Production halted in South Africa

South Africa's auto manufacturing industry came to a near standstill on Monday when about 30,000 workers downed tools, adding to the labour woes of the continent's largest economy which has been hit by violent unrest at its mines.

Too often, having no investment plan is the fallback position. Investors without plans tend to be more vulnerable, which could end up being costly. FOTOLIA

Forward thinking

Any investment plan is better than no plan

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Special to QMI Agency

I commissioned an Angus Reid survey a couple of years ago and only 15% of Canadian women said they had an investment plan in place. It seems it is one of those things that we think we "should" do, but we never get around to it.

What comes to mind when we think of an investment plan? I have seen some pretty extensive ones that cost in the neighbourhood of $5, 000 to 10,000. They contain many colourful graphs and pages of detailed assumptions used for inputs such as inflation rate, spending rate, etc. Some of the best plans included a Monte Carlo simulation, a computer- generated analysis of a range of investment return possibilities based on a sample of more than 2,000 possible market outcomes.

Ready to get started putting this together on a Sunday afternoon? It is easy to see why no plan is too often the fallback position.

But what happens if you don't have an investment plan? I have observed that investors without plans tend to be more vulnerable — either to various scams or to their own emotions. They end up trading more frequently based on gut feel because they don't have a solid investment rationale for their decisions. This behaviour gets costly and it certainly isn't a great way to feel secure about your future.

How about committing to a one-page document that summarizes your personal investment objectives? Here are the key components to a focused investment policy:

Return requirements — What is your objective for an annual average rate of return? Do you have to take money out of your portfolio for living expenses? If so, how much?

Risk tolerance — How would you describe your ability to take investment risks? How have you reacted in the past to market volatility?

Time horizon — Do you have more than 10 years to invest? Are there any events in the future that will force you to change your investment strategy?

Tax considerations — Is your portfolio made up of any registered funds (for example, RSP or RIF)? Do you have any significant embedded capital gains in any of your holdings?

Liquidity needs — Will you need to take out a lump-sum amount of cash in the next year or so? Maybe to buy a car or do some home renovations?

Legal implications — Are there any restrictions on how your funds can be invested? Is your account related to a trust or an estate?

Unique preferences — Would you prefer to avoid particular investment sectors for environmental or any other reasons?

Answering these questions at even a very basic level will provide a solid starting point for an investment plan. From there, you will be in a position to determine which assets to put in your investment portfolio and why.

Whether you are investing for yourself or using an adviser, your one-page policy will help you to focus on making investments that fit your personal objectives.

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