GROWTH INVESTMENTS

WHAT ARE 'GROWTH' INVESTMENTS?

Investments are typically divided into two types: growth and defensive. Growth assets are assets that are expected to increase in value over time. The rate of growth is expected to be more than the rate of inflation, meaning that the 'purchasing power' of the money invested (what that money could be used to buy) increases as well.

In this way, holding growth assets can be expected to increase your wealth over time – although this obviously depends on selecting the right growth asset to invest in.

The two main forms of growth asset are shares and property. Sometimes, these assets are held indirectly, through some sort of investment manager. Different investors are suited to different types of growth asset and different ways of holding those assets.

RISK AND RETURN

Growth assets are purchased by people who are seeking a higher rate of return. Generally, investments with higher returns involve higher risk as well. This means that there is a higher chance that you may lose some or all of the money you may invest in a growth asset.

So, the equation is quite simple: to give yourself a chance of a higher return, you need also to take on a greater chance of losing money.

That said, there is also a risk in *not* investing in growth assets, especially if your time horizons are long-term. This is because defensive assets (the alternative form of investment) may not keep up with changes in the prices of things that you may need to buy – especially larger items like residential property.

MANAGING RISK

One of the best ways to manage the risk of a growth investment is to use time to your advantage. This basically means that you should never invest money that you will need in the short to medium term in growth assets. Time can be used to your advantage in various ways. But one thing that is always the case: you should see growth assets as assets that you intend to hold for an extended period of time. While you may change your mind at some future time, when you first buy the asset you should be thinking of holding it for at least several years.

Another key to managing risk is *diversification*. This is where you invest in more than one type of asset.

Spreading your investment money out over several unrelated assets reduces the impact of any one of those assets losing money.

THINGS TO REMEMBER

Growth investments involve the potential of losing money as well as making it. Therefore, you should be very careful about investing in growth assets – and we recommend you seek professional advice before you make any such investment.

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