

Investing for couples

It's the month of weddings and love is in the air. You've finally tied the knot and look forward to your wonderful future together and all the happiness and bliss that come with sharing a lifetime with another. Part of that picture includes a happy home, kids, vacations and enjoying all of the wonderful things that life has to offer. However, amidst all the love and laughter, has any thought been given to finances? To avoid any conflict that can arise due to differences in income and spending habits, it is quite evident that financial planning is a topic that will need to be addressed with your lifelong companion.

Financial planning for any one individual, let alone two, can be quite a challenge. Many factors such as different money management styles, investing personalities, attitudes towards money and different risk tolerances have to be added to the mix. So how do you come up with an investment strategy that you can both live with? Following are some tips for investing as a couple.

Discuss and set financial goals

Discuss with your partner, your financial goals, and listen attentively to his or hers. Ask relevant questions such as, how much will we need to live on in retirement? Are there any major purchases in the near future that we need to plan for? What financial commitments do we need to account for? Also discuss what outstanding debt you both have such as credit card debt or consumer loans. It is important to have this discussion not only to determine what financial goals he or she hopes to achieve but also to ascertain what your financial position is as a couple and also to better understand your partner's money management and investing style. You may be a conservative investor while your spouse may be more aggressive when handling his or her investments. Do not try to impose your views or investment philosophies on your partner, as neither investing style is any better than the other. Instead compromise by meeting each other halfway in determining how you will work towards achieving your shared financial goals. Having this discussion with your spouse will also ensure that you are both on the same mindset when it comes to your finances and investing.

Develop an asset allocation plan

After discussing and setting your financial goals with your partner, develop an asset allocation plan to match your investments with your goals. Asset allocation is simply an investment strategy that involves dividing an investment portfolio among different asset classes in the hope of maximizing return while taking into account an appropriate level of risk. What is important here is to ensure that your investment portfolio not only meets your financial needs but also gives you and your partner peace of mind. Some other factors to consider in constructing your portfolio are age, time horizon (the length of time your investment has to grow), risk tolerance, and the amount of capital you have to invest.

With your financial goals in mind and an understanding of all of these various factors, you and your companion, with the aid of a financial professional, can then determine what asset classes to invest in. The three main asset classes are equities (stocks), fixed-income (bonds), and cash equivalents (treasury bills, certificates of deposit, money market instruments), each bearing their own level of risk and return. There is no simple means in determining the right allocation or mix of portfolio assets as each individual (or couple) and situation is different and thus will require a unique approach depending on the circumstances at hand.

Generally speaking, the more risk that you and your spouse are willing to bear, the more aggressive your portfolio will be with a larger portion of your portfolio in equities and less in bonds. On the other hand, with less risk, the more conservative your portfolio will be.

Build an investment strategy

With your asset allocation plan determined, you and your significant other can formulate an investment strategy to realize this plan. First, decide how much capital will be allocated to each

portion of your asset allocation “pie”. Next, through prudent research and in-depth analysis, ascertain which securities you are going to select to meet your asset allocation strategy. For example, choosing stocks in different sectors; domestic equity versus international equity; short-term bonds versus long-term bonds; government debt versus corporate debt. Additionally, in doing your research, it would be wise to keep a “stock watch list” of companies that you are interested in but whose stock might currently be overvalued or stocks that you would like to closely monitor. This will allow you to have replacement options when selling a stock out of your portfolio. Always keep in mind the different levels of risk and potential returns in choosing securities. The goal is to have a solid, well maintained and diversified portfolio.

If having one investing strategy is not conducive due to different investment styles or risk tolerances another option is to have you and your partner invest using individual strategies according to your comfort levels. This strategy, however, will require very careful monitoring and regular checks to ensure that your combined strategies meet with your portfolio plan and ultimately your shared financial goals.

Review the plan and amend the strategy accordingly

Once your portfolio is established, you will need to analyze and adjust your asset allocation plan if there are changes in your financial situation, time horizon, financial goals, or risk tolerances. These factors will determine how your investment plan will change and you can adjust your portfolio accordingly.

Even if there are no changes in any of the factors previously mentioned, still set a date to review your investment strategy with your partner to determine any progress made. Look over the fundamentals when reviewing your equity portfolio to ensure that nothing has changed significantly. If any of your investments are out of alignment with your asset allocation plan, rebalance your portfolio back to your original asset allocation mix to ensure that your investment goals are not compromised and that you do not encounter any additional risk.

This entire assessment would give you and yours the opportunity to not only see how much returns were made but also to reexamine your overall asset allocation and ascertain if any changes to your portfolio are warranted.

Enjoy the journey together

While this may all seem overwhelming, going through this process will hopefully be beneficial to you and your companion. Although finances can be a sticky topic I do hope that the few tips offered here will assist in developing a coherent investment plan and financial future for you and your partner.