MARKET INSIGHT

EXPERTS' QUOTE

"It is the part of a wise investor to keep himself today for tomorrow, and not venture all his eggs in one basket,"

-Miguel de Carvantes

NSE at a glance
(For week ended January 9th, 2009)

Index:	31,357.24	-2.04%
Cap:	N6.936trn	-2.04%
Volume:	191.9 m	+10.43%
Value:	N1.29bn	-14.8%

Creating the right asset mix in a portfolio

No matter how despairing the previous year had been most people usually look forward to a new year with great expectation. This is because of the general belief that the New Year offers another opportunity for people to make a go at many of the things they failed to achieve the previous year.

As a result, a lot of people embrace a new year with renewed hope and goals, in all aspects of life, especially when it comes to finances since the achievement of almost every other goal would one way or the other be affected by it.

With the fresh start provided by 2009, many investors or prospective ones would have put in place plans on how to make the year their best financial year.

For those who already have investments, the road map to financial efficiency this year may have been included in their investment plan, particularly if it is for long term. What would necessarily be required would be a rebalancing to realign assets with expected return.

However, if you are new to investment or maybe you have been investing without any clearly outlined plan you could be lost as to where to start.

What you need to get started

No matter the kind of investment you have in mind, you'll need to know a few bits of information first. For starters, you need to know your investment goal. Are you investing for retirement, for your children's education, or for a wedding?

Let's say your goal is to have N10 million when you retire, and along the line fund your children's education as well as other targets.

You then need four pieces of information namely:

1. Your investment time horizon (mainly, your age and retirement objectives).
2. Your risk threshold (how much of your capital you are willing to lose during a given time frame), and
3. Your financial situation (your wealth, income, expenses, liquidity needs, etc.).
4. Your goals (the financial goals you and your family want to achieve).

When all these information are adequately provided you would have put in place vital information to help drive the achievement of your goal. It would tell you how long you will be investing (your time horizon) and how much of your investment you can put at risk. The closer your goal or the less you can afford to lose, the more you should focus on preserving what you have made rather than on generating additional gains.

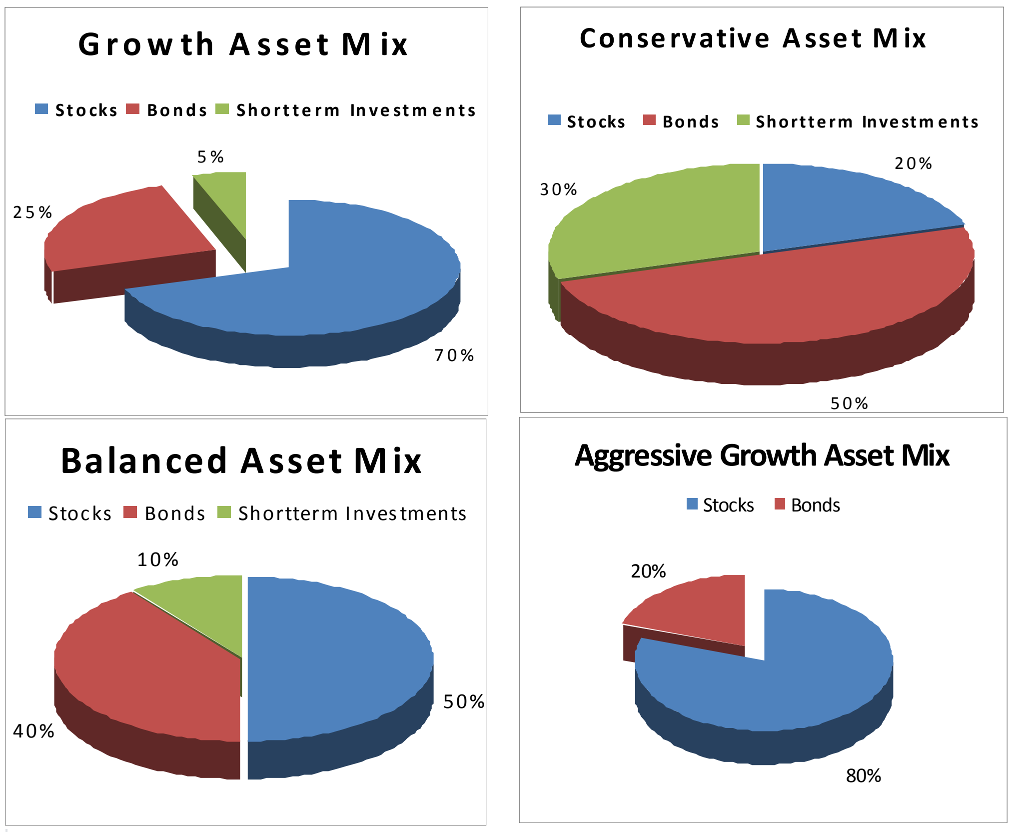
All these put together would enable you determine the following:

1. The number of years until your goal is reached. You want to retire in the next 30 years? That's the number of years to your goal.
2. How much money you need for your goal. You want to have N10 million when all is said and done.
3. How much money you can invest right now. You have N500,000 set aside, so that's your starting amount.
4. How much money you can contribute each month.

When all these are in place the next step is knowing how to allocate your resources into various investment options to come up with the asset mix that would help you achieve your goals.

Determining your asset mix

Your money is too important to invest without a strategy. That's why it's critical to analyze your



Types of Asset Mixes

> The right asset allocation can help you maintain your confidence through economic ups and downs and may even increase your potential for better returns over time.

goals and your current situation before you make your next investment decision.

You must have already determined your goals and their costs, and thought about how much risk you can take. But how do you know which securities to buy? Which ones are going to get you where you need to go?

Before you begin choosing individual stocks, funds and/or bonds you need to think in broader strokes. You need to consider your asset allocation.

"Asset allocation" means dividing up your investments among the different asset classes in a way that makes sense for you. You should consider an asset allocation strategy based on your:

Time horizon — how long you expect you will need your assets to last

Risk tolerance — how willing you are to endure the market's ups and downs in exchange for more growth potential over the long term ranging from conservative to aggressive.

Your asset allocation is your portfolio's blend of stocks, bonds, and cash. Finding the best asset mix is crucial if you want to meet your goals. In fact, most financial advisers agree that setting up the right asset mix is more important than choosing great investments. Determining your asset allocation is easier than ever before, thanks to a variety of calculators and tools used by professional fund managers. Seek advice from reputable ones to work out something practical.

In fact, the right asset allocation can help you maintain your confidence through economic ups and downs and may even increase your potential for better returns over time. Keep in mind that neither diversification nor asset allocation ensures a profit or guarantees against loss.

Investment types

There are three basic investment types—short-term investments, bonds, and stocks. And they, like investors, fall along a range from conservative to aggressive.

—Short-term investments are the most conservative; also known as "cash" investments, this investment type generally involves the least amount of risk, but also tends to provide the lowest potential returns.

—Bonds are in the middle. Generally less risky than stocks, this investment type typically offers moderate returns and risk when compared with stocks.

—Stocks are the most aggressive. This investment type has historically provided the highest long-term returns and the greatest risk.

Conservative Asset Mix

Possible asset mix includes 20% stocks, 30% short term investments and 50% bonds. This mix would be appropriate if you prefer steadier performance over time with some opportunity for growth.

Balanced Asset Mix

Possible asset mix includes 50% stocks, 40% bonds and 10% short term investments. This may be appropriate if you want some opportunity for growth, while you can tolerate some up and down movement in your portfolio's value.

Growth Asset Mix

70% stocks, 25% bonds and 5% short term investments. This may be appropriate if you have preference for growth and can tolerate significant up and down movement in value of your portfolio.

Aggressive Asset Mix

80% stocks and 20% bonds. This may be preferable if you have a strong preference for growth and can tolerate wide sometimes sudden up and down movement in the value of your portfolio. Many in this category have seen the value of their portfolio reduce drastically since the meltdown.

To be continued next week

Develop discipline as an investor

Investors are often their own worst enemy. That's because they sometimes allow their emotions to get the best of them when it comes to making financial decisions. They hear their neighbors at cocktail parties talk about hot stocks they own and wonder why they can't hit it big. Others are more jittery, selling their shares the moment they dip in value without understanding what's causing the decline.

Step one to good investing is to understand yourself and how comfortable you are when putting your savings at risk. That's what you're doing when you buy stocks or mutual funds. There is the potential that your investment will increase in value, but there is also the risk that it can be worth less.

Before you jump in to the stock market ask yourself a few questions:

Can I afford to lose my investment?

The stock market isn't for gamblers. In most cases it's for people who want to grow their savings through a diversified investment plan in which stocks are one part. That plan might also include fixed-income investments, real estate and commodities. If you can't afford to lose it, you shouldn't risk it.

Will the ups and downs in the stock market make me a nervous wreck?

If you're someone whose emotions will swing with every bounce in stock price, you might go crazy worrying about your investments.

When those swings happen, it's important for investors to stay disciplined and think long-term. Can you tolerate that type of activity? If your honest answer is no, congratulations. You've recognized that realty about yourself before risking your money.

Do I have the composure - and the energy - to get the facts when I hear rumors?

Dumping stock at the first whiff of trouble can be a knee-jerk approach, especially if the news ultimately turns out to be inaccurate or flat-out wrong. The price takes a fall on the news, the rash investor sells at a lower price, then the shares ultimately recover when the real story is told. But the damage to their portfolio has been done.

Do your homework in advance. It's time consuming and demanding and can be particularly arduous for socially responsible investors who base their selections on more than financial statements. If that's the path you've chosen do the up-front work until you're comfortable with your investment. That will give you the confidence to hold your ground when bad news comes up.