



# EVANS EDWARDS

FINANCIAL ADVISORS | WEALTH CREATORS



## Nine Keys to Successful Investing

### INTRODUCTION

As an investor it's very easy to get thrown off by the ever-present worry list surrounding investment markets that relates to economic activity, profits, interest rates, politics, and so on.

This has been magnified by a digital media where everyone is vying for attention and the best way to get this attention is via headlines of impending crisis. This all adds to uncertainty and potentially erratic investment decisions. Against this backdrop, there are some key things for investors to keep in mind in order to be successful.

### MAKE THE MOST OF THE POWER OF COMPOUND INTEREST

The best way to build wealth is to take advantage of the power of compound interest and have a decent exposure to growth assets. Of course, the price for higher returns is higher volatility but the impact of compounding higher returns from growth assets is huge over long periods.

### DON'T GET THROWN OFF BY THE CYCLE

Investment markets constantly go through cyclical phases of good times and bad. Some are short and sharp, some can spread over many years. The trouble is that cycles can throw investors off a well-thought-out investment strategy that aims to take advantage of longer-term returns. But they also create opportunities.

### INVEST FOR THE LONG TERM

Looking back, it always looks obvious as to why things happened. Looking forward no-one has a perfect crystal ball. Usually the grander the forecast the greater the need for scepticism as such calls invariably get the timing wrong or are dead wrong.

This has been evident throughout the coronavirus pandemic with all sorts of forecasts as to what it would mean, most of which provided little help in actually getting the market low back in March let alone the rebound. For most investors it's best to get a long-term plan that suits your level of wealth, age, tolerance or volatility, etc, and stick to it.

## DIVERSIFY

Don't put all your eggs in one basket. Having a well-diversified portfolio will provide a much smoother ride. For example, global and Australian shares provide similar returns over the very long term but in the March quarter this year global shares in Australian dollars fell less than half as much as Australian shares.

## TURN DOWN THE NOISE

After having worked out a strategy that's right for you, it's important to turn down the noise on the information flow and prognosticating babble and stay focussed.

The trouble is that the digital world we live in is seeing an explosion in information and opinions about economies and investments. But much of this information and opinion is of poor quality. Don't waste too much time on individual shares or funds as it's your high-level asset allocation that will mainly drive the return and volatility you will get.

## BUY LOW, SELL HIGH

The cheaper you buy an asset (or the higher its yield), the higher its prospective return will likely be and vice versa, all other things being equal of course. So as far as possible, it makes sense to buy when markets are down and sell when they are up. Unfortunately, many do the opposite; buying after a big rally and selling after a collapse which just has the effect of destroying wealth.

## BEWARE THE CROWD AT EXTREMES

It often feels safe to be in a crowd and at times the investment crowd can be right. However, at extremes the crowd is invariably wrong – whether it's at market highs like in the late 1990s tech boom or market lows like in March.

## FOCUS ON INVESTMENTS WITH SUSTAINABLE CASH FLOW

If an investment looks too good to be true it probably is. By contrast, assets that generate sustainable cash flows (profits, rents, interest) and don't rely on excessive gearing or financial engineering are more likely to deliver.

Source: AMP Capital

If you need a hand with your investment strategy, give Shaun or Vicky a call at Evans Edwards Financial Advisors | Wealth Creators on **4927 4588** or **4939 1766** so see how they can help.



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