

The Portfolio Planning Process

Structuring a successful portfolio is not easy without defined goals and a plan for achieving them because different investment strategies are appropriate for different investors. However time spent planning can significantly increase your chances of investment success. The six steps in the portfolio planning process are as follows:

- 1. Identify portfolio characteristics: investment objectives, risk tolerance and time horizon.**
- 2. Determine the appropriate asset mix or asset allocation.**
- 3. Identify specific sectors, groups or themes for investment.**
- 4. Choose specific investment vehicles for implementation and diversification.**
- 5. Select individual funds or securities for implementation.**
- 6. Monitor and manage the portfolio holdings.**

As you have probably guessed the planning process takes a considerable amount of time. Many people will seek the advice of an accountant or financial planner to assist them in completing their plan.

Currently the Australian marketplace has three types of financial planners or advisers. The first type of planner is largely commission driven and derives his income from fees generated by placing your money in various funds or investments. It is important for you as an investor to understand the fees you are paying and whether or not you are receiving objective advice. The second type of planner is often an accountant who has a client base and offers financial planning as well as investment and tax advice. With this type of adviser you may receive advice and be charged a commission as well as a fixed hourly rate, or you may just pay the hourly rate. The third type of financial planner is strictly a 'fee for service' planner. That is to say, the planner receives no compensation for placing your money in various investments but charges you a flat rate or hourly charge for preparing an investment plan. Any entry fees that you would normally pay are rebated.

In Australia approximately 80% of all investment advisers are commission driven. My advice is to choose an adviser who has no incentive to recommend a particular investment. (i.e. fee for service) These advisers will help you to prepare a plan and since there is no bias you should be able to receive objective advice. Perhaps the most effective method is to start with a plan and educate yourself and your family along the way. Ultimately no one will look after your money with greater care than you will

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