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THE INVESTMENT PLAN – Certainly a better way to invest

By Mike Lee, CFP, RFP, FCIS, MCIM
Managing Director, CTLA Financial Planners Sdn. Bhd.
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A great majority of people have invested in unit trust because there have surplus cash that they do not need in the short term or that long-term EPF funds are available to them to invest. For whatever reasons, most investors seldom see the need for an investment plan – a game plan that will help them see the bigger picture in the longer time frame. This is because the investment return is usually the main consideration – an expectation that hopefully things will turn out right and profits can be made. However, investors must realise that returns are the reward for taking risk – such as low risk, low return and high risk, possibly high return. Hence, risk cannot be managed properly if there is no investment plan. Many also do not realise that the stock market is a two-way direction – it can go up as well as down. There is no certainty that when one invest, the only way is up. If it is down, the consequences can be damaging.

Time and patience are necessary to enable your investments to grow given the fact that the market cycle usually take some years to change from bear to bull and vice versa.

Some months ago, I acted as an external judge (there were 4 other internal judges who were the university college's lecturers) in the final presentation of a Business Proposal Challenge Competition. All the five teams that were short listed out of about 30 (I was told) have come out with innovative and creditable presentations of business proposals ranging from producing bio-diesel to creative sports shoes and safe transportation for the elderly and pregnant women. All the teams have done a very good job by producing detailed information about the project feasibility including the market study, product range, pricing issues, production and costing, accounting structures, projected cash flows, economic trends, competition, capital expenditures and capital funding and so on. I spent a full week going through the five proposals in detail and listed down my comments/feedback for the university college. All teams could have scored better if the following have been included and emphasised:

- The investment objective – what do shareholders want in terms of returns vs. risks?

- The critical success factors – items that are so important without which the business proposal can fail.

- A sensitivity analysis on projections – the 'what if' situation, what can be a worst case scenario if your projections are not met? What is your plan B?

- The management's key result statements (equivalent to the key performance indicators or KPIs) – efforts that will drive management to meet realistic challenges which are neither too easy (lest they become complacent) nor too difficult (which is beyond their capability) and the resources of the organisation.

Though the competing teams (as students with no actual working experience) did not cover all the critical areas (of different discipline) about doing businesses in the real world, at least, they produce a 'master' plan from which all activities ranging from production, research, marketing, distribution, procurement, accounting and so on can proceed according to the plan. Should something go wrong, for example, when sales targets are not met or profit ratios are not according to budgets, corrective actions can be taken quickly to resolve those concerns. **This is the purpose of planning.**

As an investor, the same principles can also apply to you even in a small or different way – an investment plan compared with a business plan. Just as an effective business plan ensures the success of a business, the investment plan carries the same assurance that your investment objectives can be achieved if you can lay down the rules and strategies of your game plan in advance. Because the business plan entails the actions that need to be taken when activities deviate from the original (this is where problems arise), the worse that can happen can be contained quickly thus minimising losses (if any).

Similarly, an investment plan should do you good especially in turbulent times. If you have an investment plan, you should be able to make quick rational decisions about what to do, for example, in the Wall Street crisis in September 2008 when Lehman Brothers filed for bankruptcy which led global markets to tumble like dominoes. The questions to ask are, should you?

- 1) sell or redeem your unit trust investments or
- 2) switch to a money market fund for refuge or
- 3) continue to dollar cost your investments or
- 4) simply do nothing and hold until things get better again.

The chances are that you will sell simply because you hear that everyone is selling and of the fear of losing all your money. The last three options are far from your mind as you panic and react with the herd. On hindsight, you could have done the right thing for the wrong reasons as global markets have since dropped much since September 2008. Would you, for example, have done the same in January 2008 or now? In the absence of an investment plan, investors tend to feel lost and are usually confused about what to do with all the 'noises' around them. The investment plan therefore helps them to remember why they made those investments in the first place and that other options must be considered before reacting hastily.

Investing in unit trusts is not the same as shares. You may trade in shares in the short term and exit when you decide to take profits or cut losses. Unit trust investments are meant for the mid- to long-term such as 3 to 7 years. Generally, in the short term, it is unlikely that you will benefit from your unit trust investments. This fact must be understood before you invest. But, in the mid- to longer-term, the returns can be just as rewarding as investing in shares. If you are not sure about what to do, you should consult a licensed financial planner (investment advisor) - someone who is experienced in investments. Though an investment plan does not guarantee that you will not lose money, working with your investment advisor should help minimise the adverse impact on your portfolio. It may be a good time to re-balance your portfolio for example, so that you can manage your risks according to prevailing market conditions and beyond. If you have the time and excess cash flow, many options are available for you to make your cash king.

Cash is king only when you continue to invest excess cash using a dollar cost averaging program to accumulate a large number of units at low prices. If you have time and is prepared to take some risk, this financial crisis presents you with an opportunity to 'buy low and sell high'. Some analysts may suggest that it is better to give up the first ten or twenty percent of profits than to risk catching falling knives. Others believe it is time to bottom-fish selectively. In reality, no one actually knows when the right time to invest is. Trying to speculate when is the bottom is extremely difficult. That is why the 'time-in' the investment using DCA is perhaps better than 'timing'. Staying out of the market can also mean lending your money to the bank in fixed deposits and other fixed income instruments for a low return. With the global interest rate trending towards zero% and inflation still high at personal levels of about 8 to 10%, the value of your money is actually falling fast if you do not do something about it**.**

Cash is king only when your purchasing power is the greatest and prices are at their lows (not necessary lowest). It is already 'half-king' by the time the market starts to recover and is no longer king when the recession is over and you are paying the same price as everyone else.

Investor education is important. Problems can arise if there is miscommunication between you and your investment advisor. Therefore, you must learn to manage your financial affairs and understand what you are getting into so that you can communicate effectively your investment objectives. This will allow you to discuss with your investment advisor concerns that may arise subsequently so that they can be rectified quickly. It is in your interest to work with your investment advisor who can educate you along the way as each business cycle comes and go.

The major areas of an investment plan for unit trusts are listed below. The list is not exhaustive and you may add more if you find necessary as each person's needs or objectives may be slightly different.

1. State your objectives – what do you hope to achieve in your investments? Is it for child education, retirement, better return or a combination of two or more objectives?

2. State your expectations – what is an acceptable return for you given the objectives you have in mind?

3. Examine your sources of funding – how much can you afford to set aside for your intended investments as stated above?

4. How much risk are you prepared to take given the level of returns you are expecting from your investments?

5. Are you prepared to invest for the mid- to long-term of say, 3 to 7 years generally and longer if you are planning for child education or retirement?

6. Use asset allocation to spread out your risks by investing into different types of funds of different asset classes.

7. Invest in smaller amounts by using dollar cost averaging strategy to manage market volatility and even out unit prices.

8. Re-balance your unit trust portfolio at least once a year or when market conditions change substantially.

Bloomberg reported on 2 December 2008 that the US has been in recession for about year now since December 2007, the longest contraction since 1982, and is expected to continue into the middle of 2009. When the US is down with flu, the whole world seems infected. How soon will markets recover, no one really knows. There are many schools of thoughts – 1) a mild one (a V-shape quick recovery just like our local 1985-86 recession and the 1997-98 financial crisis), 2) a normal one (a U-shape type which usually lasts between 8 to 18 months) or 3) a severe one (an L-shape type which can last many years). As an investor, should you stay worried for long periods of time and do nothing, for example, between now and say, 18 months time? If you want your cash to be king - you have to be the early bird in order to catch the worm. One option is to take a bit of risk now and work with your licensed financial planner to put together a plan early.

If investors want to achieve their objectives and also sleep well, the investment plan is a necessity, not an option.

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Mike Lee is the founder and managing director of CTLA. He is a professional trainer, speaker and author of the book **"Power Concept$ - For Investing Wisely"** and a technical workbook in CD format **"The CTL Workbook – How To Market Unit Trusts Effectively".** Power Concept$ has received good reviews from both investors and advisors marketing unit trusts who finds the book very informative and educational. The CTL Workbook was also well received by unit trust consultants and financial planners who have benefited from its easy –to-use financial applications and solutions since it was first launched in 1998.

Mike Lee is a CPE-approved speaker registered with SIDC and has conducted a SIDC CPE-accredited workshop recently on 24 September 2008 **"Managing your unit trust portfolio well at all times"** Mike contributes regularly to Sin Chew Jit Poh his solutions to readers' financial problems and Personal Money about his views and opinions on unit trust investments and insurance matters.

Prior to setting up his financial planning practice in 2002, Mike has more than 25 years of experience in the private sector holding senior positions ranging from Accountant/Group Company Secretary to General Manager/Executive Director with high responsibility for marketing and finance. He has more than 12 years of experience marketing unit trusts and specializes in investment planning related to child education and retirement.