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How to build a successful portfolio.

The first thing is to work out what "success" means. Are you saving for the short term, with a concrete goal in mind? Success probably means making a reasonable return on your saving and not losing money. Go "Secure" or "Conservative". If you don't have that concrete goal but just want to maximise your investments over a pretty long time frame then you should probably just focus on growth assets, go "All In". If you're really not sure, you know you want good returns but are uncomfortable with too much risk then look at our "Balanced" or "Confident" portfolio allocations.

This is what each of those categories means. Which one are you?

Investment Profile	Is this you?	Suggested Asset Allocation
Secure	Concrete short term (1 or 2 yr) goal in mind. Definitely don't want to lose money. Bit like a bank savings account.	100% Fixed Income or cash. Choose ETF's with Risk 1.
Conservative	Short to medium term (1 to 3 yr) goals, prepared to take only a small level of risk, mainly focussed on generating income.	80% Fixed Income or cash, 10% Australian Shares, 10% Global Shares. Choose ETF's with Risk 1 to 3.
Balanced	Medium to long term (2 to 5 yr) outlook. Comfortable with some risk, a balance between risk and return, capital and income.	40% Fixed Income or Cash, 30% Australian Shares, 30% Global Shares. Choose ETF's with Risk 1 to 4.
Confident	Medium to long term (3+ yr) outlook. Focussed on growth but tempered with	20% Fixed Income or Cash, 40% Australian Shares, 40% Global Shares. Choose ETF's with Risk 1 to 5

	some income assets, not quite all in.	
All In	Long term (4+ yr) outlook. Just wanting to maximise wealth and comfortable with a higher level of risk.	50% Australian Shares, 50% Global Shares. Choose ETF's with Risk 2 to 5.

Once you have chosen what type of investment profile best suits you and your particular circumstances then it's time to choose some ETF's. Here are some principles to guide you:

- *How many ETF's should I buy?*
  How many ETF's you want to buy might depend on how much money you want to invest to start with. We would suggest that you don't buy any less than $2000 in any one ETF. Accumulate money in a savings account until you have at least $2000 and then buy an ETF, and if it's just one ETF that you are buying then you can find an ETF that gives you a ready-made portfolio. One ETF will do to start with but really you want at least 3 to give you some diversity in your portfolio. As your portfolio grows adding different ETF's will add to your diversity.
- *You really want to diversify.*
  Investing is all about not putting all your eggs in one basket. So, building your ETF portfolio is about finding ETF's that are different. Different category such as Australian Shares and Global Shares, different investment methodology even a different ETF issuer can reduce your risk without necessarily impacting your returns. If you are choosing to create an "All In" portfolio make sure that you have different countries, investment methods and different industry sectors represented to give yourself the best return for the risks that you are taking.
- *Past returns are not future returns.*
  We give you a return estimate that is a combination of the average capital return since the ETF has been listed and the latest year's dividend return. We think that's the best guess but it's always wrong! The future return will be different. So, beware of just relying on past returns.
- *Have a look at our "Risk/Return Rating"*
  We give each ETF a star rating out of 4. This rating is based on something called a "Sharpe Ratio". This is an investment concept that tries to calculate how much return you get for a given level of risk. So, you want a high Sharpe Ratio. But remember a 4-star rating doesn't mean the highest return, it means there is a good balance between risk and return.
- *Keep an eye on the fees*
  There is quite a lot of variance in the fees that ETF's charge. From as low as 0.05% to over 5.00%. That's quite a range. Generally speaking the ETF's with higher fees are "actively managed" that means that they have teams of experts choosing the investments and that's expensive. It should lead to better performance but it doesn't necessarily. So be wary of high fees and perhaps read the factsheets to find out more.

- *Core and satellite*

  If you want to get fancy, try a core and satellite approach to investing. That means that you have most of your portfolio, let's say 70% to 80% in a core profile. The core could be one of our model porfolios such as the "Balanced" portfolio. Then with the other 20% to 30% you invest in something a bit different. Maybe an ETF that invests in China, or an ETF that invests in Technology stocks. This method gives you a strong investment base and the room to show a bit of investment flare. Search our blog for more info on this.
- *Cumulative returns*

  This is actually the secret to wealth. If you have $1 and you invest it at 10%, you have a choice, you can take the 10 cents interest you get each year and spend it, in which case after 10 years you have $1 or you can leave it alone in which case after 10 years you will have $2.60. If rather than spend you actually added 10 cents each year, then after 10 years you would have $4.19. That's remarkable when you think about it. Do nothing you've got $1.00 and a toothache from some lollies you bought, invest and you have $2.60, add a regular savings plan and you've got $4.19. Think about it.