Secrets of successful investors

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Most successful investors adopt policies based on tried and true investment practices and principles. They do this consistently in both good times and bad times to avoid chasing returns and investing in what is currently "hot".

1. Set the investment strategy to achieve the returns required

The most important principle is to set the investment strategy with specific regard to the income return required, the growth return targeted and the minimum total return acceptable. In some cases, the income and growth split matters less, but this should be specific decision and not left to chance. Also, the investment strategy should be set with a clear investment philosophy and set of beliefs about the market and what is realistically achievable.

Where active management is adopted to vary the investment strategy over time, there also has to be a process to create a competitive advantage. This process has to be repeatable and should be linked to the philosophy. Decisions should then be focused on the things that reflect the competitive advantage and beliefs. For example, if the investment beliefs, says there is no insight on short-term market movements, but there is on long-term trends, decisions should ignore what may happen over the next month or quarter. A logical and disciplined process helps prevent reactions to short-term market moves, jumping on the latest fad or being dominated by the loudest voice.

2. Invest long-term

People who invest in shares for the short-term and change from year to year, tend to get inconsistent results. While one share might deliver great returns one year, it is difficult to pick winning companies every year and to know when to sell.

3. Diversification reduces risk

Diversifying across a range of countries, industries and like investments reduces market risk, but does not reduce the expected return. With a diversified portfolio of investments the returns from better performing investments can help offset those that underperform. The alternative is to be able to undertake due diligence and have a level of management control. Without a high level of diversification, the level of due diligence must be such that you can identify those companies that are more likely to underperform so you can avoid them.

The legal stuff

This is not an investment statement for the purpose of the Securities Act 1978. An investment statement is available from SuperLife free of charge. Before making a decision to invest, you should consider whether you need to seek financial advice. If you wish to have personalised financial advice, you should talk to an appropriately experienced Authorised Financial Adviser.

4. Invest over time

Picking the best time to invest is a lot easier said than done. For most investors therefore it is better to use “dollar cost averaging” principles when investing new money. By investing on a regular basis, regardless of the price, you average out market fluctuations over time. This also lets you focus on the average return over the long-term and not react to short-term events.

5. Costs matter

Costs reduce your investment returns. So, it’s important to understand all the fees you will pay before you invest. These include the costs of buying and selling investments. Lower fees create a long-term return advantage.

6. Less tax can mean higher returns

The amount of tax you pay on your investment earnings determines the amount of the investment return you get to keep. Managing the investments tax effectively is therefore important. The only return that matters is the net-of-tax and net-of-fees return.