

# Stick to your plan and avoid the pitfalls



BY BARRY O'NEILL

Being seduced by extravagant promises can prove very costly if those promises lead you to invest money in a scheme that is, in the cold light of day, clearly too good to be true.

The past is littered with examples of such schemes. The latest one to come to my attention was offering a “guaranteed” 13% per annum return from investing in gold.

Such schemes usually have at least two things in common. Firstly, anyone pausing long enough to carry out some basic due diligence on them should have come to the conclusion that they were not low risk and highly unlikely ever to deliver on their promises.

Secondly, they normally end in disaster, with investors suffering significant financial loss in the process. Investor psychology is a curious thing.

Why is it that people chase unrealistic returns when in reality, achieving a return which is ahead of inflation after costs and tax is for most people perfectly adequate?

The first thing to realise about chasing market-leading returns is that it comes with a price: an increased risk of capital loss.

One of the main reasons that investors take on too much risk is that they don't understand what return they need to achieve their objectives.

By using lifetime cash-flow fore-



casting, you can determine the return you need. This should be the main driver of the level of risk you adopt in your investment strategy, and, in many cases, leads to a reduction in the level of risk people are taking.

The knowledge that you could be taking less risk than you are

now should help you avoid tomorrow's “too good to be true” offering and protect your hard-earned money from the weapons of wealth destruction.

A successful investment experience is the product of a simple list of ingredients; a structured financial plan, the discipline to stick to

your plan, a method of efficiently accessing appropriate investment markets and - most importantly - time, because this allows the miracle that is compound growth to do the hard work for you.

● Barry O'Neill is investment director with Carbon Financial Partners