Introduction to the Investment Process

A successful investment plan does not evolve from thin air. Nor does it come to you from the come-on ads on any one of a thousand news sites. Least of all, you can't find it by reading last week's winners in *USA Today.* It requires a process. A well-defined process that follows a methodology to it's logical conclusion. That's what we develop in this session: the steps and components to a logical methodology to develop a successful investment plan. The methodology helps you come to realistic expectations about your future, and will help you create a plan to get there. Think of the process as a GPS for your financial future.

There Are Five Steps in the Investment Process

Whether you hire a financial advisor or do it yourself, successful investing always employs a time tested process composed of five steps.

- **Step 1:** Collect demographic and financial information about you and your fiscal circumstances. It is essential to the process to consider all the personal and financial information that may impact developing an investment strategy. Exactly where are you now and how much do you have where? What are your dreams and what are your desires for the future? You need to be very introspective and factual. This is not the time or place for you to exaggerate. You can't get where you're going if you don't know where you're starting from.
- **Step 2:** Develop investment objectives and memorialize them in a written statement which becomes your investment policy. Your investment policy statement with specific investment objectives identified for **each** component of your future spending plans is ***the*** critical component of the investing process. It is not possible to execute any investment recommendation unless you have a clearly articulated statement of those objectives. Think of it as the roadmap.
- **Step 3:** Create an investment strategy which is designed to match your investment objectives piece by piece--college funds for the kids, retirement, estate, charitable giving, and so on. The strategy begins with an asset allocation place and an investment style allocation which it at least likely to optimize your opportunity to succeed in meeting your objectives.

- **Step 4:** Find and select investment managers, investment management firms or other appropriate financial vehicles,funds, ETFs and others, which will fill the investment strategy you have developed. Investment recommendations must meet the asset and investment style allocations developed in the strategy. Never pick or accept investment recommendations until you are certain there has been a thorough due diligence analysis of the various types of investment vehicles which may be appropriate for you. It could be something you do yourself, or have a helper do for you (more about "Helpers " in our course about picking a financial advisor). The end result of this analysis is the ability to choose those which may most closely approximate your objectives.
- **Step 5:** Finally, monitor the progress toward meeting your goals. Evaluating your selected investment choices (or those recommended to you) is a continual process for the life of the portfolio. It requires rebalancing or reallocation if markets change or if your financial circumstances change. In the event that a manager or investment vehicle is not meeting its projected benchmarks, it may be necessary to make an adjustment and replace that component.

Now that we have identified the five steps in the investment management process, we will look at each component in detail. Before we go further, though, we want to advise you that we have some tools at the end of the session to help you get the process moving. We all need to understand that developing goals means setting realistic expectations.