PETER KOULIZOS
& ZAC ZACHARIA

PROPERTY Vs SHARES

DISCOVER YOUR KNOCKOUT INVESTMENT STRATEGY

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Zac would like to dedicate this book to his wonderful wife, Kelly, for her incredible encouragement, love and support, and also to his late father and mother, who have inspired him to become the best he can be — and also taught him the importance of helping others to change their lives for the better.

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Peter 'The Property Professor' Koulizos is coordinator of the property and share investment courses for TAFE SA. He also teaches in the Victoria University property investment workshop in Melbourne, Sydney and Brisbane. In addition to his teaching in property investment, he teaches property, valuation and property economics at the University of South Australia. Peter holds a teaching degree, a graduate diploma in property and a master of business (property). Peter also personally invests in property and currently holds several investment properties. Peter's previous book is entitled *The Property Professor's Top Australian Suburbs*.

Zac Zacharia

Zac Zacharia is founder and managing director of a financial services business, the Centra Wealth Group, through which he provides financial planning, investment advice and education services to his clients. Before founding Centra Wealth, Zac had worked as a senior private client adviser at one of Australia's most respected financial services businesses. He lectures to students of the share investment course at TAFE SA as well as providing training services to students and members of Kaplan. He is a sought-after speaker and regularly contributes articles and investment opinions to numerous publications.

Zac's qualifications, together with his personal investment and trading experience have provided him with the street smarts and intuition to understand how global investment markets interact, so as to provide dynamic investment strategies for his clients and fulfil his passion for helping people change their lives financially for the better.

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- Sean Ryan, Director, FBR Law, for his contribution to the discussion of legal issues in relation to property and the advanced property investment strategies.

INTRODUCTION

Finally, here is *one* comprehensive book that covers *both* property and share investment! Many books deal with property *or* shares, but this is the first to provide the facts about both of these asset classes, side by side, in a tell-all, no-holds-barred style.

Is one kind of investment better than the other? Does one provide more capital growth? Is one better for income? What about the risks? This book will dispel the myths and break through the misinformation about both of these asset classes. You will learn the facts, benefits, risks and much more about each of these investments so that you can decide for yourself which, if not both, is good for you.

Our motivation behind writing the book is to help answer the endless stream of questions we are asked regularly that boil down to: Which is the better investment—property or shares?

We believe that a lot of people have a vested interest in promoting either property or shares—but we would like to present the facts on both so that people can formulate their own opinions.

This book:

- is set out in an easy-to-read format
- is divided into succinct chapters, covering issues related to both property and shares
- is written by professionals who not only teach but also personally invest
- provides helpful tips on what to buy, and when to buy
- includes details on what to look out for, such as property and share investment scams
- provides an unbiased point of view on both asset classes

- includes case studies that aim to provide guidance to readers on their investment strategies
- is supported by our website at www.propertyvsshares.com.au.

Property Vs Shares is intended to serve as a reference guide to potential and existing investors in each asset class. Whether you have already invested in shares or property, or you are just starting to consider investing in these assets and want to find out about the risks and benefits of each, this book provides the necessary information to help you make an educated and informed decision based on your own investment goals.

Our website

We have created an exclusive website for readers of *Property Vs Shares* to supplement your learning beyond your reading and study of this book. The website address is www.propertyvsshares.com.au.

It includes a bonus chapter available for you to download that contains our top picks for property and shares until 2020. Through our website we will keep the material in this book up to date and relevant—and continue the debate about which is best: property or shares!

Our website will also keep you updated as to our current opinions on the property and sharemarket, as well as provide you with a wealth of resources and helpful hints and tips.

DISCLAIMER

The information presented in this work is general in nature and of an educational and informative nature. It has been prepared without taking into account your objectives, financial situation or needs; therefore, before you decide to act on any of the suggestions and strategies that are contained in this book, you should consider their appropriateness having regard to your objectives, financial situation and needs. This work is sold with the understanding that neither the authors nor the publisher are engaged in rendering legal, financial, accounting, tax, or other professional services. If professional assistance is required, the services of a competent professional person should be sought.

The authors certify that all of the views expressed in this book accurately reflect their personal views about any and all of the subject securities or issuers. Although the authors believe that the information contained in this book is accurate and reliable and is based on their skills, knowledge and experience and obtained from reputable websites, research organisations and published works, neither the authors nor the publisher make any representations or warranties with respect to the accuracy or completeness of the contents of this work and specifically disclaim all warranties, including without limitation warranties of fitness for a particular purpose. The advice and strategies contained herein may not be suitable for every situation. The fact that an organisation or Website is referred to in this work as a citation and/or a potential source of further information does not mean that the authors or the publisher endorses the information the organisation or Website may provide or recommendations it may make. Further, readers should be aware that Internet Websites listed in this work may have changed or disappeared between when this work was written and when it is read. Except to the extent that liability cannot be excluded, neither authors nor the publisher nor contributing writers nor any associated entities, shall be liable for any loss or damage arising from this here Work for any reason including if caused by any error in, or omission from the material presented in the work.

Please remember that past performance is not a reliable indicator of future results. The forecasts used in this work are intended as a guide only. They are predictive in character and as such may be affected by inaccurate or incomplete assumptions or by known or unknown risks and uncertainties and therefore may differ materially from the results that individual investors ultimately achieve.

Information concerning taxation is of a general nature and does not constitute advice. Please consult a qualified accountant or financial adviser who will be able to provide you with reliable advice for your individual situation.

Round 1

THE BASICS OF INVESTMENT

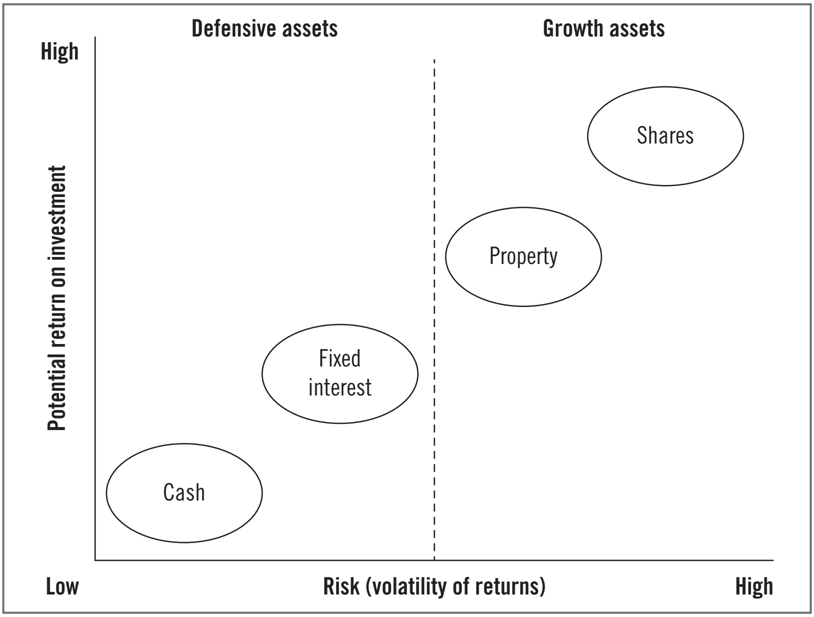
Investing requires you to give up the opportunity to spend money you have *today* in order to earn more money (that will be available for you to spend) *in the future*. In other words, you are making a sacrifice of a *certain amount* today for the potential to receive an *uncertain amount* and benefit from the investment at some point in the future. An investment in a growth asset does not carry a guarantee of how much money you will receive in the future, but you can expect that it will be more than you initially invested.

When you make an investment, you do so because you expect the investment to grow in value, or to provide you with a regular income, or both.

Asset classes

Investors can generally choose to allocate their money to any of four types of investments, or asset classes. Two of these have defensive characteristics, which means that they provide guaranteed and virtually certain returns, but they do not provide you with opportunities for growth, or increase in the capital value of the investment. The other two types of asset have growth characteristics: they do not provide a guarantee of what your return will be, but they do offer the potential for capital growth. Each asset class therefore has unique advantages and disadvantages for the investor, and also unique characteristics and influences. Importantly, each type of investment also has a different risk–return profile—in other words, a different level of potential return on your investment that rises as the level of risk rises. This is shown in figure 1.1 (overleaf).

Figure 1.1: the different types of investments and their risk–return profiles



The four asset classes and their characteristics are as follows.

Cash

This asset class includes any investment that is essentially cash-based or that can easily be converted to cash. It has the lowest risk of a capital loss. Cash includes physical notes and coins, but more commonly the term is used to refer to short-term interest-bearing investments, such as bank bills, commercial bills and fixed term deposits and cash management accounts.

The most common way for people to invest in this asset class is to put money away in a bank account. Compared with the other asset classes, you will receive a relatively low return (currently around 3 per cent per year), but cash is considered to be a very low risk investment: you are virtually guaranteed that not only will you get your money back but you will also earn 3 per cent interest on the money you invested. Your cash deposit won't grow in value: you'll just receive the income based on how much you invested, how long you invested for, and the interest rate. You have very good access to your money, as you can generally walk into a bank or make a phone call or access your account on the internet and have your money in a matter of minutes.

Fixed interest (including bonds)

This asset class is also defensive and includes securities such as bonds. Bonds are like an IOU. You are in effect lending money to a government or corporation such as a bank (also known as the issuer). In return for your money, the issuer promises to pay you a fixed rate of interest for the life of the bond and pay back the original amount, known as principal.

The returns you receive will be relatively low (currently around 4.5 per cent per year). Fixed interest is also considered a low risk investment: your money is guaranteed by the government or corporation issuing the bond. You should get all your money back in addition to receiving interest earned at periodic intervals. But the safety of your investment will always depend on who the issuer is: your money is safer in a government bond or bank term deposit than it is in a corporate bond issued by a small company. Your initial investment might not grow in value (if you hold it to maturity) but you will receive income from the interest earned. You have reasonably good access to your money, as you should be able sell your bond on the market within a day.

Property

This asset class is a growth asset, just like shares. However, it carries a lower level of investment risk than shares, as you will see in Round 7. Property investment can be direct—which means that you buy the investment yourself (such as houses, offices or factories)—or indirect—which means that you buy an investment in an entity, such as a property trust, which in turn buys and holds one or more properties. These property trusts can be listed on a stock exchange or unlisted.

Compared with the other asset classes, property has a moderate return, which is accompanied by a moderate risk. Historically it has been shown that the capital growth in property (about 9 per cent per year) is slightly less than the capital growth from shares, but so is the associated risk. Investors and owner-occupiers are often attracted to property because of the security it offers. People can make a profit from holding property if it is well located and they are willing to hold onto it for a period of time. However, some people have lost money on property; this is generally because they bought the wrong type of property, at the wrong time, in a poor location. Property buyers generally find that the value of their property increases over time and, if they are investors, they also receive income in the form of rent. On the negative side, property has low liquidity, meaning that you can't sell it and access the funds quickly as you can with the other asset classes, and you have to sell the whole investment, even if you only need a smaller amount of cash.

Shares

This asset class is also a growth asset, but depending on the shares you invest in, carries the highest level of investment risk. When you buy shares in a company, you become a part-owner of that company. As a part-owner, you are eligible to a proportionate share in the company's performance. This includes a share in profits (that you take as dividends) as well as capital growth (that you earn through the value of your shares increasing). Shares can be bought as a direct investment in companies listed on the Australian Securities Exchange and international sharemarkets, or as an indirect investment through a managed fund that invests in shares.

People are attracted to the sharemarket because of the relatively high returns. Compared with the other asset classes, shares have the highest potential to provide you with capital growth (on average investors can expect growth of 7–10 per cent per year from a portfolio of blue chip shares), but they are also accompanied by the highest level of investment risk. Share investors expect their shares to grow in value (capital growth) and they will earn a dividend (income) while they hold onto the shares. While this is the case most of the time, it is not a certainty. People can lose money on the sharemarket when the value of their shares drops or dividends are reduced or no longer paid. On some occasions, companies go broke and investors can lose most, if not all, of their money. On the positive side, you have very good access to your assets, as you can generally sell all or just some of the shares on the sharemarket within a day. This makes shares more liquid than property.

Why does the sharemarket exist?

Sharemarkets exist to provide businesses with a source of funds (called capital) with which they can expand and grow their business. It also exists to facilitate a way for existing owners of the business (the shareholders) to sell their shares to new buyers, and vice versa.

One of the ways that a company can raise money to finance its business is to 'go public'—that is, to become listed on a stock exchange. It does this by issuing shares in the company to the general public. Investors receive shares in the company in exchange for their money, effectively becoming part-owners, or shareholders, of the company. Money raised in this way is called equity capital. This differs from debt capital (such as corporate bonds), which is borrowed money—equity capital does not need to be repaid to the investor, while debt capital (raised through bonds, for instance) does have to be repaid. Equity capital represents continuous ownership of the company.

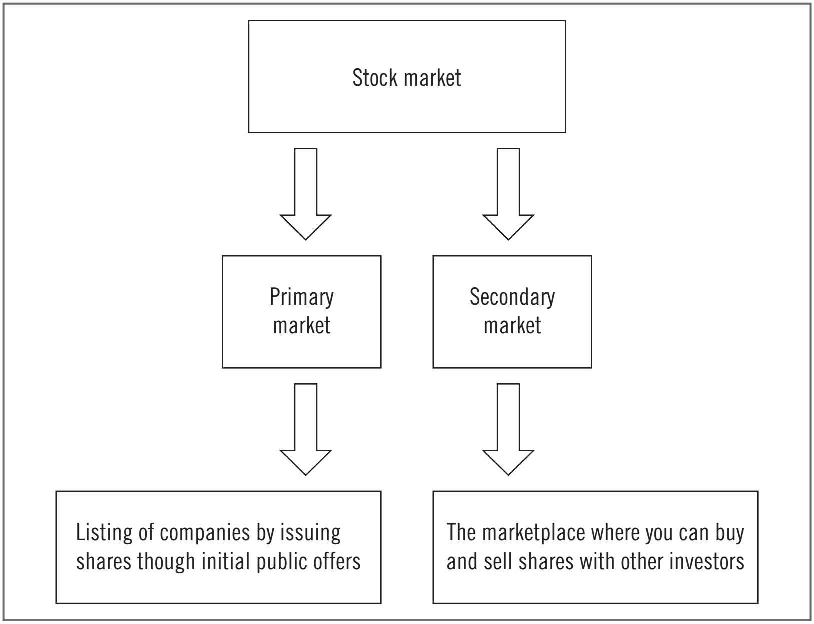
In return for the funds investors provide, the business issues shares in the business. As shareholders, investors effectively become a part-owner of the business—and they can share in the benefits of being an owner of the company, including distributions of profits (through dividends), and of course through the increase in the value of the company (through the share price of the company increasing).

It is important for an investor to understand the difference between the primary market and the secondary market (see figure 1.2, overleaf).

The primary market facilitates the raising of capital for a company—for example, through the issue of shares directly to shareholders. This is during the IPO (initial public offering) phase, where a company lists on the market for the first time; or after a listing, where a company goes to the market again to raise funds (for example, through share purchase plans, rights issues and other forms of equity issues, such as bond or preference share issues). Funds raised in the primary market go directly to the company, where they are used by the company according to the plans the company set out in the prospectus issued for the capital raising.

The secondary market is where most people buy and sell shares, and it is the market that facilitates the buying and selling of shares between shareholders. As a general rule, investors are trading with each other in this market, rather than providing funds for the benefit of the company.

Figure 1.2: the primary and secondary markets



Before you make the decision to invest, you also need to consider the following points, and this is where a good financial adviser can help you.

- Why are you investing—what are your investment goals?
- What types of investments should you consider?

- What is your investment time frame—when will you require the use of your investment funds?
- How much money (capital) can you afford to invest?
- How much risk are you willing to take with your investment—how much can you afford to lose without the loss affecting your lifestyle?
- How will you diversify your investments to minimise your risk—will you allocate your investment funds across different asset classes?
- Will you use the concept of compound interest—will you add to your investments regularly and also reinvest your income or dividends from your investment?
- What investment structure will you use for your investments—your own name, a partnership, a trust, a company, a super fund?
- Should you consider borrowing funds to use for investment?

Peter's property insights

Property has proven to be a relatively safe way of making money in the long term. The threat that the value of your property will plummet overnight is minimal, and you will receive frequent and regular income through rental payments.

Zac's share insights

There is no doubt that you can make more money by investing in shares than any other asset class—but with higher potential returns comes higher risk (or volatility). You can also lose much more money if you invest in the wrong shares at the wrong time.

Conclusion

Table 1.1 summarises the relationship between the asset classes—including their similarities and differences in terms of return, risk, capital growth, income and liquidity.

Table 1.1: the asset classes and their characteristics

Asset	Return	Risk	Capital growth	Income	Liquidity
Cash	Very low	Very low	No	Yes	Excellent
Fixed interest	Low	Low	No	Yes	Good
Property	Moderate	Moderate	Yes	Yes	Poor
Shares	High	High	Yes	Yes	Good

To be a smart investor you need to create wealth, but also to minimise the associated risk.

So far as property is concerned, success is about buying the right type of property in the right location in order to maximise your profits.

When it comes to shares, success is about buying the right share at the right time—and, importantly, selling it at the right time. Ultimately, an investor should hold a diversified investment portfolio that is allocated across all asset classes in accordance with their investment profile, needs and tolerance for risk. Therefore, holding some shares, some property and some cash in a portfolio is the formula for successful investment.

Round 2

WHY INVEST?

Do you dream of becoming financially independent? That is, to reach a point in your life when your lifestyle and living expenses are more than covered by the income you earn, *without* you having to physically work for it.

A few people may be lucky enough to achieve financial independence by receiving an inheritance, others from winning the lottery—but for most of us, the only way to achieve financial independence is through saving as much of our income as we can, and investing it in growth assets that will significantly increase in value over a long period of time.

Investing can therefore be thought of as the process of making your money work for you, rather than you having to work for your money. There are two ways to make your money work for you:

- Make your money earn money and provide you with income.
- Use your money to buy something that should increase in value, providing you with capital growth.

One secret to investing successfully is compound interest. Compound interest is where you earn interest on the money you save or invest, and then when that interest is paid to you, it is added to the amount you reinvest, and it earns interest too. This results in you earning interest on a higher amount of money which includes interest already earned, so the interest compounds and increases exponentially instead of at a fixed rate over time.

Reasons for investing

People invest their money for many reasons. These include:

- to retire richer
- to retire earlier

- to supplement their income
- for lifestyle reasons — so they can just work part time
- to give up their day job.

Retire richer

Most investments are targeted at retirement. This includes contributing to superannuation and buying property or shares. This is a passive strategy with minimum risk, which basically involves buying assets and holding onto them until retirement when they can be used to finance your lifestyle in lieu of your salary.

Retire earlier

This is a more aggressive strategy than just buying and holding for the long term. Being able to retire earlier can be achieved using a number of strategies, including trading property or shares or both, rather than simply holding them.

Supplement income

To be able to make some extra income will generally require the investor to sell part or all of their assets from time to time. In property, this is most commonly achieved through renovating property. In the sharemarket, this can done by periodically selling a portion of your portfolio.

Work part time

This is an extension of the previous strategy. This requires making enough extra income so you can cut back from full-time employment to working two, three or four days per week. Most people will use the same strategy outlined for supplementing your income, but will need to do it on a consistent or regular basis.

Give up your day job

This is the most aggressive and riskiest strategy of all. Investing in property to achieve this goal will require people to renovate or develop property on a regular basis. In the sharemarket, some people have given up their daytime employment as they have been able to successfully trade shares or derivatives. Share traders watch the market closely, and buy and sell on a short-term basis to generate income.

Investment options

As outlined in Round 1, there are really only four areas to invest your money:

- save it in cash
- invest it in fixed interest products such as term deposits or bonds
- invest it in property
- invest it in shares.

Cash and fixed interest won't grow in value. At best, they will earn you interest—or income.

Property and shares can and do grow in value, over time. These investments will often also provide you with regular income while you are invested in them. So, which is better? Let's look at the benefits of investing in each of these growth assets.

★★★★★★★ PROPERTY ★★★★★★★

Why invest in property?

Property is a very popular investment as it is familiar to everyone: everyone lives in one! But how does property perform as an investment?

Potential for significant capital growth

Putting your money in the bank or investing in fixed interest doesn't provide you with any capital growth. If you purchase property, however, you are anticipating that your property will grow in value. While this happens in most cases, you need to ensure that you buy property in the right location to maximise your capital growth. For example, a $400 000 brand new house bought on the outskirts of the metropolitan area might grow at 5 per cent per year whereas a period or character-style property in a top suburb, bought for the same price, could grow at 10 per cent per year. In ten years' time, the property on the outskirts won't even have doubled in value, whereas the older style, well-located property is worth over $1 million! If you had bought the well-located property, you could possibly retire in 12 years' time, based on your increased net wealth. There is less chance of being able to retire using the funds from the poorer performing, outer suburban property. Even though properties increase in value over time, it is crucial that you buy the *right* property in the *right* location so as to maximise your returns.

Regular rental income

One of the benefits of being the owner of investment property is that you can collect an income almost straight away. You can often settle on a property during the week and by the weekend have a tenant who has paid you some rent in advance. With other assets, you often have to wait for the end of the term of the investment (for example, in the case of a term deposit) or when your periodic payments or dividends are due, which is commonly only twice a year.

Secure hedge against inflation

An inevitable part of modern day life is inflation. Inflation means that the prices of goods and services increase over time. The rate of inflation varies according to the strength of the economy. One great advantage of holding property is that property values increase at a greater rate than inflation. In other words, property prices increase at a greater rate than most other goods and services. This is great news if you already own property, but not such great news if you are looking to buy property. The important thing to keep in mind is to buy the right property in the right location sooner rather than later.

Numerous tax benefits

Many tax benefits may be available for property investors, in particular tax deductions and depreciation (both on the building itself, and on the fixtures and fittings within the building).

Any legitimate expense incurred in running your investment property should be tax deductible. For example, if you travel to the property to collect the rent, you are able to claim a deduction. Money paid to a property manager to manage your property is also a tax deduction.

Depreciation of the building may be claimed as a tax deduction (whether you built it or not). The age of the building or item will determine if you can claim any depreciation and at what rate you can depreciate it. Buying a new or relatively new property (built after 17 July 1985) allows for the highest level of depreciation. Claiming building depreciation is a smart way to increase your cash flow.

It should be noted that you should never buy property just for tax purposes. Getting a tax benefit should be an added benefit to investing in property, not the only benefit.

Greater degree of control

Owning property allows for a greater degree of control than if you owned shares. For example, as an individual shareholder you cannot do anything to improve the value of your shares. However, if you own property, you can add value by painting, landscaping or upgrading. For a few thousand dollars, you can get much more than that in return in added capital value or rent or both.

Lower volatility

As property doesn't fluctuate in price as much as shares, there is greater security in purchasing property. You can sleep well at night knowing that your property won't plummet in price in a day, which can happen to shares, especially in a bear market (a bear market is where share prices fall significantly, by around 20 per cent or more, and investor sentiment turns to pessimism). Lower volatility is one of the best advantages of owning property over shares. The US subprime mortgage crisis, which led to the global financial crisis (GFC), illustrated the volatility that can exist in property markets, but thankfully the Australian property market is structured differently to the one in the US due to our stronger and safer banking and finance sector.

High demand for property

Everyone needs a place to live. Property, especially well located, period or character-style property, will always be in demand. As the number of households increases with more migrants coming to Australia to start a new life, and with the number of overseas students coming here to study, demand for property is increasing.

No margin calls

Providing your property is worth more than your loan and you can continue to make the minimum mortgage repayments, the bank will not call on you to pay off more of your loan than your scheduled repayments, or worse, force you to sell your property.

When you use a margin loan to purchase shares, you are obligated to maintain a specific loan-to-value ratio (LVR). LVR is the proportion of the loan to the market value of your asset. Should the value of your shares plummet, you may be asked to deposit some more money into the account (usually this is required within 24 hours) to reduce the LVR, or you may be forced to sell some, or all, of your shares to reduce your borrowings. This is the case even if your share portfolio is still worth more than your debt and you can still make the repayments on your margin loan!

Cheaper finance

A loan for a home can be obtained at a much cheaper rate than a margin loan to buy shares. In early 2013, for instance, the cheapest margin loan rates were around 8.5 per cent, whereas the cheapest variable rate home loans were about 5.5 per cent.

Higher leverage

This is one of the greatest advantages of investing in property rather than shares. You can get higher leverage.

Using property as security to borrow money allows you to leverage (borrow against the security) to a greater extent than if you were using a share portfolio as security. Most lenders may lend up to 95 per cent of the value of the property being purchased, as compared with 75 per cent if you were purchasing top quality shares. Let me illustrate this with an example.

If you had \$40 000 in cash, you could buy a \$400 000 property. Half of your cash will go towards the deposit for the house and the other half towards the purchasing fees. Alternatively, if you had \$40 000 in cash, you could buy a portfolio of blue-chip shares valued at only \$160 000. If we assume that both assets will grow at about their long-term average, it would take more than 100 years for a \$160 000 share portfolio growing at 10 per cent per year to be worth more than a \$400 000 property growing at 9 per cent per year!

★★★★★★★★ SHARES ★★★★★★★★

Why invest in shares?

Almost every working Australian owns shares, be it directly (through shares that they have personally bought), or indirectly (through their super funds or managed funds). Shares fluctuate in value every moment of every trading day, but how does share investment perform over the long term compared with property?

Potential for the greatest capital growth

Investing in shares provides you with the greatest potential for an increase in the value of your investment. That is because shares, just like property, are a growth asset. But that doesn't mean that any and every share you buy will increase in value. There are many things to consider when it comes to deciding what shares to buy, and when to buy them. As a general rule, you should look to buy good quality shares—that is, shares in companies that have strong management, a healthy balance sheet, a good business model and the potential to grow earnings—and buy when those shares are undervalued.

Potential for regular dividend income

An investment in shares may provide you with regular income (in addition to capital growth). This income is in the form of dividends, paid to investors from the profits that the company makes. Some companies, such as Telstra and the larger banks, usually pay a higher dividend (in percentage terms relative to your investment) than other shares (such as CSL or News Corporation). Other companies may not pay dividends at all. Be aware though, that a company can change its dividend policy depending on what its management decides.

Ability to outpace inflation

Just like property, shares have the potential to increase in value faster than the rate of inflation, as they are a growth asset. It is important, though, to ensure you buy the right shares at the right time and to sell them at the right time to reap the benefits of this potential.

Tax benefits

Shares provide numerous tax benefits to investors just as property investment does.

- Interest on investment loans is tax deductible. Any interest that you pay on an investment loan used to purchase shares is tax deductible. The same can also be said for property.
- Any losses you make can generally be used to offset gains. A general rule is that any *capital losses* that are made from selling your shares can be used to offset any *capital gains* that you make when you sell your shares at a profit. These tax loss benefits can be

carried forward. This is also true of property. However, trading in shares is more common than trading in property.

- Franking credits on dividend payments can be used to reduce your tax. When a company pays a dividend, the dividend can be sourced from the company's pre-tax income or post-tax income. Where a company has paid tax first (at the company tax rate of 30 per cent) and paid a dividend from after-tax income, then that dividend carries with it a franking credit. This franking credit is used to reduce the amount of tax you have to pay on the dividend income that you have earned—with the effect that you end up paying only the difference between your marginal tax rate and the tax rate paid by the company at 30 per cent. Retired investors who pay no tax on earnings (because they hold their investments in a superannuation fund in pension phase) can claim these credits as a refund from the ATO—effectively increasing their dividend income by a further 30 per cent!

Higher potential returns

Shares have on average, historically provided the highest percentage of total returns over the long term when compared with property. However, shares have also been the highest in terms of volatility—that is, the range of returns has also been the widest of all the asset classes. This is consistent with the adage that higher returns are usually linked to higher risk.

Lower holding costs

Shares have significantly lower holding costs than property. The only holding costs that may be incurred for share ownership are:

- management or advisory fees that can range between 0.1 per cent and 1.5 per cent or more of your investment funds under advice. This is paid to your financial adviser for managing your portfolio.
- administration fees of up to 1 per cent or more may be payable to the administrator of your investment portfolio.

Lower entry and exit costs

Shares have significantly lower entry and exit costs than property. The only entry and exit costs that may be incurred are:

- *No stamp duty*. Unlike property, no stamp duty is payable on share purchases and sales. This has been the case since July, 2000.
- *Lower brokerage and transaction fees*. The cost of buying shares (brokerage or commission) is a lot lower than the cost of buying property. Discount stockbrokers charge brokerage fees ranging from just $9.95 per trade, and it is rare these days to find transaction fees, even with full-service brokers, that exceed 1.5 per cent of the value of the transaction.

Need less money to start buying

Unlike property, you can start investing in shares with as little as $500.

Liquidity and quicker settlement (access to cash)

Shares have a significant advantage over property when it comes to buying and selling, because (depending on the share) there is usually a steady supply of sellers or buyers to transact with—and the price at which they are willing to transact is always provided and known.

Settlement of transactions happens in three days, so if you need to sell your investment quickly to get cash, you will have your money in as little as three or four days!

With shares, you can also sell a portion of your shares at any time if you need access to cash. With a property, you have to sell the whole property—you cannot sell only a bedroom, for example.

Leverage

Using a margin loan, an investor can purchase a large parcel of shares with as little as 25 per cent 'deposit'. This means that you control 100 per cent of the value of your shares using only 25 per cent of your equity. Of course, while this means you have the potential to make larger profits because you are holding a larger position, and a smaller favourable move in price will result in a larger percentage move in your profit, the opposite is also true for losses.

Availability, speed and immediacy of information

The internet has given investors immediate access to a large amount of timely information about companies, the economy and research opinions. In addition, the price of a share is constantly changing, reflecting investor sentiment at every minute, so you always know what the market value is for an investment.

Diversification

Shares allow an investor to diversify their investment portfolio, and therefore reduce risk, much more easily than with property investment. This is due to the fact that you can spread your investment dollars across a larger number of different companies in different sectors or industries.

Less need for legal involvement and costs

Unlike buying and selling property, a share transaction is very straightforward and doesn't require the use of expensive and specialist professional services, such as solicitors or conveyancers.

No tenants

A benefit of investing in shares is that you don't have to find tenants or manage the property. It can take some time to find a tenant to rent your property, and there is always a risk of having a tenant who may damage your property. In addition, you will need to manage the tenant and the property, which can be costly. This is not the case with shares.

Make money from the market going up or down

With property investment, you can easily make money if the property market is increasing in value. But with shares, you can make money as the share price goes up — but also as they go down in value. This is achieved through a process called short selling. Investors make a profit when they buy an investment at a low price, and sell it at a higher price. Usually, the buying step is done first (at a low price, and then selling later at a higher price). However, if you think the price of your share is going to fall, you can still profit from the buying low and selling high concept—the only difference is what step you do first. When short selling, you are able to borrow shares from your broker, sell them first (at the higher price) and then when the market falls, buy them later (at the lower price). When the position is closed, you return the shares to your broker. In this example, you have still bought low and sold high and made money—the only difference being what you did first.

Hedging

You can hedge your share investment portfolio by buying insurance using derivatives such as options, futures or CFDs (contracts for difference). This allows you to protect a share portfolio when the market is falling, because the value of the derivative will increase to offset any unrealised loss incurred in your share portfolio.

So which is best: property or shares?

Table 2.1 provides a summary of the benefits of investing in both shares and property.

Table 2.1: reasons for investing in property and shares

Why you should invest in property	Why you should invest in shares
Potential for significant capital growth	Potential for the greatest capital growth
Regular and frequent rental income	Potential for regular dividend income
Secure hedge against inflation	Ability to outpace inflation
Numerous tax benefits	Tax benefits
Greater degree of control	Higher potential returns
Lower volatility	Lower entry, holding and exit costs