Choosing Your Investment Strategy

Stay on track

Successful investing is based around a solid and disciplined investment plan. With so many confusing strategies to choose it can be difficult to know the correct approach. In reality there are a few fundamentals you need to adhere to in order to ensure you stay on track.

Many of us, when reviewing investment options are bombarded by a wave of information about markets, the economy, manager ratings and past performance of a fund or strategy. Typically this usually creates a sea of confusion and overlooks the fundamental and practical principles which we believe give you the best chance of success with your savings.

While these are all the external factors which can impact on investments, one of the major factors which impacts on returns is our own behaviour. In the main, investors do not like volatility and are averse in the extreme to multiple periods of negative returns.

Reliable Guidance

Guiding investors through the inevitable ups and downs along the journey is part of our job as advisors. Having a disciplined investment strategy is key.

In essence there are 4 Key principles we need to adhere:

1) Identify Your Own Investment Goals

We need to define our goals clearly and be realistic about the ways to achieve them. For many investors, emotions tend to override investment decisions and that is why a sound investment plan is essential to protect us from making poor investment choices.

Financial Plan

Without a financial plan, you can be tempted to build a portfolio based on transitory factors which will impact on your long term returns.

Because most objectives and financial goals are long-term, the plan should be designed to endure through changing markets and personal circumstances. It should also be flexible enough to adjust for unexpected events that can arise along the way.

If you have multiple goals (for example, paying into a pension/retirement pot / saving for a child's education) you will be best served accounting for and planning for all scenarios as opposed to picking one over the other.

Once the plan is in place you should evaluate it at regular intervals but not so regularly that it becomes a chore or a concern.

Discouraging results often come from chasing unrealistic targets. An unsound and daunting strategy can un-nerve investors, who lack well-grounded plans to achieve their investment goals.

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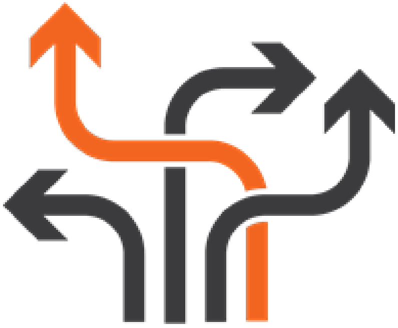

2) Diversification

Equities have done the best over the long-term for the simple reason that businesses, in aggregate, generate the best returns.

But investing exclusively in equities does not suit all clients. This is due to the volatility which may be involved. Varying economic states (recession, deflation and inflation) can impact on there values. The financial needs of a 30 year old, saving for retirement, are quite different to those of a 70 year old, who needs a regular "income flow" from their retirement pot.

A sensible investment strategy starts with an asset allocation suitable to your objectives. The allocation should be built upon realistic expectations for risk and the returns needed. A diversified portfolio will help avoid exposure to unnecessary risks. Risks which could cause you unnecessary stress and concern.

Both asset allocation and diversification are ultimately about balance and keeping things on an even keel. All investments which provide opportunity for growth involve risk. You really must manage the balance between risk and potential return through the sensible selection of assets.

A diversified portfolio's proportions of equities, property, bonds and alternative investment types can reduce the likelihood of ups and downs. If you have lots of equity you will likely have lots of volatility, simple! However, if you are investing for the long term you need some exposure to equities to get positive returns.

3) Costs – choose wisely

The lower your costs, the greater your share of an investment's return. When it comes to investing there is no reason to assume that you get more if you pay more.

4) Discipline

A disciplined approach over the long term will pay dividends. Investing can provoke strong emotions, particularly when markets fall. This can have a knock on emotional impact on an investor and may cause them to think irrationally. In the face of market turmoil and media speculation some investors may make ill-judged and short-term-focused decisions.

Discipline and perspective, through periods of market uncertainty, are the qualities that help investors remain committed to their long-term investment goals.