Questions to ask yourself about your investments

The investment world can often be made to seem complex and overwhelming. Here are a few simple questions to ask yourself about your investments to determine if you are on the right track.

Do you have more than five different investments?

If you own 10 different investments – the chances are that you have over-diversified your portfolio. For example if you own unit trusts and you have 6 different funds that invest in the South African stock market, you are almost certainly invested in a portfolio that actually replicates the All Share index but is costing you a lot more than an index tracker. I have recently seen a South African balanced fund that owns more than 20 other unit trusts. Unsurprisingly the fund costs are more than 2.5% per year and the performance has been pedestrian in comparison with an index tracker with the same risk profile. Over five years, the fees have eroded more than 20% of this fund's performance. Anyone in a fund like this would have been much better off with one, simple diversified index tracker.

Do you own investments that you don't really understand?
Warren Buffett does not buy Tech companies because he does not understand them. If you own a hedge fund, guaranteed product or structured product do you really understand how it works and what it will do for you? More importantly do you understand the risks of the investment and what your potential losses will be in the event of a market crash? Many investors in supposedly safe hedge funds were actually invested in Bernie Madoff's Ponzi scheme. They had no real chance of understanding the nature of the investment because of the lack of transparency of hedge funds, and their complex structures - especially those funds that own other hedge funds.

Do you own investments that you have never adjusted?

A long-term strategy is important and you should not be chopping and changing your investments on a regular basis. In fact, if you are careful with your investment selections (and a little lucky) you might not have to change your investments for years.

However, you should be monitoring your investments regularly and sometimes you might need to tweak the balance your portfolio. If you have split your money into three equal parts e.g. shares, listed property and bonds, you might need to ensure that your portfolio is still correctly balanced. It is highly likely that your property fund has become a much bigger part of your investments over the last five years and you might be over-invested in one asset unless you rebalance your portfolio regularly, e.g. annually.

Can you explain why you bought each of your investments?
If you bought an investment because it won an award or was top of the performance rankings, you are likely to have made a mistake. Each investment in

your portfolio should be seen as an ingredient vital to improving your portfolio. If you don't have the right mix of ingredients, you might realise too late that you have not had enough money invested in the right type of assets.

Do you regularly add new and different types of investments to your portfolio?

If you only own three different types of investments, you might have the perfect mix. Just because new products become available to investors does not mean you need to buy them. Product providers will always try to come up with new ideas as their only job is to gather new money from investors and so they are always creating "the next big thing". Just because it is new does not mean it is good.