

## **Improving your odds of success**

The WISE articles over the past couple of weeks focused on investment tips designed to improve the odds of retail investors achieving financial success as well as individuals thinking about entering the investment market. To recap, investors were provided with a detailed approach to assessing their financial condition as a prelude to goal setting and alerted to some common investment mistakes that should be avoided.

We wish this week, to provide further guidelines which can be used to help secure your financial futures by presenting a risk-based management approach to investing in equities.

A review of the stock market activity for the year thus far may not present an encouraging picture to the retail investor as the Composite index slipped 4.59 per cent while the All T&T index declined 4.32 per cent. This fall in indices has occurred even with very strong results being reported by some companies. This means that an investor, who is diversified such that he or she held shares in all securities on the First Tier Market, or a reasonable representation of this well diversified portfolio, would have seen that portfolio decline by 4.59 per cent, assuming an equal allocation of value at the beginning of the year.

Considering that most retail investors do not hold such a position in the market, some investors would have experienced portfolio value declines greater than the composite index and some to a lesser degree while others would have even recorded net capital appreciation. The ideal would be that, as an investor, you are counted among those with a net portfolio value increase. The following are some factors which may be considered by both new and existing investors in order to achieve the ideal position in such market conditions as those that now persist.

### ***Investing Strategy***

An important element in trying to beat the odds is a careful thought-process which will allow you to define your strategy. Consideration should be given to the environments within which the listed companies operate as their ability to generate favorable returns directly impact earnings per share and indirectly, dividend payouts.

The economic environment is important as economic factors such as interest rates, foreign exchange rates and inflation levels impact the ability of companies to produce a sustainable level of growth.

At any point in time, these and other factors may affect one industry more adversely than another. Investors can however insulate themselves by diversifying their portfolios in the event that this happens by holding equity in various industries. This can be done through the purchase of shares in different sectors where this is possible, else, via the purchase of shares in companies with operations in the various sectors.

Further diversification is possible by investing in companies that operate in different economic environments, whether they be companies that own businesses in other national territories or companies that have cross listed onto our local market. Of course, further due diligence should be taken to identify the possible existence of political and economic interference in those countries as these occurrences may have considerable effects on your portfolio.

### ***Examining performance goals***

We acknowledge that investors have different time horizons and risk attitudes that may affect their strategy in achieving their respective goals. As such we can categorize investors with the following investment patterns:

- long term
- medium term
- speculation

Regardless of your investment pattern however, one must be concerned about what is happening in the market currently. That being the case, investors should keep constant checks on conditions affecting his or her portfolio. Even investors with long term goals should not be static in terms of the shares they hold if those shares are not performing well and/or do not have good future prospects.

Assuming the investor has no new money to invest, there is absolutely nothing wrong in selling off a particular share that is not performing well in the short term to repurchase at a lower price. In fact, this strategy can result in the investor being able to acquire more shares or have cash in hand if the same number of shares is repurchased. This also enhances the investor's ability to achieve his or her long term or medium term goals.

### ***Loyalty versus Objective***

What investors should perhaps try to shy away from is the sense of loyalty to a particular share which may have brought them good fortune in the past but future prospects for which, aren't favorable.

Investors should keep in mind the goal that initiated their involvement in the stock market and continually work at achieving that goal even if it means abandonment of the once *best-performing* shares in the portfolio.

### ***Stop loss and exit strategy***

It is important to know how much loss one is willing to accept within one's portfolio and from individual shares that constitute that portfolio. Once this loss level is determined, a share price above this level can be set so as to trigger a review of the prospects of the particular shares. A decision can then be made as to whether to keep the shares as part of the portfolio or to dispose of the shares.

Speculators would be keen to consider that where there are constant changes in the direction of share price movements and if one wants to dispose of one's shares, timing is everything. Don't be greedy! One does not want to be in the position where one has waited too long to sell and the share price changes direction and heads downward or in case of stop loss, heads further downward.

An exit strategy is important! Depending on the number of shares in the particular security to be disposed, one may consider gradually offering the shares for sale at increasing or decreasing prices depending on the condition of the market at the time. This could help preserve the price the investor gets for the shares by not creating too much supply on the market. Smaller shareholders with an expectant share price maximum may offer their shares at that price before the rest of the market reaches, else, offer at a price just below, where he or she feels the shares will definitely be sold.

All in all, as an investor it is important to always keep on top of their investments and map your investment to your strategy in order to increase your odds at achieving your financial goal.