

In a nutshell



In a nutshell - Investment principles to live by

AGE AND EXPERIENCE.

The investor's age, investment horizon and market experience are of prime importance when making investment decisions. Time is a factor in almost every aspect of financial planning.

ACCOMMODATING CHANGE.

Investors must be prepared to make adjustments to accommodate changes in their lives as they age - and also changes in the world around them. Investors of all ages must be willing to change course in response to such new conditions as revised tax laws, changing markets or new investment options.

ACCUMULATION MODE.

Younger investors are in the best position to accumulate wealth simply by letting their investments build over time. Compound interest, time and regular additions to their investments are their greatest allies.

COMPOUND INTEREST.

Younger investors are well placed to take advantage of the power of compound interest. A useful rule for calculating how an investment grows through compound interest is the Rule of 72, which tells the investor how long it will take an investment to

double based on an assumed interest rate. The Rule of 72 can be used to help investors calculate a specific set of doubling periods over the long term.

RECOVERING FROM LOSSES.

Younger investors can afford to be more aggressive because they will have time to recover from losses. Or they can afford to invest conservatively because they have a longer investment horizon over which investments will grow in value. In contrast, the middle-aged investor who is intending to build a retirement nestegg has less time to recover from losses and so has less leeway to invest aggressively. Later on in the investment timeline, retirees who are past the accumulation stage can't afford to make mistakes because they are not in a position to start all over again building wealth from working income. They must practice caution in money matters.

PRUDENT INVESTING.

Exercising prudence in planning an investment portfolio and being frugal in devoting scarce resources to your investments are virtues for any investor. Prudence in selecting investments and discipline in following

an investment plan will pay dividends down the road.

SETTING GOALS.

On the topic of goals, it is important to realize that you have to know where you are going before you decide how to get there. In order to be in a position to make decisions on how money is going to be invested, for what period of time, and what return on investment is anticipated, investors must first decide on their goals for the future.

REASSESSING GOALS.

Investors should realize that changing times, including new government policies or national or economic realities, or new personal circumstances, may force them to reassess goals and re-evaluate the makeup of their portfolios. Good guidelines and goals that are personal to their situation permit investors and their financial advisor to make corrections and tailor future recommendations to fit their needs. The clearer the definition of your goals, the greater the chances of your investment success.

IDENTIFYING VALUES.

Before any evaluation of goals can be made, the investor should first identify the core values that inform their decisions. Goals may change over time, but values by definition tend to remain invariable.

FOUR TYPES OF RISK.

Smart investors should be prepared to identify and deal with not one but four identifiable types of risk: investment-quality risk, market risk, interest-rate risk and purchasing-power risk. Invested capital or lifestyles can be damaged from failing to protect against any of the four types of risk.

VOLATILITY DEFINED.

Volatility is the measurement that gauges the comparative riskiness of different investments - that is, given the same market conditions, how much an investment's value fluctuates. When analysts are assessing the volatility of a particular investment, it becomes an objective measurement, determined by measuring the size and frequency of swings in value in a particular period of time.

RISK/REWARD TRADEOFF.

It is generally accepted that the greater the potential reward offered by any investment, the riskier the investment tends to be. This is known as the risk/reward tradeoff.

RISK TOLERANCE.

Investors must learn to identify a personal trait within themselves called risk tolerance. How much risk are they comfortable with? If the investor cannot sleep at night worrying about his/her investments, then the portfolio has too much risk.

EARNING CAPACITY AND INSURANCE.

The most important asset most investors who are still in accumulation mode have is their ability to earn money. The wise investor will protect this earning capacity by using insurance, as an integral component of a portfolio.

LIQUIDITY REQUIREMENTS.

Investors must plan while keeping in mind their liquidity requirements – that is, ensuring they have cash or investments that are easily convertible into cash on hand for when they need it. Investors at different stages in their lives have different liquidity concerns, such as the need for a young person to have cash for a down payment on a home and an older investor to be able to have liquidity in case of a medical emergency.

DIVERSIFICATION PRINCIPLES.

A diversified portfolio is recommended in order to spread risk among different investments and increase the chances of picking winners and minimizing the impact of losers. Investors of different ages tend to have different mixes of products. Typically, younger players seek a high percentage of growth-related investments while older investors tend to switch from more aggressive investments into a diversified mix of more conservative vehicles, reflecting the need to preserve wealth rather than create it.

UNDERSTANDING THE PRODUCT.

In determining an appropriate investment mix, investors should understand the nature of the products in their portfolio as well as how those investments react to the market in general. For example, as interest rates go up, bond prices go down.

DOLLAR-COST AVERAGING.

Investors with a lump sum to invest are wise to plan with due consideration to the degree of market volatility. During a period of high volatility, investors who invest regular sums of money on a periodic basis, instead of one large lump sum at once, will have dollar-cost averaging working for them.

BUY-AND-HOLD.

When it comes to monitoring a portfolio, younger investors are in a good position to adopt a hands-off strategy and simply let their investments grow over time. This is called buy-and-hold. Older investors may need to more actively monitor their investment mix and performance of their investments because they have little time to recover from losses.

BENEFITING FROM DOWNTURNS.

Experienced investors understand that over the long term, the value of the stock market has always increased. A temporary drop means that there are

bargains available. Buying on market dips is a good way to increase returns over the long term and they also have a better idea of what has real value. A good financial plan should be able to withstand downturns in the market. If the plan has been prepared properly in the first place, it will remain a good plan during a strong as well as a weak market.

REVISING PORTFOLIOS.

Portfolios should be updated and re-balanced periodically over time. Wise investors may be able to profit from changing markets by buying products that are new, or show new potential. Investors should monitor how well their investments are doing in relation to overall market trends.

ESTATE PLANNING.

Estate planning introduces a whole new set of dynamics and considerations for an older investor. Preservation of capital, wise tax planning and appropriate succession strategies are among the targets of the estate planner. A comprehensive, well-designed estate plan can represent true piece of mind for the mature investor.