

Value for Money Investing by Gordon Stockman, CA, CFP An Investment Strategy



What a month January was! The stock markets could not seem to decide on a direction. The central banks around the world could not seem to reach a consensus. The bond market in the United States of America was still screaming "Recession". Some analysts were screaming – "BUY, only the brave will win!" Others are predicting a complete meltdown with Gold being the only safe haven. In previous articles I talked about fear and greed. Fear is in the house now. What is one to do? Well NOTHING...IF asset allocation was central to your investment strategy.

Yes, your investment strategy. That document, that outlines your investment philosophy, defines your investment management approach and sets out your long-term goals. The reason for developing a long-term investment strategy and capturing it in writing is to protect your portfolio from ad hoc revisions to sound long-term strategy. A written report will help you maintain a long-term focus when short-term market movements like this June's may be distressing.

The development of an Investment Strategy follows the basic approach underlying financial planning: assessing your financial condition, setting goals, developing a strategy to meet the goals, implementing the agreed upon strategy, regularly reviewing the results and adjusting the strategy as circumstances dictate. The Investment Strategy will also establish reasonable expectations, objectives, and guidelines for the investment of your portfolio; and, create the framework for a well diversified asset mix that, based on broad historical market performance, can be expected to generate reasonable long-term returns at a level of risk suitable to you.

The ability to minimize risk to your investment portfolio is the prime driver of asset allocation. Asset allocation refers to the division of your investment assets among equities, cash, and fixed-income instruments. This division works to help you achieve consistent annual performance and preservation of capital. Your portfolio should be tailored to your investment objectives, risk tolerance and time horizon. Within the asset allocation, careful diversification is achieved by spreading your investments among different investment styles, global markets and countries. This process of strategically investing in a mix of asset classes is the key to minimizing volatility and maximizing returns. This ensures that a change in asset mix occurs only when there is a change in your investment objectives – changes are not based upon predicting market conditions. This ensures that market timing or chasing past year's best returns does not occur.

Many newspaper articles this month talked about how a market correction can be painful to many people about to retire, who will now have to continue working a little longer. But why? Establishing a long-term financial game plan takes into account current or near term cash flow requirements, short-term goals and longer-term plans. Among the important questions to consider are: what is your investment time horizon: time horizon is a critical factor that must be assessed since it will directly influence the portfolio construction that is best suited to your financial goals. What are your contribution and withdrawal requirements: understanding your ability to save or your need to withdraw funds is an essential part of any strategy. A good investment strategy will plan for the cash necessary to make withdrawals regardless of market conditions.

Then there is your personal tolerance for risk: As you explore investment options, it is important you assess your comfort level with day-to-day volatility in the capital markets. If you are extremely troubled by the current volatility of the markets maybe you have your risk tolerance wrong. Many investors over-estimate theirs.

So, again, what is one to do? NOTHING... because the time horizons are set, the risk tolerance is correct, the asset allocation is defined and the diversification is in place.

SLEEP TIGHT!

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\$250,000	\$967,000	\$1,165,000	\$198,000
\$700,000	\$2,700,000	\$3,262,000	\$562,000

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Gordon is the Vice President – Financial Planning at Efficient Wealth Management Inc. a leader in cost efficient financial planning. He teaches at George Brown College in their Financial Services and Accounting area. He is also a frequent guest on television and has written numerous articles on investing and financial planning.