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A Few Things To Consider Before Making Investment Decisions

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Like any major decision, investing requires careful, prudent planning. If you want to enjoy investing and look forward to a healthy well planned financial future, here are a few things to do to get your journey started.

1. NOTE YOUR FINANCIAL OBJECTIVES AND GOALS

Take an honest look at your financial situation, especially if you have never made a financial plan before. What is your risk tolerance? What is your risk capacity? Are you looking for growth or preservation? How much can you afford to part ways with without squeezing your budget? Make sure these questions are answered before you start your investment journey.

The truth is, there is no guarantee that you will make any returns from investing. However, if you plan carefully and research financial markets (with the help of a qualified professional), you could enjoy significant gains or at least preserve your capital for future endeavors.

2. CLEAR OFF ANY HIGH INTEREST DEBTS

Let's be honest, the best financial decision you can make is to pay off your debts. If you have any outstanding credit card debt, start there. The interest charged on credit card debt is much higher than most financial market investments (if not all) will pay you. So if you are servicing credit card debt, effectively you are making a net loss by investing until your credit card is fully paid out.

3. EVALUATE YOUR RISK CAPACITY

We have all heard the notion, the higher the risk the higher the return. So because we all want high returns we should be taking on high risk. Do not be fooled into making this costly mistake.

As much as we all want high returns, not many of us have the risk tolerance, or even the capacity for high risk investments. Hence, we take on lower risk investments lest we lose everything we own. You need to do a careful assessment of your risk appetite and contrast it to your ability to take on the risk. Your risk capacity is usually more limiting than your risk tolerance.

4. CREATE AN EMERGENCY FUND

Ideally, when we talk about investments we are referring to the medium to long term kind. So when we tie up our cash in an investment, we are effectively saying that for the medium to long term we do not need the money or foresee situations in which we will need the money.

However, life happens. A sick grandma who is not on medical aid, a leaking roof, a malfunctioning gate motor, etc. So much can happen to disrupt our financial plans. Plan adequately for the unforeseen. Have an emergency fund that is equal to about 6 times your salary stowed away for emergency situations that require your financial participation.

5. MAKE SURE TO TAKE FREE MONEY FROM YOUR EMPLOYER

Some employers will match your pension contribution or offer you a certain percentage of what you contribute. Some will sell you ordinary shares in the company at a discount. Take advantage of such. As long as the investment is sound, put more money in these investments than others where you pay fair value. It is pretty much like taking free money from your employer.

6. TAKE ADVANTAGE OF DOLLAR COST AVERAGING.

The most experienced stock pickers cannot predict accurately each time what the value of a stock is going to be in the foreseeable future. The truth is, as an average or novice investor, you are even less likely to do this. Protect yourself against picking stocks (or other investments) at the wrong time by purchasing small amounts regularly throughout a certain time period. In other words, make a pattern of adding new money to your investment over time. That is dollar cost averaging.

7. MIX UP DIFFERENT ASSET CLASSES

We can never stress the importance of diversification enough when it comes to financial asset investment. Do this, pick stocks that behave differently in different seasons or market trends. For example, pharmaceutical based stocks will most likely peak in winter while stocks based on nondiscretionary consumables (goods you do not actually need, like Sun- Tan or Sunglasses) would peak in summer.

When you have a portfolio of assets that behave differently, you do not have to worry too much about market conditions. A good unit trust will have this diversification of asset classes and industries from the onset, thereby meaning you do not have to worry too much about this aspect of your portfolio.