

INVESTMENT GUIDE FOR NEW INVESTORS

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Draw a personal financial plan

Before you start to invest in the stock market, it is important that you look at your financial situation and then make an investment plan. After that, you need to ask yourself why you are investing i.e. your goal and risk tolerance. If you have a financial goal with a long time horizon, then you can invest in asset categories with greater risk. On the other hand, if you have short-term financial goals it is best that you invest in assets with less risk. So asset allocation is important since that will determine whether you will be able to achieve your financial goals or not.

Diversify adequately

Most often investors think, by investing heavily in one sector they can maximize returns. However, if that sector performs badly it can be disastrous. Therefore, it is important that you create a portfolio that is adequately diversified. This will enable you to get an appropriate level of risk and return in various market conditions. However, remember that too much diversification can adversely affect the performance of your investments. Therefore, it is important to obtain the advice of a professional investment advisor to strike a balance.

Borrowing money to buy securities

You can borrow from a Margin Provider or a stockbroker to buy securities when you do not have sufficient funds. In such instances the securities in your account is taken as collateral. While such borrowing can help you make more money, it can also easily lead to losses. If you borrow and your investment value drops then your stockbroker will sell your securities to recover any losses and you are likely to end up with a significant debt. As a new investor, you should borrow to buy securities sparingly and only if you understand all the aspects involved in borrowing as well as its risks. If you do not have the time and knowledge to keep a close watch on your portfolio it can spell disaster.

Do not base your investments on unfounded tips

You may hear from friends and relatives of shares that can give you high returns and get tempted to rush to your stock broker. Sometimes, unfounded tips come from so-called investment gurus on television and social media. Remember, investing on such unfounded tips is often based on nothing more than a speculative gamble. Successful investors gather information from several independent sources and conduct their own research. Therefore, it is best to consider the source and do your own homework so that you know what you are buying and why. It is best that you get all the facts about the investment and you feel comfortable with your investment decision. Moreover, advice from a Registered Investment Advisor is always good.

Do not follow the herd

New investors are easily influenced by the actions of friends, acquaintances and relatives and blindly follow them. However, this strategy can backfire and you can lose some of your hard earned money. You should always avoid having a herd mentality and "Be fearful when others are greedy, and be greedy when others are fearful!" as Warren Buffett suggested.

Have realistic expectations

It is always good to hope for the 'best' from your investments, but you could be heading for trouble if your financial goals are based on unrealistic expectations. You must understand that share market investments involve creating a well-diversified portfolio to give you relatively high returns in the long term. Nevertheless, no one can predict or control the returns the market will eventually provide. Therefore, it is important to not expect too much. So continually invest over a period of time. This is a sure way to reach your financial goals.

Buying high and selling low

The fundamental principal of investing is to buy low and sell high. Of cos, your aim is to make profits when you invest. Besides, nobody can consistently predict market movements, and even less over the long-term. Share prices fluctuate but they do not all move in the same direction. So rather than attempt to predict price movements of shares in the stock market it is better to adopt a strategy where you remain invested regardless of the fluctuations. This will help you to mitigate risk and safeguard your portfolio from market movements. So it is important that you hold on to a long-term investment plan without reacting to market fluctuations. That way you will be able to enjoy good returns.

Monitor your investments regularly

It's important to review your investment plan once a year. Check your investments to ensure that you are still in line with your financial goals, risk tolerance and investing time period. You need to be watchful about over-monitoring which may lead to over-trading. This can easily result in selling when markets fall and not sticking to your investing plan and investing time frame.