Your investment strategy – a guide to success

Financial Planning

That is the secret to creating wealth?

A million dollar question really.

Unfortunately, there is no magical solution that will help you to get rich quick.

Financial success and security is all about establishing your goals (a financial plan) and developing an investment strategy that will help you achieve them.

And, in today's constantly changing market, working with a financial planning professional to develop and regularly review your financial plan, and the underlying investment strategy that will help you achieve your goals, can be the difference between financial success and failure.

An important objective of the financial planning process is to ensure your financial growth and security over the long term.

To help achieve this, you should:

- identify your personal goals;
- assess your current financial position, and;
- determine your attitude to investment risk.

Once these have been determined, an appropriate investment strategy can be developed as a key component of your financial plan.

Another vital part of the financial planning process is to monitor the performance of your investment strategy against your objectives and changes to your personal situation, and make ongoing modifications which may be required to keep the plan on track.

With this in mind, every financial plan should be flexible enough to ensure alterations can be made as your needs and goals change over time.

Developing your investment strategy

Step one: Determining what type of investor you are

Your investor profile establishes:

- your need for income or growth from your investments;
- your preferred investment time frame, and;
- your attitude to investment risk.

Your individual profile will then influence the investment sectors such as shares or fixed interest into which your money is placed, and in what proportions.

Financial planners recognise that there are a number of different investor profiles, ranging from 'highly conservative' (wanting lower risk, with potentially lower return and a regular, stable income stream) to a 'growth' investor (accepting higher risk, with potentially higher return and who may prefer to focus on capital growth rather than income).

However, there are additional investor classifications that fall in between these profiles that generally reflect individuals' varying approaches to investment risk and return.

While every financial plan is unique and formulated to meet personal needs, most investors fit into one of the specific investor profiles.

After determining your investor profile and taking into account your personal circumstances, needs and objectives, your financial planner can now begin the preparation of your investment strategy as part of your financial plan.

Two critical aspects that need consideration when developing an investment strategy are asset allocation and diversification. These concepts are important as they will ultimately determine the performance and volatility (fluctuations in return) of your investments.

Step two: Asset allocation strategy – one of the keys to successful investing

After the identification of your investor profile, the asset allocation process is the single most important factor in determining whether you achieve your investment objectives.

Put simply, asset allocation is the distribution of your investment dollars among different asset classes such as international shares, property, Australian fixed interest.

The proportion of funds invested in each asset class for any investor will depend on several factors including your:

- desired returns;
- preferred investment time frame;
- long term income earning ability;
- tolerance to risk (ie. fluctuation in returns);
- need for cash flow from your investment portfolio; and
- general market conditions.

Step three: Diversifying your investments

Diversification means spreading your funds across various investment markets and/or fund managers to manage investment risk – that is, not 'putting all your eggs in the one basket'.

It works on the principle that different investment markets (such as shares, property, fixed interest and cash) perform well at different times.

In fact, over the 10 year period between 1993 and 2003, most generally accepted investment classes (or sectors) have been a top performer in at least one year.*

Therefore, your portfolio should be constructed using an appropriate mix of funds with exposure to investments across all or most sectors. This approach helps to manage the highs and lows of economic and investment cycles by balancing the returns of lower performing markets with the returns of higher performing markets.

It is also important that your investment portfolio is diversified within as well as across investment sectors. For example: investing your money in Telstra and Commonwealth Bank of Australia alone wouldn't be considered a diversified share portfolio. You would need to spread your money across several other companies outside the telecommunications and finance sectors to truly diversify your portfolio.

This is also true for investments in other sectors, such as property and fixed interest.

Step four: Placement of your investments and ongoing review of your portfolio

After you accept the recommended investment strategy presented by your financial adviser, they will arrange the placement of investments as suggested in your investment strategy or financial plan.

To ensure the initial strategy continues to meet your objectives in keeping with your changing personal circumstances, you should meet with your financial planner at least once a year to review it.

The Importance of Professional Advice

The processes involved in developing your investment strategy as part of your overall financial plan is a complex and strategic process. It's therefore important to get professional advice from a qualified financial planner before making any investment decisions that may affect your financial security.

* Datastream, 2003

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This brochure provides general information only. You need to consider, with your financial planner, your investment objectives, financial situation and particular needs prior to making an investment decision.

Your financial planner:

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