

How to Be a Better Investor – Video Script

A good investor tries to maximize gains and minimize losses.

Sounds easy enough, right? But how exactly do you go about doing that?

Well, a good investor will first need to consider his or her financial goals, time horizon, tolerance for risk, and liquidity needs. And while no investment strategy is foolproof and all investing involves risk, there are some basic principles that a good investor should be aware of.

Take advantage of long-term compounding to help your nest egg grow.

Put simply, compounding occurs when earnings that are reinvested also begin to earn money. As a result, the longer your money is invested, the greater your ability to take advantage of the benefits of compounding.

On the other hand, buy and hold, but don't buy and forget.

Perhaps economic conditions warrant a rebalancing of your portfolio. Or, maybe your circumstances have changed, resulting in the need for you to adjust your current asset allocation.

Whatever the reason, you will need to periodically review your investment portfolio so you can make adjustments when necessary to align it with your investment goals and tolerance for risk.

Spread your investment dollars across multiple types of investments.

By diversifying among different asset classes, you can help reduce the impact any one investment has on your overall portfolio. Your asset allocation strategy determines how much you invest in each type of investment. However, it is important to remember that diversification and asset allocation alone can't guarantee a profit or prevent the possibility of loss in a declining market.

Endure short-term pain for potential long-term gain.

There's no denying it--the financial marketplace can be volatile. However, it's important to stay calm during periods of economic turmoil and stay focused on your long-term investing goals.

A diversified investment portfolio might help you manage risk during periods of market volatility and may improve your opportunities for potential long-term gain.

Consider the liquidity of your investment choices.

Liquidity refers to how quickly you can convert an investment into cash.

Generally speaking, the sooner you'll need your money, the wiser it is to keep it in liquid investments.

And finally, invest consistently with dollar cost averaging.

Dollar cost averaging is a method of accumulating shares of an investment by purchasing a fixed dollar amount of these securities at regularly scheduled intervals over a period of time.

Although dollar cost averaging can't guarantee you a profit or avoid a loss, a regular, fixed dollar investment should result in a lower average purchase price per share than you would get buying a fixed number of shares at each investment interval, assuming you continue to invest in all types of markets.

While it can never be guaranteed that you will always be successful when it comes to investing, following these basic principles can help you stay on track as you try to achieve your investment goals.