

## **What factors should investors consider in their investment planning process?**

Investors should review their portfolios regularly to ensure their financial needs and investment objectives are aligned. Investors should consider the following points when buying/switching funds or rebalancing their portfolios.

**Set an investment objective:** Before making any investment decision, the first step is to set an investment objective. It could be savings for further education, getting married, making a down payment for an apartment, children's education or for retirement. Different life stages can affect an investment plan. It is important for investors to consider their investment objectives vs. the risk they can take, in particular on the followings:

(1) Investors should consider their age and the associated risks of the product. For example, it may be inappropriate for an investor approaching retirement age to invest in high-risk products as this typically represents a mismatch between risk tolerance level and investment horizon.

(2) Investors should be very clear about their investment objectives when considering switching funds because their investment horizon (i.e. 1 year, 3 years or longer) and the type of funds they choose can be directly affected. Generally speaking, under normal market situation, long-term investment (especially those who invest in a diversified portfolio) can ride out short term market volatilities. However, investors should be aware that longer investment horizon may imply more variables in the market, investors should therefore review their portfolios regularly and carefully evaluate whether the funds they are switching into match their investment objectives.

(3) Investors should consider their cash flow before any investment decision is made. Investors should assess their cash liquidity and reserve a necessary amount for any emergency purposes. Besides, investors may wish to invest in more liquid assets if they have a short term goal to achieve, e.g. buy a car 6 months later.

**The importance of diversification:** It is vital for investors to diversify their portfolio by investing across markets, sectors or geographical regions to reduce risk. Funds generally invest in a basket of holdings which can help diversify risk, but investing in a single sector fund can be riskier. Investors can also invest across different asset classes such as stocks, bonds or mixed-asset to further diversify their portfolios as the risk profiles of different asset classes vary.

**Consistency of risks and investment objectives:** In general, the higher the risk of an investment product, the higher the potential return, and vice versa. Investors should strike a balance between risk and return and fully understand the worst case scenario e.g. losing their entire investment capital.

Consider the above carefully before investing in or switching funds, especially in volatile markets when investors are becoming more irrational. It is important to study the fund's offering document and marketing materials thoroughly and understand its characteristics and relevant risk factors before investing. The check-list below can be handy:

- The fund's characteristics, investment objective and investment restrictions
- Assets and regions that the fund invests in
- Does the fund use any leverage strategy?
- The fund's total assets and track record
- Relevant risk factors such as economic risks, political risks, interest rate and currency risks, etc
- Fees involved: subscription fee, management fee, performance fee (if any), switching fee and redemption fee (if any)
- Financial stability of the fund company
- Fund manager's experience

In conclusion, investors should not rebalance their portfolios based solely on market conditions. Be smart and evaluate whether the investment product matches your investment objectives, investment horizon and risk tolerance level. Before making any investments, investors should understand that risks cannot be totally avoided and past performance is not indicative of future performance. In addition, portfolio planning must be a continuous exercise and investors should review their portfolios regularly according to their own situations.

(Investment involves risk. Please refer to the offering document for further details including the risk factors.)

Hong Kong Investment Funds Association