Here Are The Ground Rules For Successful Investing

Not long ago investing was easy. There were few places you could invest and if you had money you wanted to invest, you left it to the professional stock brokers. However, deregulation of the financial markets has changed all this. In the past 20 years new investment products have been launched, changes have been made to the tax systems and retirement plans which have altered the attractiveness of many investment products.

Up to about 20 years ago, share investing was purely in the domain of the wealthy. For most people it was difficult to trade in overseas stock exchanges, there were no such thing as cash management trusts, installment warrants, exchange traded options, dividend imputation, reset preference shares and endowment warrants - to name a few. Now about 50% of investors are "mums and dads" investors who either own shares directly or in managed funds. Unfortunately, in recent years many investors have been "burnt" because they did not understand the risks of investing in financial markets.

Governments around the world have made it clear that it is important for people to take control of their own financial futures. The sustainability of government funded pensions is under pressure. If you do not save and invest, you will suffer a significant decline in your retirement living standard. The average life expectancy is about 80 years, so if you retire at 60 years of age, the savings you have accumulated in the 40 years of your working life will need to fund your retirement of 20 years or more.

Deregulation of financial markets, interest rates and currencies means that the market determines the value of investments and not government decree. This provides opportunities for educated investors to build wealth and for unwary investors to lose wealth. You must understand the opportunities and risks.

The ground rule is that if you want to be a successful investor in financial markets, you must educate yourself about investing. Even if you put your faith in a licensed investment advisor, not all are competent. It is essential that you understand how the financial markets work so that you do not put your hard earned money in the hands of an incompetent advisor who is only interested in the commissions available. How can you tell whether a particular investment is right for you? The only sure way is to become familiar with the language used in the financial industry and to have a sound investment strategy. Does this mean that you should keep you money safe by putting it under the bed or keeping it in the bank? No - but you do need to understand the risks involved and set ground rules for successful investing.

There are a number of ground rules in investing that haves stood the test of time. With time, patience and effort you can become a successful investor in all the areas that are open to you. This will not come overnight and you will have to be prepared for that fact there will be times you lose money. However,perseverance is a virtue above all others. The road is not always easy, but nothing worthwhile is.

Here are the ground rules for successful investing:

1. Be your own investment manager. No advisor or stockbroker should do it for you. Only you know what your real needs are, what your temperament is - and only you are motivated by your own best interests, not sales commissions. It is also more fun to do it yourself.

2. Confront risk and then reduce it through spreading your investments.

3. Take a contrarians view to investment markets. That is, look for opportunities and do the opposite of what everyone else is doing.

If your investing facts are out-of-date, how will that affect your actions and decisions? Make certain you don't let important investing information slip by you.

4. Do not be put off by investment jargon. Master it instead.

5. NOW is the best time to start investing. Do not wait for the markets to improve. If the share market is filled with gloom, that is the time to buy.

6. Make good quality shares the core of your investment strategy. Then you can rest easy when you invest in more speculative areas.

7. Always consider tax implications of making investments but never let tax minimization be the main objective. The fundamental rule is to think in terms of after-tax returns.

8. Keep up to date through reading the financial papers and searching independent investment research websites.

9. Discussing investments is stimulating. Condition your mind to talk to others about investing, especially people who are more experienced and knowledgeable than you are.

10. Do not be greedy. Discipline yourself to cut your losses with bad investments and cash in when you have made a reasonable profit.

11. Be patient. Rome was not built in a day. Similarly, you may not become wealthy overnight, but you will over time.

12. Never invest in anything you do not understand. If a particular investment sounds too good to be true, it usually is.

13. Pay yourself first. Most people invest money they have left over after paying the bills. Allocate yourself the first 10% of your monthly income to build up your investment capital. By doing this you will force yourself to become an investor and the long term benefits will be enormous.

If you master these 13 ground rules, you will be a successful investor. You will rival so-called professionals and will sleep easily at night knowing that money is the least of your worries.

About the Author

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