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Six Keys to Smart Investing

by Steven Tambone

What's smart investing? How would you define it? Is it an uncanny ability to pick the right stock or interpret financial data and economic indicators? Does it require the use of elaborate or sophisticated investments? Maybe it's outperforming the S & P 500 on an annual basis? All this depends on your point of view I suppose - but to me you can't answer this question without considering another important question – why do we invest?

For most of us, investing is a means to an end. That is, we invest our money hopefully to accumulate additional wealth for accomplishing personal financial goals. Being a great stock picker might make you skillful (or perhaps even lucky), but it doesn't necessarily translate to smart investing. So what's smart investing? Well, here's my list of 6 things all smart investors do.

1. They develop a financial plan based on "clearly defined" financial goals

All smart investors have a purpose - they know what they're trying to accomplish and they plan for it. A good financial plan starts with clearly defined goals. For example just saying that you're "saving for retirement" is too vague – but saying that you're "anticipating a need of xx amount of dollars to cover retirement expenses annually beginning at age 65" clearly defines your retirement goal. Then it just becomes a matter of developing a realistic "game plan" (i.e. how much to invest, where to invest, when to invest, etc.) and implementing it.

2. They use a sensible investment approach

Smart investors know that every dollar invested introduces an element of risk. That's why they invest sensibly and diversify accordingly to avoid unnecessary exposure to risk. They're clear on what they need (quantified goals) - and try to get it in the safest possible way!

3. They plan for the unexpected

The loss of a job or loved one, or dealing with major medical costs can wreak havoc on personal finances. Smart investors are never blind-sided because they always plan for the unexpected!

4. They revisit their financial plan annually and keep it up to date.

All smart investors are forward thinkers. Revisiting their financial plan each year allows them to monitor their progress and stay focused on the future. They also recognize the importance of keeping their plan up to date – for example, the sale of a home, the birth of a child, new expense items or changes to financial goals could all require changes to existing planning strategies. Smart investors

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know that proper planning is an ongoing process.

5. They never invest in something they don't understand.
Smart investors never invest in something they don't understand. They ask questions - and if they still feel uncomfortable, they have no problem saying "no."

6. They try to minimize the total cost of investing.
All smart investors are cost conscious because they know that over extended periods of time, large annual fees can pose a serious threat to their investments. That's why they request written confirmation of all fees/charges from a financial advisor or other representative of a financial institution before investing their money. Smart investors expect value for their money and seek to reduce/eliminate any nonessential fees.

There's really nothing glamorous here - doing these things just makes sense. So if you're investing money to someday have the retirement you've always dreamed about, then I can assure you that focusing on these things will help increase your chances of success – and that makes you a smart investor!

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