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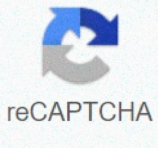
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How to come up with an investment plan

Making an investment plan involves more than just choosing a few stocks to put money in. You have to consider your current financial situation and your goals. It’s also important to define your timeline and how much risk you’re willing to take on in order to determine your optimal asset allocation. Read on for a step-by-step guide on how to make an investment plan.Do you have questions about investing? Speak with a local financial advisor today. Step One: Assess Your Current Financial SituationThe first step in making an investment plan for the future is to define your present financial situation. You need to figure out how much money you have to invest. You can do this by making a budget to evaluate your monthly disposable income after expenses and emergency savings. This will allow you to determine how much you can reasonably afford to invest.It’s also important to consider how accessible, or liquid, you need your investments to be. If you might need to cash in on your investment quickly, you would want to invest in more liquid assets, like stocks, rather than in something like real estate. Step Two: Define Your GoalsThe next step in making an investment plan is to define your goals. Why are you investing? What are you hoping to earn money for? This can be anything from buying a car in a few years to retiring comfortably many years down the road.You must also define your goal timeline, or time horizon. How quickly do you want to make money from your investments? Do you want to see quick growth, or are you interested in seeing investment growth over time?All of your goals can be summed up in three main categories: safety, income and growth. Safety is when you are looking to maintain your current level of wealth, income is when you want investments to provide active income to live off of and growth is when you want to build wealth over the long term. You can determine the best investment path for you based on which of these three categories your goals fall into.Step Three: Determine Your Risk ToleranceThe next step in crafting your investment plan is to decide how much risk you are willing to take. Generally speaking, the younger you are, the more risk you can take, since your portfolio has time to recover from any losses. If you are older, you should seek less risky investments and instead invest more money upfront to spur growth.Additionally, riskier investments have the potential for significant returns – but also major losses. Taking a chance on an undervalued stock or piece of land could prove fruitful, or you could lose your investment. If you are looking to build wealth over years, you may want to choose a safer investment path. Step Four: Decide What to Invest InThe final step is to decide where to invest. There are many different accounts you can use for your investments. Your budget, goals and risk tolerance will help guide you towards the right types of investment for you. Consider securities like stocks, bonds and mutual funds, long-term options like 401(k) plans and IRAs, bank savings accounts or CDs, and 529 plans for education savings. You can even invest in real estate, art and other physical items.Wherever you device to invest, make sure to diversify your portfolio. You don’t want to put all of your money into stocks and risk losing everything if the stock market crashes, for example. It’s best to allocate your assets to a few different investment types that fit in with your goals and risk tolerance in order to maximize your growth and stability.Once you reach this step in the process, it may be appropriate to find a financial advisor. An advisor can help you determine the best ways to invest your money based on your current financial situation and goals.Step Five: Monitor Your InvestmentsOnce you have made your investments, it’s not wise to just leave them alone. Every so often, you should check in to see how your investments are performing and decide if you need to rebalance.For example, maybe you aren’t putting enough money into your investments monthly and you aren’t on track to reach your goals, or maybe you’re depositing more than you need to and you’re ahead of schedule. Maybe you want to move your money to a more stable investment as you get closer to achieving your long-term goals, or maybe your investments are performing well and you want to take on even more risk to reach your goals sooner.It’s important to go through the assessment steps that you followed to create your plan every few years to ensure everything is going according to plan. You should make any changes or adjustments necessary to continue working towards your goals. Bottom LineJust like anything else in the realm of personal finance, becoming a good investor requires research and experience. If it’s your first time investing, the experience will come, so focus on soaking up information about the different types of investments that are available to you.You should also take some time to consider all of the potential brokerages you could open an account with. In your comparisons, be sure to look through each firm’s trading fees, available investments, mobile and online features and more.Investing Tips for Beginners If you’re new to the investment game, don’t hesitate to ask for help from a professional. Financial advisors typically specialize in investing and financial planning, making them great partners for newbies. Luckily, finding the right financial advisor doesn’t have to be hard, as SmartAsset’s free matching tool can connect you with advisors in your area in five minutes. Get started now. Start investing sooner rather than later. Once you have an emergency fund in place and your debts in check, start investing. The sooner you start, the more risk you can afford to take and the more investment growth you’ll experience over time. As mentioned above, a key to successful investing is not putting all of your eggs in one basket. An easy way for young investors to diversify is by investing in mutual funds or exchange-traded funds (ETFs). Photo credit: ©iStock.commapodile, ©iStock.comChristianChan, ©iStock.comNicoElNino

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