aviso wealth

Five good habits of successful investors

"We are what we repeatedly do," said Aristotle. "Excellence comes not from our actions but from our habits." Good habits can help you be a better investor, and these five good habits can help you successfully invest for your retirement.

1. Start early. The sooner you make it a priority to invest for your retirement, the better. When time is on your side, it can be a huge ally. The earlier you start, the more you benefit you'll see from the power of compounding, which is when the returns that you earn begin to generate a return. Registered retirement savings plans (RRSP) allow for unhindered growth, because investment earnings are not taxed as long as the funds remain in the account.

2. Invest regularly. It's a good idea to hardwire the habit of saving and investing. Set up a regular contribution plan to move a set amount of money automatically every month from your banking account to your RRSP investing account. You'll quickly adjust your lifestyle around that priority budget commitment, and you'll avoid the stress of coming up with a single lump-sum contribution at the RRSP deadline. You could also add regular contributions to a tax-free savings account (TFSA), but make sure you don't go over your annual maximum contribution.

3. Establish a target asset allocation and rebalance regularly. Establish a target asset allocation - your particular mix of stocks, bonds and cash. Your asset allocation defines the relationship between expected risk and reward. The exact percentages in your mix will depend on several factors, including your risk tolerance and your investment time horizon.

Stocks have historically had higher short-term risk but the highest long-term returns among the three major asset categories. If you have a longer investment time horizon, you're focused on growth, and you're willing to endure some volatility, then you might set a higher target percentage of stocks.

Bonds are generally less volatile than stocks but offer more modest returns. If you have a shorter investment time horizon, or a lower appetite for risk, then you might increase your target percentage of bonds.

Cash and cash equivalents, such as GICs and money market mutual funds, are the safest investments, but offer the lowest returns. The chances of losing money on cash-based investments are low, so they make sense if you're nearing a financial goal. But for a long-term investor, playing it safe in cash makes less sense: returns may not keep up with inflation, and your purchasing power can gradually be eroded.

Over time, and based on the performance of your holdings, your portfolio's asset allocation may shift too far in favour of one asset over the others. It's important to review your portfolio on a regular basis to ensure your target asset mix is still correct, and rebalance it if necessary.

4. Hold diverse investments. Proper diversification is essential for your retirement portfolio. There are many different markets and many different kinds of investments, and their values don't move up and down in concert. A well-diversified group of investments helps smooth out the ups and downs of the market, by allowing you to participate in assets that are doing well, while limiting your exposure to assets that are performing poorly.

5. Check your emotions. Emotions make us human, but they don't make us better investors. The normal ups and downs of the markets can trigger fear or greed, which can cause people to do the opposite of the basic formula for success: buy low, sell high. History shows that market downturns have usually been excellent buying opportunities.

Ready to put these good habits into practice? Talk to your advisor to learn more.

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