Fairstone
IRELAND

5 Simple & Key Investment Principles

INTRODUCTION

Investing is simple but not easy. A famous Warren Buffet quote. At Fairstone Ireland we believe that if you invest along a set of guided principles, you will significantly enhance your chances of success.

When we look at the financial media and marketing, we're led to believe that investing is complicated. Information is thrown at us on markets, the economy, investment strategies, shiny new funds and much more. This then leads to confusion.

It doesn't have to. We adopt a simple investment philosophy - long term investing with an emphasis on diversification.

Our investment recommendations are then underpinned by 5 key principles.

Nothing fancy, just the time proven basic fundamentals of successful investing that can be applied by everyone. By following these principles, our clients will enhance their chances of long term investment success.

If you're an investor looking for a get rich quick investment, they don't exist and we're not the firm for you. If you're looking for a solid, consistent investment plan, please read on.

Francis McTaggart
CFP® SIA RPA QFA
Director

GOALS & OBJECTIVES

When planning to invest, you should invest with the end in mind.

- **What are you hoping to achieve with the investment?**
- **Is the money for a specific goal or objective?**
- **What is the end game?**

The goal should be specific to yourself and I would recommend that you split your goals into those that are medium term and those that are long term. Your Investment success should be measured by your individual attainable goals and objectives, not by the expectation of an unrealistic investment return.

Measuring your investment success by unrealistic investment returns, often compounded by the provision of poor information at the outset can be disheartening and can result in the creation of random portfolios that are then guided by factors like recent market under or over performance.

Your goals can be simple, like a targeted retirement age, the kids expected college years, growth on savings or that dream family holiday. The important thing is that you set them.

> “ *Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn’t, pays it.*

Principle #1

SHORT TERM MARKETS CAN'T BE PREDICTED

Despite what the financial media tell us - no one can predict how the markets will move in the short term. No one can predict the future.

The future has far too many variables to be predicted. Markets have too many variables to be predicted. When markets are enduring a temporary decline, there is always commentary to be found somewhere about it being a potential doomsday scenario for markets.

The key issue here is the people providing the commentary have to justify their salaries somehow. None of the gurus, well none that I heard, predicted markets would rebound as quick as they did in March 2020 after the sell off caused by the COVID-19 pandemic.

This simply underlined that short term markets can't be predicted and it's unwise to react to short term market movements.

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Principle #2

TIMING THE MARKET DOESN'T WORK

Markets can't be timed. Market timing is an investment strategy where investors move in and out of the market to try and avoid losses before they happen and then buy in at the bottom to maximise gains.

As humans we suffer from a cognitive bias called 'loss aversion'. Simply stated, we hate to lose more than we love to win and we try and time the market to avoid the pain of losses.

To be successful at timing the market you need to know two things:

- **When to take your money out of the market**
- **When to buy back into the market**

That's two calls you have to make correctly. Yet a bell doesn't ring at the top and a bell doesn't ring at the bottom. It's a strategy that may yield occasional success but it is not sustainable over the long term.

Evidence and numerous studies tell us that patience is rewarded over time. It's time in the market that's important and sticking to your individual financial and investment plans, not trying to time the market.

“Successful investing is about managing risk, not avoiding it”

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Principle #3

RISK & RETURN ARE RELATED

There is no such thing as a free lunch. You can't have investment return without taking on risk. The risk-return trade-off states the higher the risk the probability of higher return and vice versa.

Using this principle, low risk investment and savings structures like the bank or credit union result in low returns whereas exposure to higher risk assets such as equities result in longer term higher returns.

An investor cannot take little or no risk and expect high returns. We work with our clients to find the level of risk they are comfortable with and match this to their capacity to take risk and to their individual investment objectives. While risk cannot be avoided we help clients manage risk by way of diversification in their portfolios.

It's important to us that clients get an investment return relevant to the risk they are taking within their portfolios.

Principle #4

DIVERSIFICATION IS ESSENTIAL

Diversification is spreading your risk across different types of investments and asset classes. Whilst individual asset classes can suffer severe declines, it's very rare that two or three asset classes would suffer severe declines at the same time. It makes sense to spread your investments across different asset classes as this helps make the investment journey smoother.

The benefits of diversification include:

Minimizing the risk of loss in your overall portfolio

Exposes you to different opportunities for return

Reduces volatility

Diversification does not guarantee against loss, however it is one of the most important components of reaching long term financial goals.

Our investment recommendations are highly diversified across asset class, global regions and sector.

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Principle #5

INVESTOR DISCIPLINE IS CRUCIAL

That Warren Buffet quote again "Investing is simple but not easy". Whilst all 5 Principles are important, Principle #5 carries that bit extra weight of importance due to the emotion involved in investing, particularly when markets are shaky.

When you have an investment strategy in place it is important you exercise the discipline required to stick to that strategy.

Another cognitive bias we have is 'Recency Bias'. This is the unfounded conviction that recent market trends will continue into the future. Put simply, when markets are hot, recency bias has us believing they will continue to be hot, when they are on the decline, we think they will remain on the decline forever.

This can then result in investors fearing pain and trying to time the market.

Successful investing requires discipline which involves focusing on the long term fundamentals of markets and removing the emotion from investing.

The markets change every day. We can't control that but what we can control is our behaviour and reactions to those changes.

> **Our expertise and experience are invaluable in helping our clients see through the short term fluctuations, tune out the financial media noise and maintain their discipline and avoid knee-jerk reactions to market movements.**

CONCLUSION

In the current environment where interest rates are at all time lows, for their hard earned cash the public have to consider alternative options to the traditional bank, credit union and post office.

Whilst no one can guarantee investment success, it's important that an individual gives themselves as much chance of success as possible, any advantage is welcome.

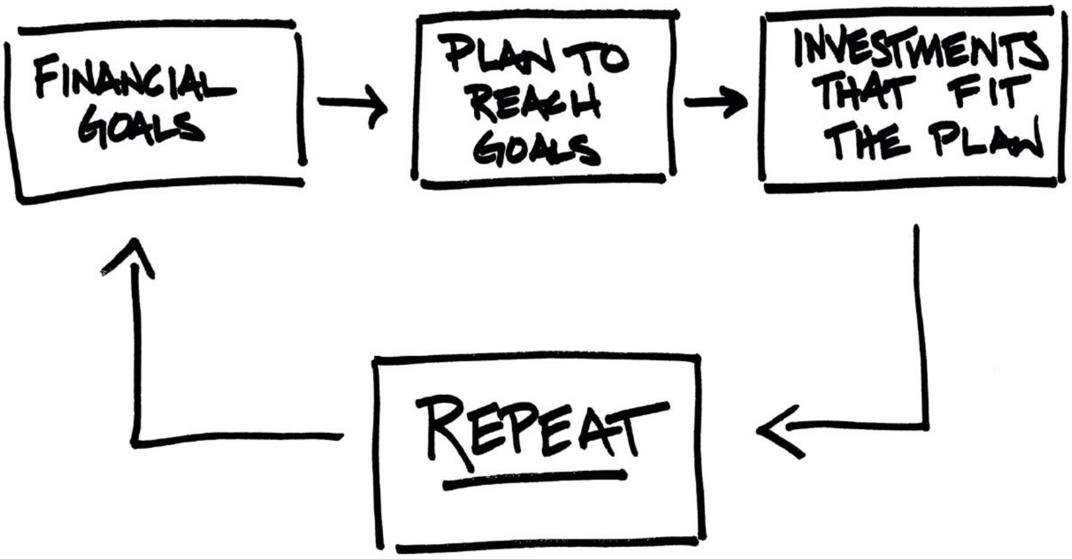
Investing is an emotive act. The principles outlined in this guide will provide anyone who is investing with a long term perspective and help them deal with the emotional side.

As I mentioned in the 'Introduction', if you are an investor looking for a get rich quick scheme or a quick win, they don't exist and we're not the firm for you.

If you would like to discuss the contents of this document or are looking for a solid consistent investment plan created through a robust process you can contact me here.

Francis McTaggart
CFP® SIA RPA QFA

Simple, honest, transparent financial advice.



To book a no-obligation investment consultation, contact Fairstone Ireland.

Let's talk

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