# Don’t Put All Your Eggs In One Basket

## confusing ‘income needs’ with the ‘cash-flow needs’

Income and actual cash flow are not the same thing. In Cyprus, many private (and institutional) investors confuse the two financial terms. In fact, the two distinct concepts and the differences between them are extremely important for all individuals that have invested money in the real estate, and/or any other asset classes.

Let’s put it simply. Cash flow is the money that you need for living expenses and other personal needs, either in Cyprus or abroad. On the other hand, income is the amount of dividends and interest earned by an investment portfolio (tangible or intangible assets) on which you will pay income tax. Here is the key difference: The way in which you generate income can have a tangible effect on the growth of your assets (as well the tax you pay), both of which could impact your ability to achieve the required ‘healthy’ cash-flows.

> Cash flow is the money that you need for living expenses

It’s a mistake to actually think that you should draw the level of cash-flow you need solely from income and ‘never-touch’ capital (as many of us found out the hard way having fixed deposits in Bank of Cyprus or Laiki Bank a few months ago). For many, this idea is actually very difficult to overcome, especially in Cyprus. The principal focus should be on total after-tax return and investment diversification.

Many investors can be unaware that managing a portfolio of assets (real estate, equities, deposits, etc) face certain hidden risks. Too often, and especially in Cyprus, many investors are overexposed to certain risks that have never been properly recognised. Thus, do not let this happen to you. Unintended concentration produces excess risk. Many have done so in single class residential real estate investments in Cyprus and abroad. This exposes an investment portfolio to larger fluctuations and the possibility of accelerated losses. Factors such as country, currency, actual valuations, size of the market and exit strategies all play a catalytic role in a well diversified portfolio. For instance, numerous expats have bought high end residential property in Cyprus at the peak of the market i.e. 2006-2007, and today they find themselves in a situation that values are significantly reduced and they cannot exit from their investments.

Among the factors that private investors should pay attention when determining their investment aim is their clear and achievable objectives. In other words, what is the level of return you want to achieve and what cash-flows should be generated from this specific investment. Moreover, talking to various investors, we came to the conclusion that many of them, will focus on their successes and try to forget key mistakes they have made, consistently confirming their personal views rather than actually maintaining objectivity. Thus, a particular disadvantage is the innate tendency towards overconfidence. By focusing on investments that went well in any asset class, might lead to taking excessive risks. No one is immune to these biases. That’s why it is vital to create an environment for investing that is detached from the emotion, one that relies on facts and evidence and impartial analysis to make the right decision for you financial future.

Finally, proactive management means several things: firstly, you should continually monitor your investments through all market conditions. Secondly, you shouldn’t limit itself to a single investment style since one could argue that this closes doors on consistent gains: your approach to investments should be flexible, pro-active and dynamic at the same time, always depending on the investors risk profile and appetite.

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