

Thinking about Investing~ Here's what you should know

~Part 3~



Previously we have introduced the topic of Investing and we advised you that deciding on an investment strategy involves 3 steps.

Step 1: Establishing your investment goals

(What you need from your investment portfolio and when you need it?);

Step 2: Determining your risk tolerance

The next step is to determine your tolerance for risk. The general rule of thumb is **the higher your expected return the higher the risk**. In other words, if you want higher returns, you must be prepared to take greater risks.

Your risk tolerance can be affected by:

Time – the amount of time you have to achieve your financial goals. People who are younger may be more willing to endure periodic fluctuations with respect to the value of their returns since they may be of the view that they have lots of time to recover from losses. As persons get older however their tolerance for risk usually gets lower and they prefer to have steady growth.

Cash requirements – the urgency of cash returns from the investment may determine how much the person is willing to lose. People who rely on the returns generated from their investments to meet day-to-day expenses will be much less comfortable with the risk of losses.

Emotional factors – your emotional response to changes in the value of your investment is a fundamental measure of your risk tolerance. Will you lose sleep if your investment declines tomorrow?

Step 3: Establishing your intended portfolio mix

The final step in establishing your investment strategy is deciding on the mix of investment products (assets) that you will seek to purchase.

In deciding on your mix of assets (portfolio mix) you must consider steps 1 and 2. More fundamentally you must consider your expected returns, risks and the timing of these returns.

To summarize, in order to establish your personal investment strategy, you should carefully consider:

- Your knowledge about the financial markets and investment products;
- Your financial portfolio, risk tolerance, available funds for investment and;
- What you intend to accomplish through investing.

Did you know that we do outreach sessions? Get more information on our Investor Education programme by contacting the Communications Unit at 624-2991 Ext.1275 or 1259.