Welcome to Module 2: The Basics of Investing. The complex world of stocks, bonds, mutual funds and options can be intimidating for many of us. We know the importance of growing our money and earning a return as well as planning for our retirement, but we may not know how to start an investment program that will meet our financial goals.

Before you start investing, take the time to develop a personal investment strategy.

Many people will want to do this with the help of one or more qualified professional advisers. Choosing your advisers is a very important step for most investors.

To establish your personal investment strategy, you and your advisers must think carefully about:

Your knowledge of financial markets

Your financial assets

Your tolerance for risk

The amount of money you plan to invest

The things you hope to accomplish through investing (your investment objectives)

With those things in mind, you will be able to begin the process of selecting the right investment products and the right mix of assets to meet your financial goals.

The topics in this module will provide some guidelines to help you develop your own personal investment strategy by setting investment objectives and taking the right precautions by diversifying and doing your homework.

Establishing Your Investment Objectives is the basis for your entire investment strategy. Ask yourself:

What do you need from your investment portfolio, and when do you need it?

You may have many financial goals - to make a down payment on a house in two years, to help pay for your children's education in 10 years, and to prepare for your retirement 15 years after that.

You might already be retired and simply want your money to earn a reasonable return and provide a reliable source of income for many years to come.

Whatever your situation, take a few minutes to sit down and think about where you are now financially, and where you want to be in the future.

You can use the Canadian Securities Administrators (CSA)'s Investment Planning Worksheet to help you. You can access this Worksheet from the “Resource” section of this website.

Here are some further questions to ask yourself:

How much money do you have to invest now?

Will your employment income allow you to invest additional money in the future? How much? Are you confident that will continue?

What are your monthly financial obligations, and how much do those obligations change from month-to-month or year-to-year?

Do you have other valuable assets that will play a role in your financial future?

Do you have outstanding debts that you would like to pay off?

Do you plan to make any major purchases in the future?

Do you need money from your investments each month to supplement your regular income? If so, how much?

Do you have dependents to care for, and will their needs be changing over time?

Have you considered your life and property insurance requirements?

Are there income tax considerations that are particularly important to you?

Are you a participant in a retirement savings plan or registered pension plan?

Do you expect to inherit money at any point in the future?

How much money would you like to have readily accessible in case of emergency?

Good financial advisers will want to discuss these issues with you, and more. They will want to ensure that they have a clear understanding of your financial situation and your investment goals.

If you are a younger investor with a stable income, you may decide that your primary investment objective is to grow your assets over a long period of time. Investors approaching retirement may be more interested in ensuring that their assets are safe, and retired investors may look to their investments mainly to provide a regular, reliable income.

No two investors are exactly alike and no single investment product or strategy is right for everyone.

As part of determining what it is that you want to accomplish and what resources you have available to make it happen, you need to Understand Your Tolerance for Risk. Your personal investment strategy will also be affected by the way you feel about risk.

In the investment world there is a direct relationship between expected returns and risk **- the higher the expected payback from your investment, the higher the risk**. Before you can decide on a personal investment strategy, you must consider how much or how little risk you are prepared to take with your money.

Diversify

Every investment product has its own inherent risks. Some products can be very high risk, others very low. Some will be more affected by interest rates, others by commodity prices, consumer confidence, management decisions or a host of other factors.

For most investors, what is important is the risk profile of their overall investment portfolios. **By combining several different investments in your portfolio, you can reduce the level of expected risk.** This is the benefit of diversification.

Diversification simply means not putting all your investment eggs in one basket. It is one of the key strategies that every investor should know and follow.

Strategies:

1. **Choose the Right Asset Mix**

What is an Asset Mix?

There are three basic categories of investment products or assets:

- equity investments

- debt investments

- cash or cash equivalents

The combination of these three types of products in a portfolio is called the asset mix."

You can review information on this topic, Asset Mix, in Module 1.

2. Recognize the Limits of Your Investment Knowledge

Do Your Homework

It's been said that some people do more research before buying a new television than they do before investing their life savings. Successful investing requires upfront and ongoing time and effort. That time and effort may be spent doing your own investment research. It should also be spent carefully selecting your financial advisers, consulting with them, and reviewing their recommendations.

There are literally thousands of investment products available to the public. No two are exactly alike. There are also thousands of investment professionals in Canada, and each offers different skills, products and services.

There is a great deal of information available to investors in periodicals, newspapers and books. Another good source is the company issuing the securities. If the company cannot provide detailed written information about itself and its securities, you should probably look elsewhere.

You can also check with your financial advisers, with the stock exchange where the securities are listed, with securities regulators and with your local library. If you have access to the Internet, you will find hundreds of sites dedicated to investing and investments - but be discerning. Check out Internet information, particularly promotional information and investment advice, with other reputable sources.

Basic Investment Characteristics

Every investment has three key characteristics:

Expected Return

Risk

Marketability

Expected return

Refers to the amount of interest, dividends or capital gains that you expect to receive from your investment. (Actual returns may, of course, be quite different.)

As noted before, there is a direct correlation between expected return and risk. The higher the expected return, the greater the risk.

Risk

Is the possibility that you could lose some of, all of, or more than your principal investment, or that you could earn less return from the investment than you expected.

Lower risk investments include government treasury bills and Canada Savings Bonds. At the higher end are investments like futures and shares of junior venture companies. Mutual funds have a wide range of risk profiles.

Marketability (or 'liquidity')

Refers to whether you can sell or redeem your investment quickly at or near the current market price.

Term deposits ‘(also called Guaranteed Investment Certificates) are an example of an illiquid investment, since you generally can't withdraw your money before the end of the term without paying a significant penalty. Investing in private companies, companies whose securities are not listed on a stock exchange, is another example of an illiquid investment, due to severe resale restrictions.

Many other investments, such as mutual funds or listed stocks, are very marketable because they can be quickly sold or redeemed on short notice and at low cost.

Marketability is an important factor to be considered when selecting your investments

Here are some **Guidelines** for you to follow. This list is available for download to your own computer.

Remember...

DO establish clear and reasonable investment goals before you invest. Discuss those objectives in detail with your financial advisers.

DO select your advisers carefully. Ensure that they have the qualifications and experience required, that they are properly registered in your jurisdiction, and that they can provide the services you need.

DO remember that there are risks in any investment. As potential profit increases, so does risk. Don't take risks you can't afford or aren't comfortable with. Understand your tolerance for risk.

DO diversify your investment portfolio to decrease your overall risk.

DO select the appropriate asset mix of debt, equity and cash equivalents.

DO recognize the limits of your knowledge. Avoid investments you don't understand.

DO your homework. Be sure you know what you are investing in and what impact it will have on the risk, potential returns and marketability of your portfolio.

DON'T invest on the basis of hot tips and rumours. They are seldom right. Besides, trading on inside information is illegal.

DON'T blindly follow investment advice that you don't understand.

DON'T be afraid to say NO to the suggestions of your financial adviser if you are not convinced the investments are right for you

This concludes our video presentation on The Basics of Investing. Remember, along with the Guidelines, there are several other documents that you can download for your reference. You can find them on this website. Thank you for watching.