Vanguard®

Vanguard's principles for investing success

As investors, we often focus on factors totally outside of our control such as the behaviour of markets, economic trends and events, and the performance of individual shares or asset classes.

To have the best chance of investing success, however, it's vital to focus on the things that you can control.

At the core of Vanguard's investment philosophy are four key enduring investment principles that every investor should heed.

The first key principle for investing success is to define your investment goals clearly and be realistic about the ways to achieve them

These are all important talking points whenever you meet with your financial adviser.

Create clear, appropriate investment goals

Without a detailed investment roadmap, it's easy to lose your way. So the first key principle for investing success is to define your investment goals clearly and be realistic about the ways to achieve them.

Your investment goals should be measurable and attainable, and it's important for your plan to recognise constraints, especially those that involve risk-taking. Once you've developed your plan, stick to it as best as possible.

Leadership among market segments changes constantly and rapidly, so investors must diversify both to mitigate losses and to participate in gains.

But discouraging results often come from chasing overall market returns. This is an unsound strategy often followed by investors who lack well-grounded plans for achieving their goals.

Develop a diversified strategy through asset allocation

A sound investment strategy should be based around an asset allocation framework that is suitable for your objectives. The allocation should be built upon reasonable expectations for risk and returns, and should use diversified investments to avoid exposure to unnecessary risks.

Both asset allocation and diversification are ingrained in the idea of balance.

Because all investments involve risk, it's important to manage the balance between risk and potential reward through the choice of portfolio holdings.

A diversified portfolio's proportions of equities, bonds, and other investment types determine most of its return as well as its volatility.

Attempting to escape volatility and near-term losses by minimising equity investments can expose you to other types of risk, including the risks of failing to outpace inflation or falling short of an objective.

Minimise costs to keep more of your returns

While investment markets are unpredictable, investment costs can be controlled.

Costs create an inevitable gap between what the markets return and what you actually earn—but keeping your expenses down can help to narrow that gap.

So it's really important to seek out low-cost, high-quality products that match in with your investment goals and asset allocation strategy.

Your financial adviser will play an integral role in this process, because selecting products that lower your total investment costs will ensure you keep a greater share of your investment returns.

Keep in mind that higher investment management costs can significantly depress a portfolio's growth over long periods.

Vanguard research shows that lower-cost managed index funds and exchange traded funds have tended to perform better than higher-cost products over time.

Maintain perspective and long-term discipline

Investing can provoke strong emotions, especially fear.

In the face of market turmoil, some investors may find themselves making impulsive decisions or, conversely, becoming paralysed, unable to implement an investment strategy or to rebalance a portfolio as needed.

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Spontaneous departures from your asset allocation strategy, either to outguess the market or to chase winners, rarely pay and can be very costly.

Discipline and perspective are the qualities that can help investors remain committed to their long-term investment programs through periods of market uncertainty.

Simply contributing more money toward an investment goal on a regular basis, harnessing the power of compounding returns over time, can be an extremely successful investment strategy.

Staying the investment course is key. Your financial adviser will work with you to keep you on your investment track, guiding you in your asset allocation plan and implementing periodic rebalancing to help manage your portfolio's risk.

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