



Ten Things You Must Know About Investing

1. There is at least a presumptive tradeoff between risk and return. It is direct and positive. Return is the necessary inducement to take financial risk. Alternatively, risk is the “price” to be paid for return on investments. The first and primary rule in investing is take no more risk than absolutely necessary to realize the return you require and always get the return to which you are entitled for the risk taken. Simply put, “Don’t leave anything on the table.” Now the tradeoff between risk and return is pervasive but sometimes avoidable. Exceptions, usually based on misperceptions of risk, do exist and should be seized upon if and when they occur. More often, however, you “get what you pay for” in investing.
2. There are really only two ways to invest. You can lend your money to a borrower or commit it to some business enterprise. You are compensated according to whether you are a creditor or an owner. Common sense would suggest and history confirms that returns to ownership far exceed those to lending over extended periods of time. Stocks beat bonds over the long term.
3. Large decisions outweigh small ones. Whether you go to college or not is far more crucial than which school you actually attend. In investing, asset allocation has a far greater impact on results than individual security selection.
4. Of all the circumstances that can be reasonably anticipated and controlled in investing, time is by far the most important. Money grows at an exponential rate, so that a sound investment undertaken sooner is always more rewarding than one undertaken later. Invest as early as you can. Also you must recognize how money changes over time. The process is fundamental and inherent in nature, but is mathematically complex to represent and hardly ever intuitive. At the very least, you must be able to use an inexpensive five function financial calculator. Without it you are easy prey in the investment world.
5. Diversification is essential to protecting your basket of investments and controlling their growth. While concentrating your investments may make you rich, remember that your most valuable investment is in yourself and you are only one, it is primarily through diversification that you preserve what you have made. Keep in mind that diversification can be achieved over time as well as over different investments.
6. Unlike most of life’s other attainments, investment results can, and must be, measured. Accuracy, and most important, relevance are critical. The knowledge required to determine future investment results is best gained through an understanding of what has already happened and why.
7. If, indeed, “Life is what happens to you while you are making other plans.” you cannot afford for your investment results to be accidental. Understanding your present financial circumstances and carefully planning for future requirements is the essential first step in any investment program.
8. Most investments that you will encounter are packaged consumer products much like any other. Careful shopping and attention to costs is as important in investing as it is anywhere else. Remember, the only returns that matter are those that you get to keep.

9. Don't forget taxes. Take advantage of any opportunity to avoid or postpone taxes on investments. Also recognize the flexibility afforded by arrangements that allow you to change investments without immediate tax consequences. A caveat. Many "tax advantaged" investments often come with high associated costs that can swamp the tax benefits.

10. Unless you have the time, knowledge and inclination to do all the work yourself, get help with your investments. But be sure you know exactly what and how you are paying for the assistance you receive, and have some way to continually measure its value.



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