

# Know your Goals Before you Start Investing

The question is always very simple when you hear it and always asked as if an equally simple answer should follow.

"I have a lump sum of money to invest and I want to make the most of it. What should I do?"

It doesn't matter whether you saved like Scrooge, made a million selling rubber ducks or inherited from Uncle Millionaire. What does matter is: what you are going to do with the money as well as your age, knowledge level, risk tolerance, goals, etc.

As you can see from the variables above, when it comes to investing simple questions lead to complicated answers.

Truthfully, there isn't one answer that will meet everyone's individual needs and preferences. But before you stop reading, there are some important issues you should consider when investing and some key investments you should know about.

Equity-based markets fluctuate, but for the past three years have not been profitable. The people who have been investing in bonds and GICs have been earning consistent returns. There has been talk about when the markets are going to turn and indeed have begun so in the last couple of quarters. Consumers; however, are still timid about returning to equities. So although I can't look into my crystal ball and tell you where to put your money, I can give you a few points to help you make better investment decisions.

Here are some issues to consider when choosing an investment:



**Emergency Funds:** How much money do you have easy access to in case of an emergency? Why is this important, you ask?

For example, you may want to invest in something that is "locked in", which means you can not redeem the money until a certain time. A good example is unredeemable RRSPs. If you do not have any money set aside what will happen when there is an emergency? You will want to take the money out of the RRSP. Unfortunately you can't.

Another example is if you invested in a non-redeemable GIC or a bond fund, for example, without having any money set aside for emergencies. If something happens that you need money right away, you will want to redeem the money before the term is up. But you will have to pay a hefty penalty for doing so, which means you are losing instead of earning money.

Although you may not want to think about it, emergencies do occur. What happens if you lose your job? What happens if someone in your family gets sick and you have to travel to Halifax to stay with them for a week or two? What happens if your car breaks down, your roof leaks, etc.? You need to have money set aside for these types of emergencies. If you do not, then you shouldn't be investing. You should be putting money towards an emergency fund.

As a rule of thumb you should have about three month's worth of your salary set aside for an emergency.

You may want to consider putting your money into a high interest savings account. For example, at OMISTA our rate last year was 3.5 per cent. Not bad for a savings account.

You could also put your emergency funds in a term deposit, which has a guaranteed rate of return and is redeemable any time. However, there is usually a minimum investment of about \$1000. Currently the one year term deposit rate is about two per cent.

Knowledge: How much do you know about investing? Are you comfortable choosing your own portfolio mix?

If not, the first step you should take is to find a professional and knowledgeable financial advisor with whom you are comfortable. Look at his/her background, education and qualifications.

Risk: Can you sleep knowing you may lose your money? If not, a low risk investment/portfolio may meet your needs. However, keep in mind that although your money is secure in a low risk investment, the interest rates are lower. You risk missing out on a higher rate of return. If you are making a long term investment it may pay to assume a moderate to high level of risk depending on your comfort level.

Tax: Will the investment help you save taxes? It is always a benefit to invest in something that will both save you money and taxes like an RRSP.

Age and Retirement: When do you want to retire and how close are you to retirement? Young people can safely invest in a higher variability investment than someone who is approaching retirement. If you are in your 20's or 30's you can take risks and invest aggressively over a long period of time to reap the benefits of higher average interest rates. As you approach retirement you may choose to invest more cautiously to protect your funds and meet your retirement needs.

Goals: What are your short-term and long-term goals? How long are you planning to invest your money? A short term investment is a one to three year investment. A medium term investment is something you would invest in or save for, for three to six years such as a trip or purchasing a cottage. Long term investments are those of six or more years.

For example, are you saving for your newborn's education - a long term goal? Are you saving for a future vacation - a medium term goal? Are you saving to buy a new appliance - a short term goal? Your goals are often the major deciding factor on the type of investment you should choose.

Life Situation: Are you about to experience a major life change like marriage, having a baby, buying a home or going on a trip? There are different investments to meet each of these situations. Once you have spent some time thinking about these issues, you will probably want to know what investment is right for you.

There are many types of investments and trying to simplify them is a huge task, but basically, there are low, moderate and high risk investments.

On the low variability scale GICs are second to none in the industry. They are very competitive. For example, the five-year guaranteed return is about four per cent. A good

moderate variability investment is balanced funds, a mix of bonds and equity. Unfortunately, over the last two to three years they have had a negative return.

However, the markets have already begun to turn. Canadian stocks, the S&P/TSX composite index, are up by 21.9 per cent since October, 2002. Analysts project that in the next five years they should average six to eight per cent per year, according to Len Tompkins, from Maritime Life.

If you are looking for a high variability investment, there are many choices ranging from US to European and Asian (Japanese) funds to specialty markets funds like technology, oil and gas, financial services and manufacturing although high interest rates over the long term are enticing, these investments are very volatile and can cause a cautious investor to worry.

That is why seeking out an advisor you are comfortable with is so important, especially today. With an aging population and advancing technology, investing often seems like a jigsaw puzzle that's missing a few pieces. The best approach to investing is to always get professional advice. Speak with a knowledgeable financial advisor with whom you are comfortable. Spend time thinking about the issues outlined in this article and then seek out an advisor today so you will feel confident about your investment decisions.