Don't forget those golden rules

In uncertain times, it's vital to remember the fundamentals of investing, writes **Karina Barrymore**

CRISIS and uncertainty often make investors feel like bystanders when financial markets appear to take on a life of their own.

This was obvious most recently after the natural disaster in Japan as well as the military action in Libya. But economic fortunes, investor confidence, financial disaster or political upheaval can create financial shock waves any time, anywhere in the world.

It's at these times when many people turn back to the basic rules of investing.

According to US-based analyst for GMO and financial author James Montier, there are really only a handful of basic principles to follow — regardless of the times.

He recently released the *Seven Immutable Laws of Investing*. So we also asked our local experts for their golden rules.

James Montier, GMO

1. Always insist on a margin of safety.
2. This time is never different.
3. Be patient and wait for the fat pitch.
4. Be contrarian.
5. Risk is the permanent loss of capital, never a number.
6. Be leery of leverage.
7. Never invest in something you don't understand.

Robin Bowerman, Vanguard Investments

1. Diversify across asset classes to control risk.

Major events are almost totally unforeseeable (eg, Japan's earthquake) so diversification helps spread the risk/impact.

2. Don't chase yesterday's heroes (past performance).

Only a small percentage of fund managers manage to back up over the long term, yet investors large and small are strongly influenced by trailing three-year performance numbers.

3. Never invest in anything you do not understand.

This is possibly the best advice and something that a lot of people ignored during the lead-up to the global financial crisis.

4. You can't control market performance but you can control costs.

Remember, the more you pay the less you get to keep.

5. Set an asset allocation mix that suits your personal risk profile.

Be disciplined about rebalancing it — that's a lot easier said than done.

6. Have a financial plan.

It does not need to be long or complex but the discipline of writing down a plan is instructive and helpful in times of market turmoil to remind yourself what your goals are.

7. Invest for the long term.

Or in the words of Vanguard founder Jack Bogle: "Stay the course".

Janine Cox, Wealth Within

IGNORANCE can be expensive. The most common reason people don't achieve financial independence is due to a lack of knowledge.

> **"In the business world, the rearview mirror is always clearer than the windshield**
>
> — WARREN BUFFETT

1. Irrespective of the amount of money you have to invest, spend the same amount of time researching every investment.

This could also read; 'Don't just buy any share. Do your research and buy the biggest and best shares on the market'.

2. Aim to have between eight and 12 stocks in your portfolio.

For example, if you invest 8 per cent in each share you will have approximately 12 shares in your portfolio, while if you invest 12 per cent in each share, this gives you about eight shares. This rule reduces your risk and increases your returns because smaller portfolios are easier and cheaper to manage and it's easier to select a small number of good-performing stocks.

3. Have a stop loss to protect you in the event a share falls in value.

This can be as simple as, if a share falls by more than 15 per cent from the price paid, you should sell.

If you invest in the share market you need to accept some stocks will fall; however, this rule will help reduce your exposure.

Yong Quek, Prime Value Asset Management

1. Minimise mistakes.

This is unspectacular, but vital. Everyone remembers big share market wins but the reality is that avoiding big losses is just as significant.

In fact, many investors have been brought undone by just one big mistake.

2. Be informed beyond the common financial ratios.

It's important to look beyond the high-profile indicators such as PE (price-to-earnings) ratios.

A stock may look like good value on the surface but the further you delve into the qualitative aspect, you may be uncomfortable with the track record of the management team.

Then you would avoid a poor investment.

3. Experience counts.

Even the best investment laws rely to a degree on experience to successfully carry them out. Intuition and investment smarts come over time. Experience takes time and patience to develop.

4. Have a clear exit strategy.

It is easy to 'fall in love' with stocks that have performed well in the past, yet investing demands that all emotions be put aside.

A clear exit strategy helps refine your goals.

Warren Buffett, Berkshire Hathaway

BILLIONAIRE investor Warren Buffett is renowned for his share market expertise.

Although he does not have a defined list of rules, over the years the so-called Oracle of Omaha has built a library of investment adages.

Here's just a sample of Buffett's wisdom:

1. Never lose money.
2. Never forget rule number one.
3. Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.
4. Price is what you pay. Value is what you get.
5. In the business world, the rearview mirror is always clearer than the windshield.
6. When you combine ignorance and leverage, you get some pretty interesting results.
7. Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.