MIRAE ASSET
Mutual Fund
An Investor Education Initiative

Guide to be a good investor

An investment in knowledge pays the best interest.
– Benjamin Franklin

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Rightly said, it is very important to know why and where are we investing. There could be different factors that influence our investment decisions. The range of factors always depends on your personal circumstances, but here are some key factors that you need to consider while investing:

- Your financial goals
- Time horizon – how much time you have to invest to meet your financial goals
- Your risk profile – your risk-taking capacity and tolerance
- Emotional factors – sticking to the plan
- Life changes – expect the unexpected
- External factors – inflation levels, economic cycles and geopolitical risk

The importance of financial goals

Depending on your life situation, your financial goals might be:

- Saving for specific goals such as a holiday or buying a new car soon. Or maybe preparing for emergencies such as medical bills. These are **short-term** goals.
- Saving for a new house or child's higher education in a few years time. These are **medium-term** goals.
- Investing for retirement after 15-20 years or so. This is a really **long-term** goal.

When you have identified your specific goals, write them down clearly.

Time horizon

Talking of retirement, the time horizon that you have when you start investing will influence the choices of investment you should make. If you make your first investment when you are 5 years away from retirement, it will require a different type of investment than when you are 35 years away from retirement. The general wisdom is to invest in products that carry lower risk when you have a shorter time horizon, especially when you've already saved up quite a bit towards this goal. This could include products such as government or corporate bonds. On the other hand, if you have a longer period of time in which to invest before retirement, you can consider higher risk products such as stocks or shares and equity mutual funds as there is some time to go, and even if your investments take a hit due to market movements in the short term, there is time to recover.

Your risk profile

To assess your risk profile, you must consider your risk-taking capacity and your general tolerance to risk.

Your risk-taking capacity can be judged from demographic factors such as your age, income, wealth accumulated, number of dependents, etc. Naturally, the older you are, or the greater the number of dependents, or the lower the accumulated wealth and income- the lower will be your risk-taking capacity, and vice versa.

Your risk tolerance indicates how comfortable you are with taking risks. This is purely based on your personality. Some people have a greater stomach for risks; in fact, some thrive on taking risks, while others are conservative. In general, matching your general risk tolerance in life to the risk you take in your investment decisions is a good idea, not only to keep your emotions and anxiety in check, but to ensure that you stay true to your plan over the long term.

Emotional factors

Investments such as stocks or shares and equity are linked to market movements and are prone to value fluctuations - also known as volatility. However, if you have clear financial goals over defined periods of time, you should try not to panic which may result in selling some of your investments before time, or even course correct aggressively when not really required (as there's enough time and opportunity left for your investments to recover).

One can also get impacted by the investment decisions of those around- whether it may be family members, co-workers or friends. If they take certain decisions, those around them can also get carried away and take similar decisions, without giving it a deeper thought than usual.

Experts also recommend that your general state of being should be calm and composed when you make investment decisions. If you're very happy and delirious, or if you're really sad or upset, your decisions may not be the most well taken.

Hence, stick to your own investment plan and keep building up your investment funds, free of emotion.

Life changes

Unplanned life changes can have unexpected financial consequences. Maybe you lose your job and need to fund your expenses till you get another job. Or maybe there are some unforeseen events in the family and the financial burden that comes out of nowhere makes you feel challenged.

If you have created a logical financial plan which includes maintaining a comfortable emergency fund, and you are able to stick to your plan, you will be in great shape to deal with most such unplanned events and the resulting financial crisescrisis.

External factors

You now have an understanding of the personal factors to keep in mind when you are investing. There are also external ones, which you should also consider. These include:

- **Inflation levels:** Your investments must yield higher returns than the inflation rate in order to help you build real wealth.
- **Economic cycles:** Periods of high growth can be followed by periods of slower growth, which will slow down any increase in the value of investments. You must be prepared for this and should not cash out impulsively. Stick to your plan.
- **Geo-political risk:** Any destabilization of a political regime, a military crisis or even a general election can knock investment values off-course.

Key Takeaways

1. Before investing, assess personal factors: your financial goals, time horizon, risk profile, your ability to deal with market volatility and your preparedness for emergencies.
2. Also consider external factors: economic cycles, governmental moves, geo-political risk etc.
3. Once you have a well thought out investment plan, stick to it as far as possible and if you want to make any course corrections, ensure that it is for the right reasons and not based on impulse or emotions.

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