Are you a Potential Capital Market Investor?

A financial advisor once told "It doesn't matter how good of job someone has, if they want to acquire wealth in this life, at some point they are going to have to invest in something."

Investing is something most people will do during their lifetime. They may invest in real estate, gold, life insurance, stocks, bonds or Unit Trusts.

Good investing can bring peace of mind, security and the lifestyle you and your family want to live. On the other hand, poor investing or not investing can cause a lot of personal and family stress. Here are a few basic ideas and tips for someone who wants to start investing. We will make more emphasis on investing in the Capital Market in this article;

Tip #01: Become Educated

We live in a world of information and there is a wealth of information about investing. The basics of investing in the Capital Market can be learned from seminars, workshops and educational TV programs conducted by the Securities and Exchange Commission of Sri Lanka (SEC), Colombo Stock Exchange, Unit Trusts Management Companies and stockbroker firms or materials published by these institutions. Remember, these seminars and other means will give you a basic idea about investing but you should make an effort to learn about it further. A lot can be learned from credible websites; you can find books at your library and even talk to your peers. You should never invest in something you don't understand.

Visit websites of above mentioned institutions before making your investment decision. Most of these are free, easy to use web sites with objective information on investing wisely and avoiding fraud. If you can't understand the stock market investment and how it will help you make money, ask a trusted financial professional or a stock broker firm for help. If you are still confused, you should think twice about investing in the Capital Market.

Tip #02: Start Young

Albert Einstein supposedly called compound interest "the eighth wonder of the world." The younger you start investing, the less you will have to invest to enjoy the same yield. For example, suppose you have a retirement goal of Rs 500,000 and you want to retire at age 65. (For this example, we'll use an average return of 6%)

If you start investing at age 35, you will have to invest Rs 498 each month for 30 years for a total of Rs 179,191 to reach your goal. However if you begin to invest at age 55, you will have to invest Rs 3,051 each month, or a total of Rs 366,123 to reach your retirement goal. Money invested while you are young yields a much higher return.

Tip #03: Invest for Retirement

Retirement is the number 1 reason people invest. With a depleting social security system, people are relying more and more on personal investments to insure the lifestyle they want in the later years.

Tip #04: Teach your children about good financial habits.

Recent research suggests that direct teaching by parents is an important predictor of a young person's future financial success.

Tip #05: Boost your "rainy day" fund.

Many experts recommend keeping about six months of expenses in a saving account/less risky investment to cover sudden unemployment or other emergencies.

Tip #06: Pay off high-interest debt.

Paying off high-interest debt may be your best investment strategy. Few investments pay off as well as, or with less risk than, eliminating high-interest debt on credit card or other loans.

Tip #07: Research before handing over any money.

Smart investors always check whether the stock broker firm is licensed by the SEC by using the SEC's website or the website of the CSE.

With the Internet and online stock broking service, it's easy to buy and sell securities without ever talking to real person. However, when you're just getting started, it's a good idea to meet with a broker.

Tip #08: Check the background of your investment professional.

Many investors do not know that you can check the background of a broker or investment adviser. It's free and easy – and a key step for avoiding investment fraud. At all times you should obtain the services from a Registered Investment Advisor (RIA) attached to a stock broker firm.

Tip #09: Understand the cost

Understand the fees (brokerage) you pay to buy, and sell your investments, in this case investing in the stock market or Unit Trusts. Investment costs shouldn't take you by surprise. Fees do not vary from stock broker to stockbroker, except for the negotiable brokerage

Tip #10: Beware of promises of "guaranteed returns."

Promises of high returns, with little or no risk, are classic warning signs for fraud. If it sounds too good to be true, it probably is. In the stock market there is no “guaranteed return.”

The potential for greater returns comes with greater risk. Understanding this crucial trade-off between risk and reward can help you separate legitimate opportunities from unlawful schemes.

Investments with greater risk may offer higher potential returns, but they may expose you to greater investment losses. Keep in mind every investment carries some degree of risk and no legitimate investment offers the best of both worlds.

Tip #11: Pay yourself first.

Regular automatic deductions from your paycheck or bank account into a savings or investment account will keep you on track toward your short and long-term financial goals.

Tip #12: Buy less risky Investments to Start

Entering the world of capital market can be an overwhelming and intimidating experience. There is so much information, investment strategies and investment types. Start with some simple investment while you continue to learn. Not only will you be able to start investing earlier in life, but you will also gain confidence as you watch your portfolio grow. Some new investors opt for day trading or trading on huge margins. It is not a good strategy for a new investor.

Tip #13: Don’t put all your eggs in one basket.

The saying, "Don't put all your eggs in one basket," is used often to explain the concept of investment diversification. If you put all of your eggs in one basket, and it falls down, you will lose all of your eggs. However, if you diversify your investments and put your eggs in several different baskets, when one falls down, you will still have the eggs in the remaining baskets.

The key to investing wisely is to use different investment vehicles will perform differently in different market conditions. To continue the basket analogy, a wire basket will help under certain conditions, such as when there is pressure against it, while a plastic basket might help in another, such as when it is raining, and a straw basket might help when it is put on a river. Putting your money in a variety of different investment options (in this case buying shares of different companies which are in different industry sectors) will help protect you from a variety of losses and will reduce the overall risk level in your investment portfolio.

Think twice before investing heavily in one company stock or any individual sector.

“I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years”.

Warren Buffett