Stay focused on your investment plan

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Investing can be extremely confusing. Investors are constantly exposed to a mass of conflicting information — some of it may be important, but most seems like noise. It isn't surprising that many people just throw up their hands and decide not to be involved, after all, how can one make sense of so many varying views on the market?

One of the most important roles of an investment adviser is to help clients stay focused on achieving their goals. There are many loud voices hovering around us — from the bellowing of Jim Cramer on CNBC's *Mad Money* to the more-muted sounds of our inner demons that may have had bad investment experiences in the past and everything in between — the views of the mainstream media and advice from friends and relatives, not to mention the various theories we learn in school. Once investors understand how to filter out information that is not relevant to their plan or strategy, they will be less vulnerable to the diverse opinions in the marketplace.

Life as an investor runs much more smoothly when you gain a clear understanding of three technical terms:

1. Strategic asset mix
This is determined from a thorough discussion about the items in an investment policy statement: Return requirements; risk tolerance; time horizon; liquidity needs; etc... This will result in a long-term decision about a range of percentages in each asset class, for example, 0-20% cash equivalents, 20-40% fixed income securities 40% fixed income securities and 40-60% equities.

2. Capital market conditions
This is your overall view on the economy and world markets.

3. Tactical asset allocation
This is where the first two come together. Depending on your perspective regarding capital market conditions, you will decide whether to be more or less invested in the range for each of the asset classes.

Advisers need to be clear with investors about how they have factored the market environment into their investment plan. Advisers should assure investors that they have a well-thought-out strategic asset mix (based on their own input, personality and situation) and that there is an associated tactical asset allocation decision (based on a well-researched perspective on capital market conditions). If this is understood, there is far less likelihood that people will become concerned about conflicting views.

Sometimes even the most level-headed investors can get caught up in a hot stock or a story that is compelling

Life as an investor goes much more smoothly when you work with an adviser who helps you create a plan to suit your goals and helps you stick to it. FOTOLIA

enough to have them question their own judgment.

When I invariably encounter this type of noise, I go back to the original investment policy statement to remind investors of what we are trying to accomplish and how we worked together to decide on an approach that is most suitable for achieving their objectives. How will this new exciting "tip" fit into the overall picture? Does it actually change anything?

Investing isn't about being right on a day-to-day basis, it is about having a well-defined plan that will work over time. — Barbara Stewart, CFA, is with Cumberland Private Wealth Management Inc. Visit her website at barbarastewart.ca