Australian shares continue to provide best net returns over 20 years, says Russell Investments /ASX report

2011 Russell Investments/ASX Long-Term Investing Report encourages investors to consider investment returns on an after-tax basis and stick with a long-term strategy

SYDNEY, 29 June 2011 – Australian shares have outperformed residential investment property to take the mantle of best performing asset class over a 20 year period, according to this year's Russell Investments/ASX Long-Term Investing Report.

The 13th edition of the annual report, commissioned by the Australian Securities Exchange (ASX) and prepared by Russell Consulting has found growth assets including Australian shares and residential property continue to deliver superior returns to more conservative asset classes such as cash and fixed income, over the 10, 20 and 25-year periods to 31 December 2010.

The Report considers the real-life impact of tax, costs and borrowing on ultimate investment returns. The aim is to provide investors with insight into how different investments have performed over the medium to long-term after-tax and expenses.

Over the 20-year time period, Australian shares returned on an after-tax basis at the lowest and highest marginal tax rates, 11.2% and 9.0%, respectively. Over the same period residential investment property generated returns of 9.2% and 7.7% at both marginal tax rates.

Residential investment property however outperformed all asset classes over the 10-year period on both marginal tax rates but was outperformed on an after-tax basis by Australian shares at the 25-year mark.

Will Wilson, General Manager of Sales and Marketing at ASX said market volatility continues to test the resolve of many investors: "This Report offers investors some practical guidance on the benefits of ASX-listed investments compared to other categories of investments, and, in particular, underlines the importance of investing for the long-term."

After-tax returns make a difference

With the government considering mandatory after-tax reporting as part of its Stronger Super reforms, the Report emphasises the need to be mindful of the impact tax plays on investor returns.

Director of consulting and advisory at Russell Investments, Greg Liddell, says it is an issue retail investors also have to address given the added cost tax adds to investing.

"Pre-tax returns only tell half the story. What funds retirement incomes is post tax, post fee returns. On a sizable balance and over many years the variance in tax efficiency of different investment strategies is significant." Mr Liddell said.

Illustrating this point, the report showed on a pre-tax basis, residential investment property had the highest return of 11.6% over 25 years. However at both the lowest and highest marginal tax rates, Australian shares in fact provided better after-tax returns over the same period.

Overseas equities take a hit

According to the report, overseas equities were the worst performing asset class over the last 10 years.

"Global equities were impacted by the GFC and now the relentless strength of the Aussie dollar, which has eaten into the returns from those assets. However I'd expect this return will level out as global markets normalise," Mr Liddell said.

Extension of the analysis of overseas equities to 20 years shows that results do fall more in line with the other growth assets.

Discipline needed to stay the course

Looking back over the last 25 years Russell has been operating in the Australian market, Mr Liddell says there have been periods of heightened performance for all asset classes, however the impact of these events is stabilised over the long term.

"Between the years of 1986 to 1991 we saw high yields on cash and fixed interest investments, Australian shares had their run during the 2000s and the residential property market hit its stride from the mid 90s to 2003, with a relatively modest downturn, compared to shares, during the GFC.

"However when you take a long term view, the impact of these events on returns shows the numbers are relatively stable and the long term returns change quite slowly. Growth assets, particularly Australian shares and residential property, despite their shorter term volatility, do appear to show better long term performance. Investors with disciplined long term investment strategies should take comfort from these numbers," Mr Liddell concluded.

The Russell Investments/ASX Long Term Investing Report can be found here: http://www.asx.com.au/resources/documents-and-publications.htm.

Please contact Honner Media if you would like any more information.

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