July 1993 and did nothing other than reinvest the dividends, you would have achieved a total return of 18.60% (excluding fees or taxes). By June 2023 the value would have grown to $14,150.

How regular investments add up



Source: Vanguard.

Notes: Data based on S&P/ASX All Ordinaries Total Return Index between 1 July 1993 and 30 June 2023. Assumes all income distributions reinvested. Excludes investment fees or taxes.

It is only when you compare the numbers side by side can we appreciate how making simple regular contributions adds up in the long run.

Regularly contributing, combined with a sound investment strategy and the reinvestment of income distributions over time, can deliver much higher long-term compound returns.

Recognizing dollar-cost averaging

Many may not be aware, but this is a strategy that many individuals are already indirectly doing through their Superannuation fund. If you are a member of an industry/retail fund and an employee, your employer will be regularly transferring SG (Super Guarantee) contributions to your fund. You can also make your own additional concessional and non-concessional top up contributions.

The fund will then be automatically investing these contributions towards your selected investment strategy. These will be allocated to different underlying assets based on your set preferences behind the scenes. These underlying assets will be priced differently day to day, and as a result, you will be “averaging” the cost every time they are purchased.

This strategy works the same way if you make regular contributions towards your investments (outside of super). You will be buying more or less units as market prices change, however over the total period your average costs may potentially be lower than if you tried to ‘time’ the market.

Ultimately, making frequent contributions and taking advantage of dollar-cost averaging adds up in the long run. As your balance rises over time, so will your distributions in the form of dividends and other payments. That's the power of compounding investment returns.

It is important to note that historical returns are not an indicator or guarantee of future performance. Please contact us on 03 9268 1118 or ahenderson@shawandpartners.com.au to discuss our services further.

Alex, Anu and the team.

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