How To Be a Better Investor – Video Transcript

A good investor tries to maximize gains and minimize losses.

Sounds easy enough, right? But how exactly do you go about doing that?

Well, a good investor starts by considering his or her financial goals, time horizon, tolerance for risk, and liquidity needs. And while no investment strategy is foolproof and all investing involves risk, there are some basic principles that every investor should be aware of.

First, take advantage of time and compounding to help your savings grow.

Put simply, compounding occurs when earnings that are reinvested also begin to earn money. The longer your money is invested, the more you may benefit from compounding.

Second, buy and hold, but don't buy and forget.

You should periodically review your investment portfolio to make sure it's still aligned with your investment goals and tolerance for risk.

Economic conditions, or your own changed circumstances, may warrant a shift in strategy, such as an adjustment to your asset allocation or a rebalancing of your portfolio.

Third, spread your investment dollars across different asset classes and types of investments.

By diversifying, you can help reduce the impact any one investment has on your overall portfolio. Your asset allocation strategy determines how much you invest in each type of investment. However, it's important to remember that diversification and asset allocation alone can't guarantee a profit or prevent the possibility of loss in a declining market.

Fourth, endure short-term pain for potential long-term gain.

There's no denying it: the financial marketplace can be volatile. However, it's important to stay calm during periods of economic turmoil and stay focused on your long-term investing goals.

A diversified investment portfolio might help you manage risk during periods of market volatility and may expand your opportunities for potential long-term gain.

Next, consider the liquidity of your investment choices.

Liquidity refers to how quickly you can convert an investment into cash.

Generally speaking, the sooner you'll need your money, the wiser it is to keep it in liquid investments that typically have less volatile price movements, such as CDs, savings accounts, short-term bonds, or money market accounts.

And finally, invest consistently with dollar cost averaging.

Dollar cost averaging is a method of accumulating shares of an investment by purchasing a fixed dollar amount at regularly scheduled intervals over a period of time.

Although dollar cost averaging can't guarantee a profit or avoid a loss, it should result in a lower average purchase price per share, assuming you continue to invest consistently, even in "down" markets.

While investing success can never be guaranteed, following these basic principles can help you stay on track as you pursue your investment goals.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels.

Rebalancing involves selling some investments in order to buy others. Investors should keep in mind that selling investments in a taxable account could result in a tax liability.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.