Getting into the market: First, take stock of yourself

The first step towards getting into the market is taking stock of yourself. Everyone is different, and there's no way that anyone can tailor one universal model of investing that's going to fit all investors. Some of us are conservative and want to learn enough to invest intelligently with guidance from a professional investment advisor. Others are less risk averse and are willing to do their own legwork with a bit of help from the new investment and research tools available on the Internet.

Whatever your personal inclinations, there's room for every type of investor in the securities markets. However, you have to first figure out which type of investor you want to be and what kind of investing you want to do. And you should think about this before you get started. Someone once said that the market could be an expensive place to find out who you are.

For starters, you should ask yourself the classic financial planning questions: How much money do you have to invest? What's your time horizon for investing? What are your goals for your money?

Setting investment goals is essential

Now, when we say goals, we mean something more specific than saying that you want to become a millionaire. For example, is safety of principal the most important thing to you? Or, do you need to be able to get the money out quickly if you need it: that is, do you need a liquid investment? Are you trying to increase the principal you are investing, in other words, make a capital gain? Or, are you looking for steady income? Then again, maybe you'd like the best of all worlds with a little of all of those things?

Questions like these deal with your financial situation and goals. Answering them might sound complicated, but you should be able to come up with some straightforward, black-and-white answers with a little work. You can do this on your own with the aid of a financial planning book or with help from an investment advisor or financial planner.

Think about your tolerance for risk

There are other questions you need to answer that require a little soul-searching. For instance, how much of a risk-taker are you? You can think of risk tolerance as a spectrum ranging from conservative to speculative, with varying shades in between. Where you lie in the spectrum will help determine the degree of safety that you should aim for when investing.

But, don't think of risk tolerance as just a personality quirk. It also depends on your financial and personal situation. Maybe for fun you like to skydive, ride fast motorcycles and bike to work in heavy traffic. But, if you have limited financial resources, no pension plan and three children headed for college, it may not be a good idea to take a lot of risks with your savings. Maybe you should think about taking out some more life insurance!

How much do you know about investing

Another set of important questions has to do with the process of investing itself. What's your level of investment knowledge? How much time do you want to spend thinking about your finances? Since you're reading this article, we'll assume you have some interest in financial matters and that you are eager to learn. But, even if you are all fired up about investing at the moment, think carefully about how much time and effort you'll be willing to spend in the future. Will you want to make the time needed to be active, educated, self-directed investor? Or, will you want some help in making financial decisions.

While most Canadians have investments in one form or another, few of us set aside our savings or buy and sell securities according to a comprehensive financial plan. Most of us want to be rich, but few of us map out a strategy for realizing our dreams. Fewer still are able to stick to it year after year. Maybe that's why lottery tickets sell so well, because most people have failed at their financial planning. The dream of winning is the ultimate quick fix, but it's a far cry from a safe bet. Financial independence does not occur by luck, but rather by choice.

Start at the beginning

The first thing you must do when constructing a financial plan is to record your current situation. List all financial institutions you deal with: investment dealers, financial planners, mutual fund companies, banks, trusts, credit unions and insurance agents. Account numbers and contact people should be listed clearly; you may not be around to explain things to someone else. The name and contact information for your lawyer, accountant and doctor should be recorded.

Also, list the location of all key papers, including passports, previous years' tax returns, wills, insurance policies, mortgage documentation, property deeds, loans and IOUs. List the location of your safety deposit box and its keys. But, most importantly, tell someone, such as your spouse, that you have made this list and where to find it.

Measuring Net Worth

Next, prepare a statement of your current net worth. This is really just a simple balance sheet that will concisely show you how much money you have, or don't have, as the case may be. It's a snapshot picture really, valid only on the day it's calculated, but you must have a starting point to measure how well you are doing when the time comes for a review.

Calculating your income

Now comes your own personal income statement. There are many excellent financial software programs available, even some that integrate with your banking statements. Once you have calculated your income, work out your expenses and see what is left over. This balance is what you can invest. Many people find it more effective to consider savings as a monthly expense instead of saving just what is left over after expenses.

This might seem like a complicated task, but the records you need should be readily available if you get into the habit of holding on to them. You'll need to refer to your T4 slip for employment income, plus your pay stubs if your income varies significantly over time. Also, hold on to any other record of income, such as interest or dividend income from any investments you already have.

Tracking your expenses

Figuring out your expenses should be fairly straightforward. Examine all your regular bills, such as gas, hydro, cable, telephone, property tax and insurance. Check your bank statement for any automatic withdrawals. Don't just refer to a single bill for your estimate, as some of these expenses will fluctuate significantly from month to month. Try to keep track of food, entertainment and miscellaneous household expenses for a month or two to see exactly where the money goes. And, remember to check your credit cards for routine purchases.

But, above everything else, be honest with yourself, do not understate your expenses or overstate your income. Do not include potential future raises as current income. Spending habits are harder to curb than you think. Only with a clear picture of today, can you try anticipating what tomorrow may bring. Now you are ready to get into the market.