

Understanding the investment process

Successful investing is never haphazard. An orderly, disciplined approach is necessary for successful management of your investment assets. It's a step-by-step process, starting with the assessment of your goals and needs.

Information gathering and analysis

The important first step is to take a thorough personal financial inventory of your investment assets: Then you need to look beyond your investment portfolio to your retirement plan interests, real estate, life insurance and annuities. By looking at what you currently hold, you will be able to determine better the direction that your investing should take.

The next step is to define your goals and needs. This process involves asking yourself a series of questions. To begin, what are the short- and long-term financial objectives that your investment portfolio needs to meet? Capital to improve or expand your practice? For college education for the children? Building a solid financial foundation for your retirement years?

What is the time horizon associated with your objectives? If, for example, you have a need for cash in the near term, your portfolio should include sufficient liquid and low-risk (and low-return) investments. If, like many investors, you are investing for the long term, you may want to lean more heavily on a variety of equities—investments that, in the short term, may seem somewhat volatile but over the long term may offer a better return.

There are other questions to ask. What circumstances make you very different from other investors? Do these circumstance affect how much current income you need from your portfolio? What portion of that income, if any, should come from tax-exempt investments?

The risk factor

Once your goals are established, there's a wide range of investment opportunities from which you may choose. The next step you must take is to determine whether a particular investment is right or wrong for you. Several factors will come into play, one of the most important of which is the risk associated with that investment.

Are you the kind of investor who is at ease with upswings and downswings in the market? Or are you the kind of investor who is apt to spend nights worrying when the market

makes a sudden downturn? In other words, you must determine your investment “comfort level.”

Next step: structuring your portfolio

Each asset class—stocks, bonds, cash equivalents—has its own expected rate of return and its own risk characteristics. You must develop the appropriate investment mix of assets that satisfies your tolerance for risk, is in harmony with your objectives and needs, and fits your time horizon, income needs and tax picture. This balancing process includes an analysis and measurement of the risk and returns of different classes of investments that you might chose, as well as a projection of the potential interactions of risk among those classes. This analysis is critical to structuring your portfolio effectively.

This process will help you develop a diversified portfolio by mixing different asset classes in varying proportions. The process is dynamic one. Adhering to the asset classes is especially important. You need to make certain, for instance, that when your strategy calls for an investment in an equity fund, that the fund is fully invested in equities. Or, that when an allocation calls for a five-to-seven-year bond fund, the fund continues to provide that maturity range.

Further, you must keep a vigilant eye on your portfolio, ascertaining that the rates of return, relative to the investment mix, fall within the range that you have established. Continuing research for new investment opportunities also plays an important part in the monitoring process. What’s more, a review and rebalancing of your portfolio may be called for when personal circumstances (such as marriage, loss of a spouse or retirement) dictate.

Consider this next step

The process just described may appear somewhat daunting. However, the rewards are commensurate with the task. You may wish to seek assistance. We recommend that you avoid a “cookie cutter” approach to your investment planning. All investors are unique. Models based upon generalities or created for investors with so-called “similar characteristics” are a shortcut, but one that may turn out not to be the best path for you.

We offer an investment planning service specifically customized to each of our clients’ needs. If you would like to know more about this service, please feel free to contact us at any time.

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Any developments occurring after January 1, 2014, are not reflected in this article.