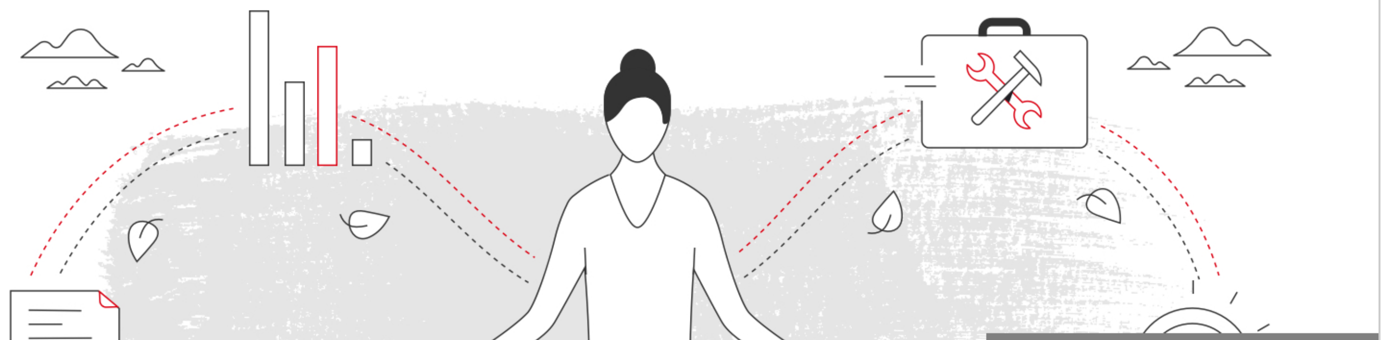

Day 6: Building your investment habit

Time to read: 6 minutes

Today we'll go through the final steps to get you ready to make your first investment. It’s all about building the right habits and behaviours that will help you be successful over the long term. We’ll start with something called "dollar cost averaging".

Why dollar cost averaging helps

You already know that you should buy low and sell high. But if you pull up any stock market chart it’s obvious that prices go up and down all the time. So how do you know if the price is right today? How do you know you won’t get a cheaper price if you wait a day or a week, or that tomorrow the stock price won’t start to rise and isn’t cheap again for another year?

What if the answer is…it doesn’t matter?

When prices on the stock market go up and down, it's called volatility, and this is what can make short-term investing risky. But that volatility works in your favour when you invest consistently over time. The key is keeping up long-term investing habits.

Let's look at two different investment methods:

Lump sum investing

This is when you build up your cash reserves and wait until your target stock is "cheap" and make a lump sum investment. This method can generate good results if you get it right, as your return on investment will be determined by the price you pay. But timing the market is difficult and knowing if a price is cheap requires great skill. For the average investor (that's you) who doesn't have the time or expertise, it's difficult to figure out if a stock is underpriced or too expensive.

Lump sum investing, and tracking prices and market movements to determine the best time to invest can cause a lot of anxiety, and you could be working a lot for your money. But investing should be the other way around: your money should be working for you.

Dollar cost averaging

The alternative is dollar cost averaging. This is when you buy consistently, often monthly, and don't worry about what the price is doing. This is where market volatility can actually help you out.

Some months, the investments you make will be more expensive and you buy fewer shares. Other months the price will be cheaper and so you'll purchase more. Over time, the average cost per share will likely be pretty close to what you would have paid if you'd tried to time the market.

The advantage of this method is that it takes the emotion out of having to decide if the price is right, and remember, emotional investing is riskier. Again, this is a long-term investing strategy, but one that can help you accumulate wealth without having to do much, **although you'll still need to monitor your investments on a regular basis**.

It's also worth pointing out that you're already doing this. Your MPF contribution is a long-term investment plan that uses dollar cost averaging to help you build a retirement fund. You could consider using a similar strategy to expand your investment portfolio using what you've learned on this course to meet different investment objectives.

Your investment plan

By the end of the next lesson, you'll be ready to make your first investment. But there's one last thing you need to do before you take that final step. Make your investment plan.

The first discipline of an investor is to have a plan and you're going to create yours now. It takes just a few minutes to do and takes into account everything you've learned so far. So what's your plan going to cover?

Read through the items below and then download the Investment Plan Worksheet (PDF 643kb) to write down your objectives.

Your investment horizon

This is how long you expect to be investing in this portfolio. If you have multiple investing objectives, create a new plan for each one so you are clear about what you're trying accomplish. Remember, long-term investing harnesses the power of compounding returns.

Your risk tolerance
If you haven't already done it, take the Risk Profile Questionnaire. This will help you understand your risk tolerance and by law you won't be able to invest without having completed it.

Your expected returns
A reasonable starting point would be focusing on investments that give you returns that closely match the performance of the market. If you're nearing retirement though or have a more conservative risk tolerance, you might be more protective of your capital and opt for lower risk assets like bonds. Remember, beating the market over long periods of time is very difficult. Disciplined investors aren't looking to become overnight millionaires, they're looking for "adequate returns".

Asset allocation
Use one of the models we covered, such as risk based or lifecycle to determine your target asset allocation. Write it down.

Frequency
How often are you going to invest? Remember, that for the average investor, timing the market is difficult and can create a lot of anxiety. Investing monthly using dollar cost averaging might be a better starting point.

Amount
Determine how much you can afford to invest either as an initial lump sum or as a regular ongoing basis (such as monthly). If you're not sure, you don't need to worry about being precise. Picking an amount you know you can commit to, even if it's just HKD100 per month, is a great start. You can always increase it later.

Review periods
Decide now how often you will review your portfolio. Remember, emotionally reacting to market swings can lead to bad decision making, so it's generally better to avoid the anxiety of checking your investments daily or weekly. Quarterly is a good place to start, but pick a time period and stick to it.

Rebalancing
Your asset allocation might drift a bit as prices change over time, but you don't need to be constantly updating it as this will often mean additional trading fees. You just want to make sure it doesn't drift too far from the target you set, so rebalancing once or twice per year is probably ideal. Assign a rebalancing exercise as one of your review periods, where you will either buy or sell assets to bring your portfolio composition back to its target allocation.

What’s next?

Today you learned about how to build your investment portfolio over time by using dollar cost averaging, which helps take the emotion and risk out of trying to time the market. You also now have a simple document to help you write down an investment plan based on everything that you’ve learned so far.

In our next lesson, we’ll take you through a step-by-step guide to making your first investment using just HKD100.

Important Information:

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited and HSBC Savings Bank (Philippines), Inc. ("the Bank") in the conduct of its regulated business in the Philippines with information provided by The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong. It must not be distributed to the United States, Canada, or Australia or to any other jurisdiction where its distribution is unlawful. The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose.
All non-authorised reproduction or use of this document will be the responsibility of the user a nd may lead to legal proceedings.

The information contained in this document is general market information. As such, it has no contractual value and should not be taken as an offer, the solicitation of an offer, a recommendation, or advise for the purchase or sale of any investment, product or service.

We do not have any obligation to issue any further publications to you or update the contents of this document. Contents are subject to changes at any time without notice. We make no guarantee, representation or warranty and accept no responsibility for the timeliness of receipt, accuracy, and/or completeness of the information contained in this document.

Investment involves a variety of risks and investors may not get back the amount originally invested. Hence, information contained in this document such as past performance, forecasts, projections, simulations, and other forward-looking statements should not be relied upon as an indication of future performance or results. If you are considering making an investment, please conduct your own due diligence.