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INSIDE BUSINESS

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It's Time to Establish Goals and Put Your Financial Household in Order

It doesn't matter if you are a beginner or have been investing for many years; it's never too early or too late to develop a disciplined approach to investing. Having a set personal strategy and being able to objectively evaluate your investments is critical to accumulating enough assets to educate your children or meet your retirement goals.

Don't Go It Alone

While you do need to have a set strategy, need to realize when it's time to change your strategy, need to objectively evaluate your investments, need to understand how to compare you investments to an appropriate benchmark. But you do not have to do everything by yourself.

Find an advisor to help you plot a course for reaching your financial goals, guide you through the maze of investments that are offered and help you stay the course. There are several key components that need to be present in a successful investor/advisor relationship. Finding an advisor with whom you feel comfortable is the most obvious one.

Objectivity from your advisor is essential. Be certain that you understand how the advisor is compensated. Find out if the advisor is compensated by commissions, by fee for service, or both. Inquire if their office or company ever sponsors sales contests or incentives that would reward the advisor for promoting one product over another. Ask if their company receives payments from the investment companies which they recommend. Find out if you would qualify for discounted fees by consolidating all of your assets.

Integrity matters. Learn about the advisor's experience and expertise. Ask how long he/she has been in business. Find out the investment philosophy – you should seek an advisor with a mindset similar to yours. Awkward as you may feel, ask if the advisor have ever been disciplined by the SEC, a state regulator or any other governing body. Finally, see how readily the advisor is willing to provide you with references.

Trust is a vital component in the relationship with your advisor. Investing time in selecting the right advisor is very important, but an overlooked step in the process of investing your money. With the exception of the caregivers for your children or your doctors, a financial advisor may be the most important person you hire.

Understand Your Investments

Just as it is important to have a high level of comfort with your advisor, it is equally important to understand the investments used to reach your financial goals. While you do not need (and most likely do not want) to know the intricacies of a P/E Ratio, Beta or R^2, you need to have an overall understanding of your portfolio. You should be familiar with your investment policy, how it is used to create your asset allocation and what type of factors would cause changes to either your policy or allocation.

Only use investments that you understand. Find out if the investment matches your goals, risk tolerance and time horizon. Know if it makes money through dividends, interest or capital gains. Understand if it would be better suited for a taxable or a tax deferred account. Ask how quickly and readily the investment can be turned into cash and what the tax ramifications will be when it is sold.

In short, while you need to utilize a professional to lead you through the labyrinth of options available and make the complex issues understandable, it is ultimately your money and you need to be a sufficiently active participant in the process to understand your investments and the role they play in your investment strategy.

Ongoing Monitoring

Gaining a comfort with the advisor with whom you are working and understanding the investments that you are using are only the first few steps in the investment marathon. You will need a focused process for monitoring and reevaluating your program on a regular basis. You should review your situation no more than quarterly, but no less than annually. Work with your advisor to set up a systematic timeframe and methodology to review your plan. Good advisors understand that a well informed client is a happy client and will encourage regular communication of your progress.

Make certain that you understand the statements that are provided to you (most likely on a quarterly basis). If you do not understand them make sure that your advisor explains them to you and teaches you how to read them. Inquire if the statements can be produced in a different format if they are confusing or do not provide the information that is important to you.

Discipline yourself to compare your investments against pre-determined benchmarks to determine if your investments are meeting your goals on a risk-adjusted basis. If your goals have changed or the investment has changed, the investment may no longer be suitable. Once you and your advisor have selected a benchmark, do not allow it to be changed without good reason. It will be impossible to accurately judge progress if the benchmark is constantly changing.

Have a predetermined goal for your investments when you acquire them and then have the discipline to sell an investment once the goal has been achieved. A common downfall to an investment strategy is the lack of a sell discipline. A sell discipline is a vital part of an orderly and objective investment process. There will always be a reason to keep an investment – the discomfort of selling at a loss or the fear of missing the last positive surge are common excuses used to keep an investment that is no longer appropriate.

Take Control

Regardless of your stage in life or the size of your investment portfolio, success rarely happens by accident. The most successful investors may not be the most financially savvy individuals, but they almost always have a disciplined strategy that they follow and surround themselves with trusted advisors that help them reach their goals.

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