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At last, curing 'paralysis from analysis'

Burk Rosenthal, Investment Strategies

Asset allocation models, portfolio optimizations, beta coefficients, negative correlations, standard deviation, efficient frontier, quantitative analysis, modern portfolio theory… the list goes on and on. All of these terms have significant meaning in the world of money management, but don't you think it's time we got back to the basics?

When it comes to your financial security, these terms are meaningless until you have set goals, developed a plan and then implemented that plan. Many investors suffer from 'paralysis from analysis'. They spend so much time researching, analyzing and picking apart every nook and cranny, that they never actually get around to doing anything. I don't mean to suggest that any investor should invest blindly; however, over-analysis can be crippling.

Here are a few tips to help you get back to the basics:

Set Long Term Goals.

Determine what it is that you want financially. If you're thinking about your future retirement for instance, think about it this way – if you were retiring today, and you could have what you want, what would your wish-list be? Now that you know what it is you want, make the commitment to do what is necessary to achieve it. This means not only setting your goals, but acting on them.

Pay Yourself First.

Think about it: Every month you pay your grocer, banker, mortgage company, cable company and utility company; shouldn't you pay yourself first? Before allocating your paycheck to all of these sources, why not allocate a percentage to your individual or company savings plan? Make it a monthly commitment just like all of your other bills. These monthly contributions could accumulate more quickly than you might think.

Invest According to Age, Goals.

Investors who are at or near retirement frequently seek ways to maximize their monthly income and should, therefore, invest accordingly. Younger investors have different goals and are generally invested in capital growth to provide a future source of income.

These investors must use investment programs that will outpace inflation over time. Once your goals are determined, as such a conscious investor, your programs can be tailored to fit those goals and your time horizon.

Get Professional Advice.

Unless you have the knowledge, time, training and temperament to: 1) assess your risk tolerance, 2) research the programs that are available, 3) determine the allocation percentages and 4) monitor the program on an on-going basis, you should obtain the advice of a financial professional.

Then Consider More Sophisticated Planning Techniques.

Only when you've got all your basics in place should you even consider sophisticated planning techniques. This is where a financial professional who manages money is worth his or her weight in gold. It is now possible that techniques, such as Portfolio Optimization and Modern Portfolio Theory, can help you keep more of what you earn by reducing your risk and increasing your potential return at the same time. But without the basics in place, these techniques are meaningless.

The key is to first set goals, second to develop a plan and third to implement that plan. Once the plan is in place, and you have covered all of your bases, then and only then should you begin thinking about the more sophisticated planning techniques.