Investing FOR BEGINNERS

4 PORTFOLIOS

HOW TO DESIGN ONE

Book 4 has arrived!

Congratulations!

You should hopefully by now have one index tracker or ETF in place within your home country (or a country that is more stable than your own if your home market is too volatile).

This book is about **how to structure your portfolio** (I know, the first time I thought of myself as having one of these I thought it was ultra cool too!).

We are smart and safe investors right? So this means we need to bring in another aspect of diversification – investing in different asset classes.

The main additional classes I'm talking about are:

- Property
- Physical Commodities like Gold, Silver
- Bonds

We will structure our investments in such a way that the money we invest **will be balanced** among the different types of investments. The theory is that when gold goes down, stocks go up. When stocks go up, bonds go down, and gold is static and so on. Now this is not strictly always true. In the stock market crash in 2008, EVERYTHING went down, but I'd still much rather my money was spread among different asset classes than in just one, **wouldn't you**?

So how do we structure this?

At a very basic level, it depends on your age, your tolerance of "risk" and how soon you want your money.

When you're younger (or don't want/need your money for at least 7-10 years), you have more time for any major dips to be corrected, so you can afford to put more money into stocks and shares that are typically deemed as more "volatile" investments.

Time in the market and compounding is what really gets your money growing, **so the more time you have, the better**.

As you get older however, it would be sensible to have a higher proportion of your money in more stable investments, like bonds.

These don't generate growth in the way that stocks and shares do, and are considered more reliable, "less risky" investments. They are perfect for when you want your money sooner than 10 years.

Even in retirement though, you still need some money in stocks and shares, because we need our money to keep growing so it can sustain us until we die.

Book 4 Portfolios

I'm now going to show you how different types of portfolio could be structured to meet your needs.

It's a suggested way of dividing your assets, but I have to stress that it is not prescriptive, and definitely doesn't mean you have to do this. You can do what you like, but you have to take responsibility for this yourself. This is what causes some anxiety for people, as they are not used to having to take responsibility for their money. As I've already explained, this is costly, and could jeopordise how well your assets grow.

Of course, if you want to ask a financial adviser to help you, then at least this course will teach you what you need to be asking to ensure your assets are being well cared for.

My ultimate aim with this course is to show you the way I have my portfolio balanced, but I'll tweak as I go as I read more about good investing practices through the years. The investing world changes all the time, so you always need to be on your guard.

A few points to note:

Instead of calling each portfolio type Low, Medium or High risk like you'll see with a lot of investment companies, I've decided to name them by the kind of yield they each have the potential to produce.

A yield is a way of describing "a financial return" i.e. an estimation of how well an investment might perform for you **in the future**.

This is different from a rate of return, because this is looking at how an investment performed **in the past**.

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Type of Porfolio	Lower Yielding	Medium Yielding	Higher Yielding
Other classification you might see	Low risk, conservative, protection	Medium risk, balanced, moderate	High risk, aggressive, growth
Potential age of investor**	>60 years	50-60	<50
Potential annual yield (above inflation)***	1-3%	3-5%	5-7%
When do you need the money?	Within 3 years	Between 3 and 7 years	Over 7 years
Home ETFs or ITFs	35%	40%	45%
Foreign ETFs and ITFs	5%	15%	25%
Home Bonds	25%	15%	5%
Foreign Bonds	10%	5%	5%
Property equity	5%	5%	5%
Other (Commodities e.g. gold, ethical, specific stocks)	10%	10%	10%
Cash*	10%	10%	5%
Total	**100%**	**100%**	**100%**

*The reason for always having some cash left in your account is so that you can take advantage of stock market dips. It gives you flexibility to invest more in something if it sudden loses value (such as a cheaper index

**This is of course a MASSIVE sweeping generalisation. I'm assuming that you'll want to be retiring in your 60s, but you may have plans to retire later, (or earlier) and can afford (or not) to leave your portfolio at a more aggressive setting.

The most important thing is not to switch from "high yield" to "low yield" too quickly, otherwise there is a risk that you will run out of money too early because it wasn't growing fast enough to replace what you will be withdrawing. You may of course already be 50 and have never invested a penny in your life, but you have a lot stored in cash. You might be really nervous about putting your money in "high risk" portfolios, and so you'd prefer a more medium entry level. Only you will know what you're comfortable with, so make up your own mind. The great thing about investing like this is that you can always change it later when you gain more confidence.

***This is another massive sweeping statement, and depends entirely on who you invest with, what fees you pay, and market performances in general. It is something to aim for (and beat!) and just illustrates the difference in potential gains for each "risk" level you choose. The main asset classes that change with time are bonds, index trackers and ETFs.

As you get to the point of needing the money you have saved to live off, you want a proportion of this money in **more stable** investments. These types of investments don't yield lots, but it means you are **more shielded** from the highs and lows of the stock market. The remainder of the money (or when you start out investing when you're younger), should still be growing, so it should be in HIGHER yielding portfolios.

The downside, is that you also have to take **bigger potential hits** (like in the 2008 stock market crash), but your money can tolerate this, as you won't need it for some time - **enough to allow it to recover**.

Book 4 Portfolios

When you start picking your stocks, use the check list on the next page to see where you are, and how much you can afford to save every month.

You ideally want a mix of home and foreign investments so that you can also potentially take advantage of fluctuations in different currencies and in how other markets are performing.

You probably don't need to invest in many more than the following choices, and you may not feel comfortable investing in everything on the list, but if you pick a few different options, you'll have a strong and diversified portfolio (which is the aim!)

If you buy too many different things, you run the risk of overlapping your investments which won't necessarily benefit you, so stick to a few solid choices and build on them with time.

This builds up your confidence, AND gives you the full advantage of compounding.

> "I don't focus on what I'm up against. I focus on my goals and I try to ignore the rest"
>
> — Venus Williams

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☐ My home-country ITF or ETF is:_____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ My foreign-country ITF or ETF is:_____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ My commodity is: _____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ My home-bond is:_____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ My foreign-bond is: _____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ My optional investment is: _____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ My property-equity investment is: _____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

☐ I have this much cash in my account: _____

This is _____% of my overall portfolio

☐ What else have I invested in? _____

I am saving _____ per month and/or lump sum_____ and this is _____% of my overall portfolio
The ongoing fees are: _____per annum

WHAT ARE THE OVERALL BROKER FEES PER ANNUM?

_____

N.B. Don't be afraid to contact the online broker directly for more information if you are unsure of fees etc.

You don't have to have everything ticked off of this list. If you only have say £25 per month spare to start investing, I would begin with a home-index tracker and work up from there, adding in more investments as you free up more money.

People living in more volatile countries like South Africa may want to invest in a foreign index first (which tend to have a more stable economy).

Also, depending on your plans, you will have different amounts and percentages to someone else, so be like Venus and keep you eyes on your own goals!

So how much do you put in?

Well that depends on the goals you set yourself earlier in the course during lesson 1.

What net worth do you want to get to, and for what purpose? How quickly? Only you know that.

Download the spreadsheet that shows you how long you have to go to reach your target depending on the different parameters you set.

There is also a video to show you how to use it.

Once you have your initial portfolio set up, you won't need to look at it again for a whole year! That's right! No tinkering for ONE WHOLE YEAR. It doesn't matter what happens, you ignore the news and get on with your life. I will be going over the review process later.