Five golden rules of investment

You don't need luck or a hot tip to have a successful investment plan. Just follow some simple, time tested guidelines from Bridges, our finanacial planning partner, to achieve the best results.

Recent research has shown that Australia has an insatiable hunger for gambling that puts us first in the world in terms of losses per head of population. This desire for a quick win can sometimes carry over into our attitudes on investment. Some of us tend to look at investing as being all about finding a 'fast track to instant riches', such as a hot tip for the next big share market bolter or where to buy investment property. Others will be fixated on seeking clever ways to take advantage of the tax system to make it big.

Fortunately, the real 'secrets to success' in investment are much simpler. Here we identify five basic principles that anyone can apply to achieve great results, even if you are starting with limited resources.

1. Get time on your side

The biggest enemy to successful investing is procrastination. It robs you of the powerful benefits of compounding returns. Starting as soon as you can and re-investing your gains can have a major impact over time, even with humble resources.

2. Don't be fooled into thinking that timing is everything

It is easy to gain an impression that those who are successful in investing were just lucky that they 'got in at the right time'. We sometimes see in the media or hear about someone who has made quick gains just by getting in on the ground floor of an opportunity or catching the benefits of a market surge, but these isolated examples are the exception rather than the rule.

An alternative approach is to employ the principle known as 'dollar cost averaging'. It may sound technical, but it is really just a fancy way of saying that making regular deposits into your investment plan will on average reap better results than trying to wait for the perfect time to make one big investment splurge.

Growth markets, such as shares and property, will always have fluctuations and no one has a crystal ball on what will happen next. That means trying to time your investment with the 'bottom of the market' is fraught with danger. It is far more effective to drip feed over an extended period. While this means you will sometimes be investing at market peaks, it also means you will never miss out on getting in on the troughs. It is the 'averaging' effect of this approach that makes it so powerful.

3. Don't put all your eggs in one basket

Forget about trying to pick winners. Now and again there may be the odd share market star performer that will suddenly have spectacular returns and occasionally we may hear of someone who has made a quick profit on an investment property, but if trying to pick winners becomes the focus of your investment strategy the chances are you will end up disappointed.

All investment markets will go through good and bad periods, so a far more logical approach is to understand your tolerance to risk and diversify across several asset classes and fund styles with the objective of gaining stronger long term results and limiting the impact of downturns. Diversification is a great way to manage investment risk and seek better returns because you are not exposed to the unpredictability of any one market or asset type.

4. Be specific on your objectives and timeframe

It is very difficult to choose the best investments to make if you do not have a clear picture of what your goal is and what time frame you want to reach it in. For example, if one of your short term investment goals is to take an overseas trip, it would be foolhardy to make shares the primary investment asset to achieve that goal. The time frame simply makes it too risky, as the value of shares can vary wildly over such a short period.

On the other hand, if one of your goals is to save for an early retirement in 20 years' time, then you would (generally speaking) be significantly limiting your prospects if you only invested in term deposits. This is because growth markets, like property and shares, have historically performed well when measured over an extended period and any short term volatility from time to time will be outweighed by the overall trend over the long term.

The key is to match your asset class to your time horizon, so it is vital to spend time working out what your lifestyle goals are before setting your investment strategy.

5. Use the wisdom of experts

It can be a daunting task to enter the investment world on your own and to gain a full understanding of the risks and opportunities involved. The good news is that you don't have to. A professional financial planner can provide access to vast experience, research and planning tools that can apply these golden rules to your needs. They can show you a proven process for clarifying your goals and then building a dynamic portfolio that will employ the principles described here to help you achieve investment success.

Take the next step
To discuss your financial situation, make an appointment with a Bridges financial planner.

We have an established alliance with Bridges, to provide our customers with financial advice. Bridges has been helping Australians with financial advice for 30 years.

A Bridges financial planner will develop a plan specifically for you; one that's tailored to your needs and circumstances to help you achieve your goals.

To make an appointment with a Bridges financial planner, call 1300 665 553 or email us at info@wecu.com.au. The initial consultation is complimentary and obligation free.