Top 10 Investing Tips

Satish Rai, Chief Investment Officer, TD Asset Management Inc. (TDAM) provides his top 10 tips to becoming a better investor

Wealth is not created overnight. It is usually created over time with effort and knowledge. When investors make an effort and set out to look for the best way to grow their wealth, they often find the overwhelming amount of available information somewhat daunting. However, Satish Rai's top 10 investing tips should help investors make critical investment decisions.

Playing an integral role in all of TDAM's active equity and fixed-income capabilities, Satish Rai and his portfolio management team employ a disciplined and methodical approach to investing. This focus recently earned TDAM's Fixed Income team the *Morningstar*® Fixed Income Fund Manager of the Year Award and top honours for several TD Mutual Funds at the 16th annual Canadian Investment Awards Gala.

Satish Rai's top 10 tips cover basic principles of planning to more advanced concepts of investing on margin, each encompassing key factors that should stand the test of time when developing your investment savvy: discipline, focus on quality, and patience. Here are his tips to help you grow your wealth over time.

Tip #1: Have a long-term view

Block out short-term noise and focus on the long-term investment goals. Market volatility is a part of investing and often emphasized by the general focus on short-term events. The good news is that you can reduce the stress of short-term investment fluctuations by maintaining a long-term investment horizon, preferably greater than 5 years. By focusing on long-term goals, you can reduce the impulse to make emotional decisions, gain piece of mind, and instill confidence in yourself and your investment strategy.

Tip #2: Diversify

To help reduce risk, your portfolio should be exposed to a variety of asset classes, industries and geographical locations to name a few. Since the Canadian equity market is heavily concentrated in energy, materials, and financial sectors, investing outside of Canada could provide some geographic diversification as well as provide exposure to industries that may not be readily available in Canada. Wherever you decide to invest, make sure to consider the highest-quality investments available.

Tip #3: Focus on quality

Quality endures. That's why investment success largely depends on holding quality investments in a well-diversified portfolio. Whether dealing with equity or fixed income assets, quality and attractive valuation can be closely linked. When seeking investments that are attractively valued, you should consider not only the price, but the overall attractiveness and quality of the investment. Generally speaking, you should look for solid, well-managed companies with a competitive advantage, a history of growth and a long track record of dividend payouts.

The lessons of the past have demonstrated that poor quality investments have a tendency to haunt portfolio returns as the risks associated with speculative securities are frequently underestimated.

Tip #4: Err on the side of caution

It is surprisingly common for people to load up on risky, speculative assets when markets are up, only to panic and sell them when they're down. This classic example of buying high and selling low is primarily driven by angst during market swings. Be aware of the amount of risk in your portfolio because you may only realize your true comfort zone when market performance falls. Avoid the pitfall of taking on too much risk by diversifying with various quality assets in order to find a comfortable risk profile. Taking a balanced approach should help you steer clear of having to make emotional decisions that are not on par with your long-term plan.

Tip #5: Avoid overconfidence

Confidence in your investment plan is critical. However, previous market timing profits and sheer luck can result in overconfidence, which will not necessarily translate into future investment success or expertise. Additionally, overconfidence can lead to decision making errors that tend to be very costly. Focus on time in the market, not timing the market as a way to build your skills and ultimately, your wealth over the long term. Approaching your investments with the knowledge that you may not know as much as you think you know is a powerful step towards accumulating and compounding your wealth.

Tip #6: Harness the power of compounding

Compounding is one of the most powerful tools available to investors. What may seem like a small annual return can add up significantly over time. However, to harness the power of compounding, you require a long-term view. Investors who seek short-term returns may not reap the benefits that compound investing can offer. To put this power into perspective, consider the rule of 72: with an annual return of 6 percent, you will double your investment value in 12 years (72/6 = 12). Similarly, with 8 percent annual returns, you will double your investments value in 9 years (72/8 = 9).

Tip #7: Taxes should be secondary to your investment strategy

Investing with taxes as your primary concern could lead to inferior rates of return. Simply put, if your investments can generate greater after-tax returns, the concern about the amounts of tax payable should be secondary, but not ignored.

Having selected the appropriate investment vehicles, potentially generating dividend income, interest income and capital gains, you can then decrease your tax payable by strategically allocating your assets between registered and non-registered accounts. For example, because dividends have an advantageous tax credit over income, holding income-oriented assets in a registered account and dividend-paying assets in a non-registered account could reduce your tax payable.

Tip #8: Use margin very carefully

High margin levels tend to accentuate the fear and greed in investors. While margin may allow you to take advantage of special opportunities, it should be used sparingly and only on high-quality assets. It is important to recognize that although buying on margin could increase potential returns, it could also increase the risk of your portfolio.

Since special opportunities can stem from market volatility, investing heavily on margin during periods of high volatility could increase the potential of a margin call, which if not covered, could lead to a forced sale at a lower value. Apply caution when trading on margin and ensure to review potential risks associated with each holding.

Tip #9: Be informed and have a plan

An investment roadmap is paramount to reaching your financial destination. Constructing an investment plan that looks forward 5, 10, or 15 years is a good start. Not only will a planned, long-term outlook provide clarity but it should guide you through times of unexpected market fluctuations and help you avoid the temptation of chasing after the next hot asset. In addition to benefiting from the advice that a financial advisor may offer, keep up to date by reading credible sources and avoid the herd mentality – investing fads eventually fall out of favour or come to an end. You need to clearly understand the assets before you invest in them as well as their associated risk.

Tip #10: Do it now

Now is a great time to start. Market shocks are usually a result of different causes and holding onto a "this time is different" mentality is not necessarily a good reason to stay on the sidelines. Generally, equity markets have proven resilient and have historically recovered from previous crises. Putting off a long-term strategy to try and time the markets for a better price could result in missing out on potential gains during a recovery. Be disciplined, stick to your investment plan, start now and invest regularly.

With knowledge comes power. Developing your skills is essential to your success as an investor. This is where actions speak louder than words. Take charge of your financial well being by starting now. A solid investment plan should provide the piece of mind that comes with knowing your portfolio is well positioned to reach your financial goals.

For more information, contact your Financial Advisor.

(0111)