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Hope is not a strategy

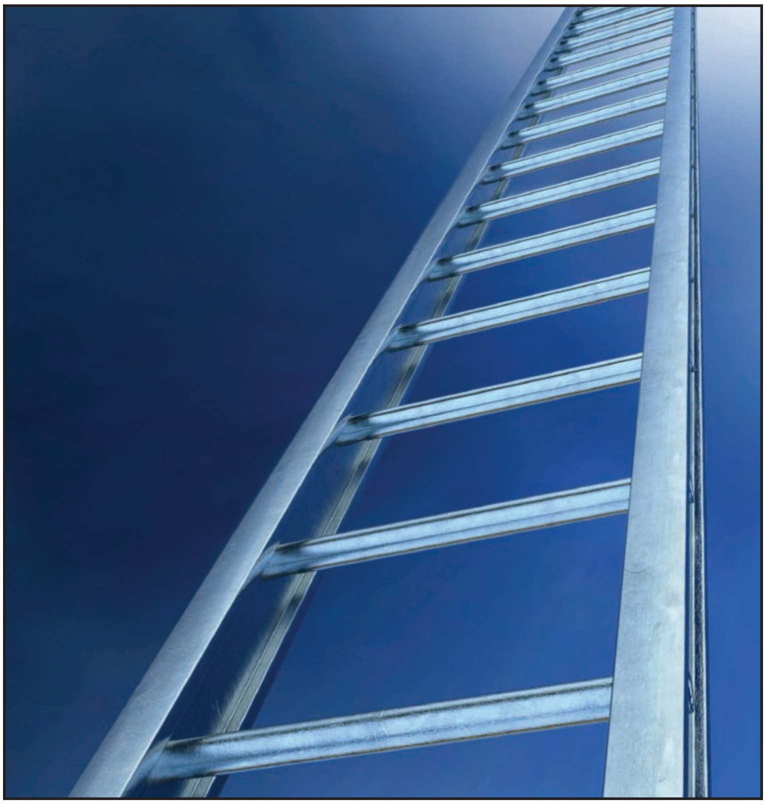
The key is to take smaller steps to achieve financial goals.

By Craig A. Machel

The world's most successful athletes focus on the process by which to achieve their ultimate goal, rather than solely setting their sights on the desired outcome. The same can be said about successful investors. Instead of blindly focusing on their long-term objective and trusting "hope" to achieve it, these investors focus on the smaller steps they need to take to get them to their ultimate financial goals.

In investing, as in athletic training, hope is not a workable strategy. While having a positive mindset is certainly advisable in any pursuit, if you trust solely in hope, you can actually hinder yourself from making measurable progress towards your goals.

With that in mind, allow me to assume the role of your financial coach and let you in on some training secrets. Implement this program of four simple exercises on a disciplined basis and you'll be well on your way to achieving that ultimate goal: financial security.



Exercise one: Make your investments a top priority — all the time

The most important thing investors can do to improve their financial circumstances is to make them a top priority. The status of your current savings and your progress towards your ultimate savings goals should be something you reflect on regularly—and act upon quickly if something isn't working.

Think about it in terms of your health. We all know that the right thing to do when you break a limb is to assess the damage immediately, seek professional assistance to repair it and work hard to recover. The same response should apply to a damaged financial strategy: assess the problem, get the advice of a trusted professional, and implement new strategies to help the portfolio recover.

For some reason, however, the recent shocks to the financial system have paralyzed many investors, making them incapable of this type of direct action. Instead of recognizing that their portfolios are broken and taking action to fix them, many investors are remaining passive and simply hoping their portfolios will somehow mend themselves.

This isn't a viable strategy. With each day, month and year that passes, you have that much less time to grow your savings — you're that much closer to withdrawing from your savings for retirement. Time is a valuable, diminishing commodity for all of us. As such, waiting for recovery is costly in terms of time, mental strength and capital. It's a strategy that very few of us can afford.

Instead, make your investment portfolio one of your priorities and take steps to ensure its ongoing health. It's far better to take the time now to mend the portfolio properly than let it limp along and run the risk of not reaching your destination.

Exercise two: Open your mind to new investments and strategies

Many investors inadvertently hurt themselves by clinging, often with white knuckles, to preconceived beliefs about what to invest in and how. These investors close their eyes to what is happening around them and hold out hope that their existing notions will prove to be true because they worked in the past. This approach to investing is akin to placing hope in a favoured weather forecast prior to an outdoor wedding — both can lead to disappointing results. It's better to be open to the possibility that things won't go as planned and to bring along that umbrella.

And umbrellas now abound in the investment industry. As the world around us has advanced, so too have the financial markets. The solutions now available for investors as a means to protect and grow their capital with less volatility and risk are worthy of exploration. It is only to your advantage to move beyond a restrictive notion of investing that involves only stocks or bonds or a "buy and hold" mantra. Certainly not all products will be right for you, but you owe it to yourself to find out about them.

Allow yourself to consider new investments and strategies. These innovative products and proactive strategies can have a profound effect on your portfolio in all market conditions, bringing you even closer to financial security.

Exercise three: Seek out more than information — demand advice

"Advice" comes in all shapes and sizes, particularly when it comes to parenthood, dieting and investing. A stroll through your local bookstore or a search on the Internet is evidence of this, with the most popular books and sites reflecting the current "flavour of the day." While some of the information is valuable, due to the fact that it is mass produced, it cannot actually qualify as advice — it is simply information.

It is essential to make this distinction when considering published advice about investments (including this article!). And that is where a trusted investment advisor comes in. He or she can help you filter through the information available and, as she/he is aware of the circumstances unique to you, she/he can help you assess what findings, if any, are relevant to your situation.

The advice of an experienced advisor is also crucial in uncovering whether a particular investment product or strategy is suited to you — and why it is so. By asking good questions, you can get even better advice from your advisor. Consider asking the following: Why is this investment well suited for me?; Do you think its historical and future performance will benefit me?; What are the risks?; What are the after-tax expectations?; or How will this affect me, given my specific time horizon?

We are called investment advisors for a reason. Those of us who love our work enjoy the opportunity to truly demonstrate the value we can add by helping our clients sort through the (mis)information out there and make good, informed decisions. Demand this level of service — you deserve it.

Exercise four: Adhere to the cash rule

The cash rule is a great way of determining whether you need to make changes to your current portfolio. It's very simple: imagine you had the value of your portfolio today in cash. How would you invest it? Would you repurchase everything you currently own or explore other solutions and alternatives? Your answers to these questions will tell you what needs to be adjusted within your portfolio. If it isn't worth buying today, it probably isn't worth holding onto either. So why do so many investors hang on to poor investments?

The status of your current savings and your progress towards your ultimate savings goals should be something you reflect on regularly— and act upon quickly if something isn't working.

As humans, we have an instinctive mechanism that precludes us from correcting errors in prior judgment. Our emotions get in the way. We get attached to stocks and strategies, feeling like they "owe" us something, or become convinced that history will repeat itself. History should not be overlooked, but it cannot be relied upon – too many changes, and very quickly. It is illogical to cling to faith that a stock or fund will achieve what you had once hoped for because it has historically done so. Just ask any Nortel Networks shareholder (that Canadian technology darling, once held in the highest regard by analysts and investors around the globe, made up a full third of our country's capital market index and is now currently in bankruptcy protection).

The chances of investment success are greatly enhanced for investors that can detach themselves from previous investment decisions. Adhering to the cash rule will enable you to move forward from what once seemed like a well-constructed decision that has since been proven inaccurate.

And there you have it. Four simple exercises to help ensure you're on the right path to achieving your financial dreams. Apply them with rigour and, like a dedicated athlete, you will reap the rewards of your discipline.

Refuse to fail conventionally by choosing to succeed unconventionally. Don't fall into the common trap of trusting hope as an investment strategy. Take control of your investments by taking these four steps to securing your financial future. ■

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