The Best Investment Strategies

Which of These Top Investing Stategies, Styles Theories is Best for You?

The best investing strategies are the ones that work best for the individual investor. In different words, Investing strategies are like food diets: There is no "best investment strategy" except the one that works best for *you*.

Also, you don't want to implement an investment strategy and find that you want to abandon it for some hot new trend you discovered in a magazine article. Don't get confused by all of the too-good-to-be-true flavors of the month.

Stick to the time-tested basics.

To use another familiar metaphor, investing styles and tactics are like the clothes that fit you best. You don't need anything expensive or tailor-made; you need something comfortable that will last a long time, especially if your investment objective is long-term (10 years or more).

So before making a commitment to anything, whether it be food diets, clothes, or investing strategies, see which works best for your personality and style. You can start by considering the top 10 investing strategies, some of which are theories, styles or tactics, which can help you build a portfolio of mutual funds or ETFs.

Best Investing Strategies: Fundamental Analysis

We begin with fundamental analysis because it is one of the oldest and most basic forms of investing styles. Primarily used for researching and analyzing equities (individual stocks, rather than mutual fund selection), fundamental analysis is a form of an active investing strategy that involves analyzing financial statements for the purpose of selecting quality stocks.

Data from the financial statements is used to compare with past and present data of the particular business or with other businesses within the industry. By analyzing the data, the investor may arrive at a reasonable valuation (price) of the particular company's stock and determine if the stock is a good purchase or not.

Best Investing Strategies: Value Investing

Mutual fund and ETF investors can employ the fundamental investment strategy or style by using value stock mutual funds. In simple terms, the value investor is looking for stocks selling at a "discount;" they want to find a bargain. Rather than spending the time to search for value stocks and analyze company financial statements, a mutual fund investor can buy index funds, Exchange Traded Funds (ETFs) or actively-managed funds that hold value stocks.

Best Investing Strategies: Growth Investing

As the name implies, growth stocks typically perform best in the mature stages of a market cycle when the economy is growing at a healthy rate. The growth strategy reflects what corporations, consumers and investors are all doing simultaneously in healthy economies--gaining increasingly higher expectations of future growth and spending more money to do it. Again, technology companies are good examples here. They are typically valued high but can continue to grow beyond those valuations when the environment is right.

A nuanced version of growth investing can be found in the momentum investing strategy, which is a strategy of capitalizing on current price trends with the expectation that momentum will continue to build in the same direction.

Most commonly, and especially with mutual funds designed to capture the momentum investing strategy, the idea is to "buy high and sell higher." For example a mutual fund manager may seek growth stocks that have shown trends for consistent appreciation in price with the expectation that the rising price trends will continue.

Best Investing Strategies: Technical Analysis

Technical analysis can be considered the opposite of fundamental analysis. Investors using technical analysis (technical traders) often use charts to recognize recent price patterns and current market trends for the purpose of predicting future patterns and trends. In different words, there are particular patterns and trends that can provide the technical trader certain cues or signals, called indicators, about future market movements.

For example, some patterns are given descriptive names, such as "head and shoulders" or "cup and handle." When these patters begin to take shape and are recognized, the technical trader may make investment decisions based upon the

expected result of the pattern or trend. Fundamental data, such as P/E ratio, is not considered in technical analysis where trends and patterns are prioritized over valuation measures.

Best Investing Strategies: Buy and Hold

Buy and hold investors believe "time in the market" is a more prudent investment style than "timing the market." The strategy is applied by buying investment securities and holding them for long periods of time because the investor believes that long-term returns can be reasonable despite the volatility characteristic of short-term periods. This strategy is in opposition to absolute market timing, which typically has an investor buying and selling over shorter periods with the intention of buying at low prices and selling at high prices.

The buy-and-hold investor will argue that holding for longer periods requires less frequent trading than other strategies. Therefore trading costs are minimized, which will increase the overall net return of the investment portfolio.

Portfolios employing the buy and hold strategy have been called lazy portfoliosbecause of their low-maintenance, passive nature.

1. **Core and Satellite**

Core and Satellite is a common and time-tested investment portfolio design that consists of a "core," such as a large-cap stock index mutual fund, which represents the largest portion of the portfolio, and other types of funds—the "satellite" funds—each consisting of smaller portions of the portfolio to create the whole. The primary objective of this portfolio design is to reduce risk through diversification (putting your eggs in different baskets) while outperforming (obtaining higher returns than) a standard benchmark for performance, such as the S&P 500 Index. In summary, a Core and Satellite portfolio will hopefully achieve above-average returns with below-average risk for the investor.

2. **The Dave Ramsey Portfolio**

Popular talk show host and generally respected personal finance guru Dave Ramsey has long-supported his four mutual fund portfolio strategy for his listeners and fans:

Here's Dave's Investing Philosophy, specifically regarding mutual funds, taken directly from his website:

Dave recommends mutual funds for your employer-sponsored retirement savings and your IRAs. Divide your investments equally between each of these four types of funds:

Growth

Growth & Income

Aggressive Growth

International

Choose A shares (front end load) and funds that are at least five years old. They should have a solid track record of acceptable returns within their fund category.

If your risk tolerance is low, which means you have a shorter time to keep your money invested, put less than 25% in aggressive growth or consider adding a "Balanced" fund to the four types of funds suggested.

Dave's wisdom is in his simplicity; his delivery and financial methods are easy to understand. However the wisdom stops there. These four mutual fund types will often find fund overlap, which means there is little diversity. Furthermore, lower-risk assets, such as bonds and cash, are completely absent from the portfolio.

Modern Portfolio Theory

Modern Portfolio Theory (MPT) is an investing method where the investor attempts to take minimal level of market risk to capture maximum-level returns for a given portfolio of investments. An investor that follows the tenets of MPT may use a core and satellite approach, as described in number 6 above.

At the core of investment philosophy, every investor would like to achieve the highest possible return possible without taking extreme levels of risk. But how can this be done? The short answer is diversification. According to MPT, an investor can hold a particular asset type, mutual fund, or security that is high in risk individually but, when combined with several other asset types or investments, the whole portfolio can be balanced in such a way that its risk is lower than some of the underlying assets or investments.

Post-Modern Portfolio Theory (PMPT)

The difference between PMPT and MPT is the way they define risk and build portfolios based upon this risk. MPT sees risk as symmetrical; the portfolio construction is comprised of several diverse investments with various risk levels that combine to achieve a reasonable return. It is more a big picture view of risk and return. A PMPT investor sees risk as assymetrical; the way investors feel about losses is not the exact opposite mirror image of how they feel about gains; and each economic and market environment is unique and evolving. PMPT sees that investors do not always act rationally. Therefore PMPT accounts for the behavioral aspects of the investor herd, not just the mathematical model that MPT follows.

Tactical Asset Allocation

Tactical asset allocation is a combination of many of the previous styles mentioned here. It is an investment style where the three primary asset classes (stocks, bonds and cash) are actively balanced and adjusted by the investor with the intention of maximizing portfolio returns and minimizing risk compared to a benchmark, such as an index. This investing style differs from those of technical analysis and fundamental analysis in that it focuses primarily on asset allocation and secondarily on investment selection. This big picture view is for a good reason, at least from the perspective of the investor choosing tactical asset allocation.

To repeat the first point of this article. Choosing an investment strategy or style is no different than choosing investments: Each investor is unique and the best strategy is the one that works best for their unique investment objectives and tolerance for risk.

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