

Financial planning – a checklist

If you're not using a financial adviser, this checklist highlights some of the common mistakes you might make and opportunities you may miss when you 'go it alone'.

This checklist allows you to quickly check whether your existing investment strategy is covering the basics. You could also use the checklist to compare financial advisers and make sure you're getting suitable advice.

Are your shares diversified?

Investing in a handful of shares is like putting all your eggs in one basket. If you only had shares in a single company that performed badly over the past year, your losses would probably be much greater than if you held shares across many different companies.

As you add more shares from different companies to your portfolio, you are more likely to reduce the impact of the bad apples. Of course in future years you may outperform the market by just holding shares in a single company but most experts would say you're taking an unnecessary risk by not diversifying your shareholdings.

Are your investments diversified across asset classes?

As well as diversifying your shares you should also diversify your investments across asset classes.

Property has performed dismally over the last few years, however, in the past it has outperformed other asset classes. Shares have performed poorly but have picked up in the last few months. What will happen next year? There is usually divergence between experts on what will be the best performing asset class for the next year. You could speculate by solely investing in residential property or Australian shares but again most experts would say you're taking an unnecessary risk by doing so, and that diversifying your investments across various asset classes is a better strategy.

Have all your investments been considered together as a portfolio?

It's possible to increase returns and reduce risk by considering your investments as a whole, rather than in individual parts. Strategies such as investment blending are complex and best provided by technical

experts who support your financial adviser, who can also consider your investment portfolio as a whole.

Do you know what level of risk is in your portfolio?

Risk and return in investing go hand in hand. While some investments offer the potential for higher returns, these products also have a higher risk of falling in value. Do you know what the likelihood of a negative return is for each of your investments and more importantly for your portfolio as a whole? Do you understand the level of risk in your portfolio compared with alternative portfolios?

Are you comfortable with the level of risk in your investments?

In a high-risk portfolio there will be years where returns are negative.

You should consider whether you're comfortable with the thought of losing money in the short term and whether you would be prepared to ride out these poor years. Although you would normally be rewarded over the long term with higher returns if you have a higher risk portfolio, it may not be suitable for you if you're uncomfortable with risk. A financial adviser can help you understand your attitude towards investment risk in comparison with the level of risk in your portfolio.

Are your investments compatible with how long you will be invested?

One size doesn't fit all when it comes to investments and the time you'll be invested. Some strategies (such as those involving a greater proportion of shares) don't suit short-term time horizons like one or two years – they are particularly suited to investing for periods over five years.

Do you know how your investments are performing?

A financial plan that considers all the factors covered overleaf, can help to limit the impact the short-term performance of your portfolio (and in particular, each investment) should have on your strategies. It's important that you maintain your chosen strategies over their expected time horizons. However, you should consider performance when reviewing a strategy.

More importantly, you should know how your investments are performing and how they are tracking against your plan.

Have you considered your insurance needs?

Are you taking advantage of insurance products which may help you to continue meeting your needs and objectives if you fall ill or have an accident and can't work?

Are you taking advantage of dollar cost averaging?

Dollar cost averaging is a strategy where you invest gradually over a period of time. It reduces the risk of investing by reducing the chance of you buying all of your shares or property at the top of the market.

Are you taking advantage of gearing?

Gearing is borrowing funds to invest. It helps you reach your goals and objectives sooner. Have you considered geared investments? If you already have a gearing strategy in place, are you aware of (and comfortable with) the higher level of risk, to which you are exposed?

Are you making use of tax concessions?

Not all income is taxed in the same way or at the same rate. Concessions are also available for various types of super contributions. Are you taking advantage of the concessions that may be available to you?

Do you have a financial plan?

A financial adviser can help you construct a comprehensive financial plan covering each of the areas discussed in this flyer.

Is your financial plan current?

Review your plan regularly to take into account your changing needs and objectives and any changes in legislation.

Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

IMPORTANT INFORMATION

This information was prepared by Securitor Financial Group Ltd ABN 48 009 189 495 AFSL 240687. The information in this publication is current as at December 2009.