

## Back to basics: The benefits of long-term investing

In an age when information about the financial markets moves at the speed of light, it might seem a daunting task to learn what it takes to become a successful investor. But successful investing doesn't have to be as complex as you may think. What follows are some basic steps smart investors take to help ensure the success of their long-term financial plan.

### **START EARLY**

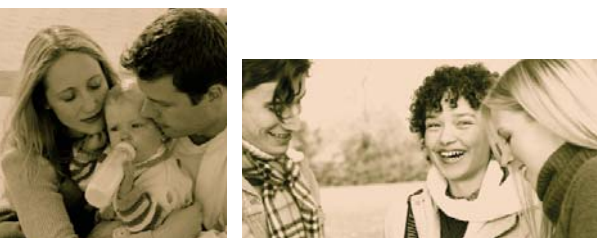
Putting your money to work for you as soon as possible is key to financial success. One strategy that helps put time on your side is to reinvest the income from your investments. The more years you reinvest, the more your overall investment may benefit from the power of compounding over time.

### **MAKE THE MOST OF YOUR RRSP**

The Canadian government introduced Registered Retirement Savings Plans (RRSPs) to provide an incentive for investors to save for their retirement. Because of the preferential tax treatment that it receives, an RRSP is a highly effective way to build a pool of assets for retirement. An RRSP allows you to defer taxes on some of your earned income. In fact, you can effectively achieve a "tax-free rollover" of income to your RRSP because you are allowed a tax deduction for your RRSP contribution. Furthermore, as long as your funds remain within your RRSP, investment returns are not taxable. This may not seem like a great benefit over one or two years, but over the long term, taxfree compounding of returns can add up to a tremendous advantage.

### **MAKE GOAL-ORIENTED PLANS**

Many successful investors set goals and objectives for their savings. They first think about what they are investing for and then figure out how much money





they will need and how much time they have – whether it's for a child's post-secondary education in 10 years, retirement in 25 years, or a parent's nursing home in five years.

### **PAY ATTENTION TO ASSET ALLOCATION**

Asset allocation is an investment strategy that focuses on diversifying investments among different kinds of assets – stocks, bonds and cash – to optimize the risk/reward trade-off. It's more than simple diversification. A well-allocated portfolio pushes what investment professionals call the "efficient frontier" – a place where returns are maximized for a given level of risk. How you determine the proper asset mix is largely determined by your time horizon and it's important that you speak with your financial advisor to establish the best possible portfolio for your individual needs.

### **DIVERSIFY YOUR INVESTMENTS**

No single type of investment performs well all the time, and in fact, each one tends to follow its own cycle: when the price of one is rising, the price of another may be declining, and another may be holding steady. By including a variety of investments in your portfolio, the overall volatility – or change in value – of that portfolio should be less than if you put everything into one type

of investment. There are a number of ways you can diversify your portfolio – across the different product types, asset classes, geographical regions, investment styles and capitalization levels. Which options you select will depend upon your financial situation and your overall tolerance to risk.

### **DOLLAR-COST-AVERAGING**

One strategy that highlights the advantages of staying on course with your plan is dollar-cost-averaging. Investing the same amount on a consistent basis, such as every month, or every quarter, allows you to invest cost effectively – buying fewer shares when the prices are high and more when the prices are low. Keep in mind that regular investing does not assure a profit or loss in declining markets, and you should consider your risk tolerance when investing through periods of low prices.

### **GET PROFESSIONAL ADVICE**

You shouldn't be afraid to ask for help. Many investors need a professional financial advisor to sort through the thousands of investment products offered today. And that's an advisor's full-time job: to keep up with the changing marketplace and to help you understand how particular products work and how they may fit your investment plan.





## START TODAY

Successful investing starts with a well thought out financial plan. By following the simple steps outlined above, you will be well on your way to creating a solid, long-term investment plan that will help you build wealth over time.

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