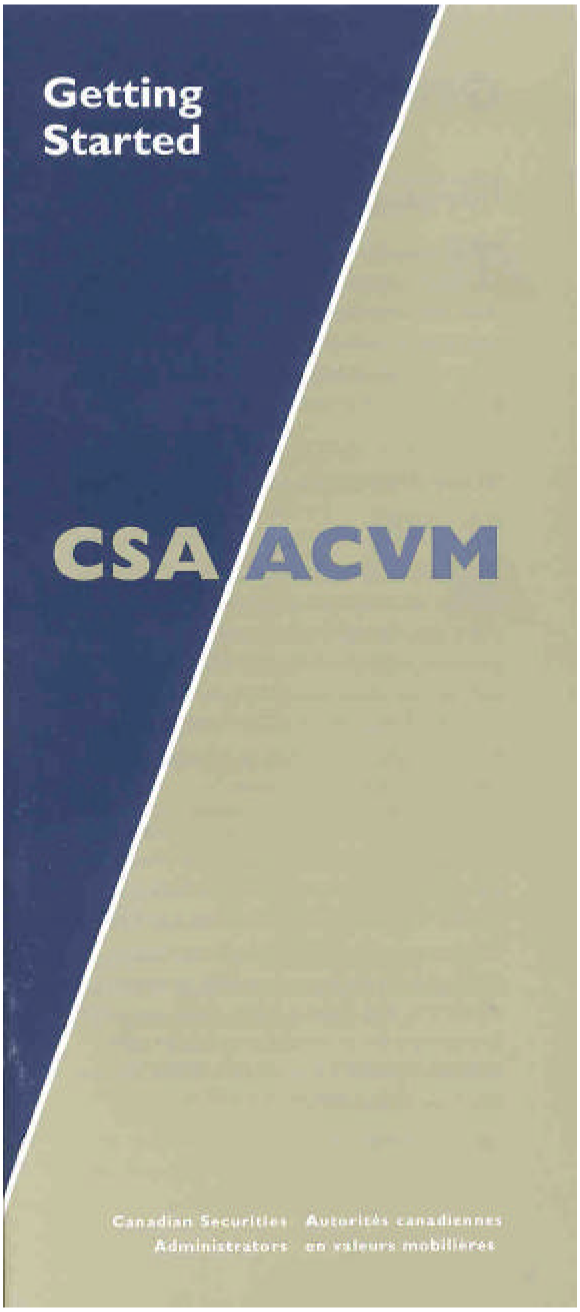

Introduction

The complex world of stocks, bonds, mutual funds and options can be intimidating for many of us. We know the importance of earning a return on our money and planning for our retirement, but we may not know how to start an investment program that will meet our financial goals.

Your Personal Investment Strategy

Before you start investing, take the time to develop a personal investment strategy. Many people will want to do this with the help of one or more qualified professional advisers. Choosing your advisers is a very important step for most investors, and another brochure in this series - Choosing Your Financial Advisors - has been prepared to help you make an informed decision.

To establish your personal investment strategy, you and your advisers must think carefully about your knowledge of financial markets, your financial assets, your tolerance for risk, the amount of money you plan to invest, and the things you hope to accomplish through investing (your investment objectives). With those things in mind, you will be able to begin the process of selecting the right investment products and the right mix of assets to meet your financial goals.

ESTABLISH YOUR INVESTMENT OBJECTIVES

What do you need from your investment portfolio, and when do you need it?

Someone once said, "If you don’t know where you’re going, you’re likely to end up somewhere else." Your first step as a potential investor should be to decide what you want to accomplish with your money, and when you want to accomplish it.
You may have many financial goals - to make a down payment on a house in two years, to help pay for your children’s education in ten years, and to prepare for your retirement fifteen years after that. You might already be retired and simply want your money to earn a reasonable return and provide a reliable source of income for many years to come. Whatever your situation, take a few minutes to sit down and think about where you are now, financially, and where you want to be in the future.
Here are some questions to ask yourself:
· How much money do you have to invest now?
· Will your employment income allow you to invest additional money in the future? How much? Are you confident that will continue?
· What are your monthly financial obligations, and how much do those obligations change from month-to-month or year-to-year?
· Do you have other valuable assets that will play a role in your financial future?
· Do you have outstanding debts that you would like to pay off?
· Do you plan to make any major purchases in the future?
· Do you need money from your investments each month to supplement your regular income? If so, how much?
· Do you have dependents to care for, and will their needs be changing over time?
· Have you considered your life and property insurance requirements?
· Are there income tax considerations that are particularly important to you?
· Are you a participant in a retirement savings plan or registered pension plan?
· Do you expect to inherit money at any point in the future?
· How much money would you like to have readily accessible in case of emergency?

Good financial advisers will want to discuss these issues with you, and more. They will want to ensure that they have a clear understanding of your financial situation and your investment goals.
If you are a younger investor with a stable income, you may decide that your primary investment objective is long-term growth. Investors approaching retirement may be more interested in security of capital, and retired investors may look to their investments mainly to provide a regular, reliable income. No two investors are exactly alike and no single investment product or strategy is right for everyone. To invest successfully you must first think through exactly what it is you want to accomplish and what resources you have available to make it happen.

UNDERSTAND YOUR TOLERANCE FOR RISK

Your personal investment strategy will also be affected by the way you feel about risk (your risk tolerance).
In the investment world there is a direct correlation between expected returns and risk - the higher the expected returns the higher the risk. Before you can decide on a personal investment strategy, you must consider how much or how little risk you are prepared to take with your money. Your risk tolerance can be affected by:
Time horizons - the amount of time you have to meet your financial goals and to make up for any losses you might experience. People with long time horizons may be more willing to endure periodic fluctuations in the value of their investments.
Cash requirements - the extent to which you depend on your investments to meet day-to-day expenses. Investors who rely on their investments to meet daily living expenses will be much less comfortable with the risk of losses.
Emotional factors - your emotional response to risk and to changes in the value of your investments. Some people are quite comfortable with the ups and downs of the market, while others lose sleep when their investments fluctuate in value.

There is no ‘right’ answer to the question, "How much risk should I take?" Risk tolerance is a personal issue. You should never feel obliged or pressured to take more investment risk than you are comfortable with. Remember though, that there is no such thing as a high return - risk free investment. You cannot expect to make high returns on your investments if you are not prepared to accept the risks that go with them.

DIVERSIFY

Don’t put all your eggs in one basket

Every investment product has its own risk profile. Some can be very high risk, others very low. Some will be more affected by interest rates, others by commodity prices, consumer confidence, management decisions or a host of other factors.

For most investors, what is important is the risk profile of their overall investment portfolio. By combining several different investments in your portfolio, you can reduce the level of risk for a given level of expected return. This is the benefit of diversification. Diversification simply means not putting all your investment eggs in one basket. It is one of the things that every investor should do.

CHOOSE THE RIGHT ASSET MIX

When you begin to implement your personal investment strategy, one of the first things you and your financial advisers must decide on is your asset mix. This is the mix of assets that you will put into your portfolio.

There are three basic categories of investment products: equity investments, debt investments, and cash or cash equivalents. The combination of these three types of products in a portfolio is called the asset mix.

The asset mix that you choose will be important in establishing the overall risk and the expected returns of your portfolio.

Allocating your money among the three types of investments is another way to diversify your portfolio and maximize the return at a given level of risk.

While many investors focus on the performance of specific investments, it is generally agreed that the overall asset mix in a portfolio has the biggest impact on long-term results.

The right asset mix will depend on your investment objectives. Asset mix is an important part of your personal investment strategy and should be explored in great detail with your financial advisers.

RECOGNIZE THE LIMITS OF YOUR INVESTMENT KNOWLEDGE

Before investing your hard earned money, you should assess your own investment knowledge and experience. Be honest with yourself and with your advisers.

Overestimating your investment knowledge will make it far more difficult for your advisers to help you.

Avoid investment products or investment strategies you don’t fully understand. If you have questions about an investment recommendation be sure to have them answered before you make your decision.

If you would like to improve your investment knowledge, many courses and booklets (like this one) are available for everyone from novices to experts. Contact your provincial or territorial securities regulator, your financial advisers or your local educational institutions for more information. You might also want to contact the Investor Learning Centre of Canada, a not-for-profit educational organization established by the Canadian Securities Institute, which has offices in Toronto, Montreal, Vancouver and Calgary.

DO YOUR HOMEWORK

It's been said that some people do more research before buying a new television than they do before investing their life savings. Successful investing requires upfront and ongoing time and effort. That time and effort may be spent doing your own investment research. It should also be spent carefully selecting your financial advisers, consulting with them, and reviewing their recommendations.

There are literally thousands of investment products available to the public. No two are exactly alike. There are also thousands of investment professionals in Canada, and each offers different skills, products and services.

There is a great deal of information available to investors in periodicals, newspapers and books. Another good source is the company issuing the securities. If the company cannot provide detailed written information about itself and its securities, you should probably look elsewhere. You can also check with your financial advisers, with the stock exchange where the securities are listed, with securities regulators and with your local library. If you have access to the Internet, you will find hundreds of sites dedicated to investing and investments - but be discerning. Check out Internet information, particularly promotional information and investment advice, with other reputable sources.

BASIC INVESTMENT CHARACTERISTICS

Every investment has three key characteristics - Expected Return, Risk and Marketability.

Expected Return refers to the amount of interest, dividends or capital gains that you expect to receive from your investment. (Actual returns may, of course, be quite different.) As noted before, there is a direct correlation between expected return and risk. The higher the expected return, the greater the risk.

Risk is the possibility that you could lose some of, all of, or more than your principal investment, or that you could earn less return from the investment than you expected. Every investment has some degree of risk. At the low end of the risk spectrum are investments like government treasury bills and Canada Savings Bonds. At the higher end are investments like futures and shares of junior venture companies.

Marketability (or 'liquidity') refers to whether you can sell or redeem your investment quickly at or near the current market price. Term deposits are an example of an illiquid investment, since you generally can't withdraw your money before the end of the term without paying a significant penalty. Many other investments, such as mutual funds or listed securities, are very marketable because they can be quickly sold or redeemed on short notice and at low cost. Marketability is an important factor to be considered when selecting your investments.

Remember

DO establish clear and reasonable investment goals before you invest. Discuss those objectives in detail with your financial advisers.

DO select your advisers carefully. Ensure that they have the qualifications and experience required, that they are properly registered in your jurisdiction, and that they can provide the services you need. See our brochure Choosing Your Financial Advisers.

DO remember that there are risks in any investment. As potential profit increases, so does risk. Don't take risks you can't afford or aren't comfortable with. Understand your tolerance for risk.

DO diversify your investment portfolio to decrease your overall risk.

DO select the appropriate asset mix of debt, equity and cash equivalents.

DO recognize the limits of your knowledge. Avoid investments you don't understand.

DO your homework. Be sure you know what you are investing in and what impact it will have on the risk, potential returns and marketability of your portfolio.

DON'T invest on the basis of hot tips and rumours. They are seldom right. Besides, trading on inside information is illegal.

DON'T blindly follow investment advice that you don't understand.

DON'T be afraid to say NO to the suggestions of your financial adviser if you are not convinced the investments are right for you.

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