

Investing

BY ROWLAND THOMAS

So you finally realized that holding your money in a bank account is just that- holding your money. Any prospects of growth or expectations of earning a decent return are dashed immediately upon reviewing your bank statement. How do you go about growing your money? Where do you start?

The first step to be taken is to **analyze your current financial position**. What are your current cash flow levels? What percentage of your cash is used to pay off debts and expenses? Do you take emergency expenses into consideration? Where are your savings currently at and what are they earning? In effect, how much can you invest initially and continue to contribute periodically to the portfolio? This is very important since if you do not have your financial house in order the following steps will become inconsequential.

Secondly **create a plan and set your goals**. This is very important because this drives the entire direction of the effort. It is necessary to focus on the purpose of the investment whether it is for the purchase of a house, university education or retirement. This will assist in determining the level of risk and the type of investments which are to be utilized in the portfolio. The plan should also include appropriate diversification and asset allocation in order to reduce the impact of any adverse market situations throughout the investment period and to ensure that you get to your goal within the required time. A mistake commonly made is to constantly adjust your plan. This should be avoided unless the purpose of the plan has been radically changed.

Set appropriate time horizons. Your time horizon is of course based on your investment goal. It is unreasonable to expect that you can start investing for the purchase of a house today and be ready to buy within one year (given today's housing prices.) The time horizon also would indicate how you react to short term changes in the market. A fluctuation from week to week has less influence on a 20 year horizon than on a one year horizon. While it is important to take note of financial and economic news, a broader perspective needs to be taken for longer horizons than shorter ones.

Do not chase performance. Adjusting a plan by investing in products because they have shown favorable returns over recent years should be avoided. While this may seem absurd, a deeper analysis of the performance is necessary before the investment is made. It may be that the product has reached the top of the cycle and is now set to fall. Buying in at this stage would only lead to negative returns. The perfect point of entry would have been when the product initially started to show promise. On the other hand, analysis of the product may show that it is still in its profitable stages and therefore is still a viable option.

Rebalance your portfolio. It is necessary to rebalance your portfolio periodically to ensure that it remains in line with the investment plan. This is actually viewed as the opposite to chasing performance as instead of increasing the weighting of only the securities which are giving favorable returns, the original planned weightings are

maintained and purchases are made into securities with “not so favorable” returns. It is important not to follow the returns but to maintain the plan for the long term gains.

As an investor, **be patient and moderate**. Panic buying and selling or following the crowd may lead to a total disruption of the original plan, extension of the time horizon and even the inability to reach the set goal. Moderation is also key– there is something such as investing too much. Heavy investment in a security that ends up giving negative returns usually drives investors to find riskier assets to recover the losses previously made. The possibility of a downward spiral here is high if panic sets in. Stick to the plan.

Now that we have these ground rules in place, let’s review the sources of data necessary to effectively manage the portfolio.

For TT dollar investments it is important to keep an eye on releases from the Central Bank of Trinidad and Tobago and the Central Statistical Office about the current level of inflation. Your portfolio return should cover the inflation level in order to maintain the buying power of your funds. To be effective when doing this comparison, the inflation report period must be matched with the time the portfolio has been in force. Inflation affects the fixed income portion of a portfolio greatly as returns decline as inflation levels rise. Old fixed income investments should be replaced by new securities which have current inflation levels already factored into their yields.

Other useful information from the Central Bank includes the quarterly monetary report which summarizes events over the last quarter. News releases which highlight current points of economic interest and pending government economic action are also provided by the Central Bank.

Market reviews can be found in articles produced by various economists, financial institutions and brokerage houses. These may provide commentary on current economic situations and projections on specific economic data releases for the coming period. Attention should also be paid to financial reports published by listed companies in order to gain an insight into both that particular company’s operations as well as the relevant industry.

Unfortunately, the volume and frequency of data releases is not comparable to that experienced in the US markets where data is released daily. In Trinidad, most of the important economic data is released quarterly if not annually. This makes it more difficult to determine the current path of the economy and therefore reaction to changes.

While the setting up and management of an investment portfolio can be done by an individual, due care and diligence is necessary. It is recommended that you consult a registered investment advisor about your plan, as they will be able to provide you with options and strategies designed to get you to where you want to be.

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