SUCCESSFUL LONG-TERM INVESTMENT

Successful long term investment is not just about buying low and selling high. Stock markets rise and fall, and share prices are vulnerable to everything from political newsflow to the weather. Trying to find your way around – particularly during times of high volatility and uncertainty – can feel like negotiating a minefield. So how can we make sense of such a confusing world? It is probably time to go back to basics – stock markets may rise and fall, but the rules of sensible investment remain constant.

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Rule 1: Buy what's right for you.

Just because an investment works well for somebody else does not mean it is right for you. Consider your own situation – your future liabilities, your investment goals and, most importantly, your appetite for risk – and then make your own decision.

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Rule 2: Diversify.

Spread your risk by diversifying your portfolio across a mixture of asset classes, industry sectors and areas of the world. If you put all your money into a single asset class, sector or company, your portfolio is very exposed and performance is likely to be volatile – whereas, if you mix it up, when one asset is going down, chances are, another asset could be going up and will help compensate. Don't put all your eggs in one basket.

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Rule 3: Invest for the long term.

It's hard work – and largely pointless – trying to time your investment so you buy right at the bottom and sell right at the top. Similarly, trying to make short term profits by turning over investments quickly will get expensive and carries a high risk. Instead, target your portfolio at quality companies or funds and then allow them the time and space they need to grow. However...

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Rule 4: If an investment has risen substantially, take another look.

There is an old rule of thumb which says 'when your investment doubles, sell half'. Short term sentiment in stock markets can drive values artificially high, in which case, you may want to cash in while you can. Don't get greedy – you should never be ashamed to take a profit.

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Rule 5: Never buy what you don't understand.

History is littered with funds which promised a great deal but which, when faced with pressure from the market, collapsed with all those promises broken. Some shares or funds might sound very exciting and, indeed very simple, but if you don't understand exactly what the company does or how the fund works, steer clear.

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Rule 6: Know when to say goodbye.

If a holding has performed particularly badly relative to its peers, you need to consider cutting your losses and selling it altogether. It might be better to sell out and reinvest the proceeds into a quality alternative than to sit around hoping to recoup your loss.

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Rule 7: Don't get emotionally attached.

It's wonderful if a holding has worked for you, but you don't have to feel grateful: the share doesn't know that you own it. You should look at every existing investment with the same clear headed objectivity as you did before you bought it – and when it's time to sell, do so with a clear conscience.

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Rule 8: Be your own person – don't follow the herd.

Many investors became caught up by the euphoria which surrounded the dot-com boom of the late 1990s simply because everyone else was and they did not want to miss out. Consequently, they bought shares in companies that promised much and delivered little or nothing. It is hard to turn against the flow but always take a step back and think not just about what you are buying, but why.

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Rule 9: Review your portfolio regularly.

Your portfolio has been set up to meet your objectives based on your needs today. However, over time, your needs and circumstances can change. The markets can also change – and your portfolio may need the odd tweak to make sure it keeps up. Review it regularly – perhaps every one to three years – and make sure it stays on track.

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Rule 10: Don't believe everything you read!

Headlines on TV and in the finance sections of newspapers can be just as misleading without investigation as they are in celebrity news and sport. Make sure you keep a clear head, remain focussed on your objectives and take advice from a qualified professional to ensure you are making the most of your investment portfolio.

If you would like to take a closer look at your own circumstances and discuss the best mix of investments to meet your needs, speak to your professional financial adviser.