Investing

Understanding the Basics

The market's growth in recent years has certainly provided a boost to the portfolios of many investors. However, during these unprecedented economic times, it is possible that some individuals may have become a bit complacent regarding their own investment objectives. As a result, the composition of some portfolios may not accurately reflect the investment philosophy of some investors. For this reason, *now* may be as good a time as any for the prudent investor to review some basic investment principles.

It all starts with diversification. Most investors think of diversification as holding a broad range of investments in order to reduce risk. Certainly, this is true—but it is only *part* of the story. Aside from the factors that generally affect risk, the size of the portfolio and the investor's federal income tax bracket also play an important role in determining the types of products and services that may be most suitable for an individual investor.

The real story about market "timing." Seasoned investors are quick to point out that *successful* investing requires discipline and a diligent adherence to personal objectives. Believing that you can predict the markets highs and its lows on a consistent basis is playing with fire. Many knowledgeable investors have tried to develop market timing systems, however, the markets are so complex and include so many variables that it is virtually impossible to consistently be successful timing markets over long periods of time.

Be in it for the long haul. If history has proved anything, it is that short-term volatility is a reality that occurs on a continual basis. By the same token, most investors do not have the resources to accurately identify short-term market fluctuations. Thus, an investment strategy that focuses its attention on long-term market trends may help investors better position themselves to ride out periods of market volatility. Keep in mind that prudent investors never allow historical performance data to skew their objectivity about a particular investment or how that investment may or may not fit into their portfolios.

Understand risk tolerance. One of the keys to long-term portfolio success is for investors to accurately assess and understand their tolerance for risk. Generally speaking, risk tolerance refers to how an individual emotionally feels about subjecting his or her hard-earned assets to varying degrees of market risk in search of higher returns. Accurately determining risk tolerance is often easier said than done. This is especially true during times of economic prosperity, when investors may be lured toward higher returns, only to subject their investment assets to more risk than they would under more typical market conditions.

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Putting the Pieces Together

It is difficult to gauge the success of a portfolio without first gaining a solid understanding of personal goals and objectives. In this respect, portfolio returns generally are relative in the sense that what may be adequate for one investor may not be for another. Every investor has his or her own set of circumstances that must be intricately pieced together in an attempt to identify a personalized investment strategy. It’s important to ensure your portfolio is assembled in such a way that it accurately represents your goals, objectives, and investment personality.

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