

Common Investor Mistakes

We all make mistakes; it is part of the learning process. It does not matter how experienced you are, no one is perfect. However, a mistake, no matter how small, can mean losing money and as such it is the difference between being a successful investor and being a poor one. Thus, as investors, we should try to limit mistakes as much as possible. In this article I have addressed five of the most common investor mistakes you should avoid to increase your odds for financial success!

1: Fools rush in...

Many investors rush into the stock market and carry out their investments in an erratic or haphazard manner. They ignore the basic principle of financial planning- "Setting an Investment Objective". This is one of the most common mistakes that investors make and more often this type of investing will lead to failure rather than success. Successful investors set goals and objectives and devise a strategy to accomplish these goals. Different strategies may be adopted for different goals and can also help in future decisions like -when is the right time to sell? The chosen strategy should take into consideration factors such as: time horizon, risk tolerance and future income.

2: Betting it all on one...

There are various portfolios that can be created to suit an investors needs, however many make the mistake of investing in individual stocks instead of diversified portfolios. When you invest in an individual stock you are putting all of your eggs in one basket and therefore increasing your risk. To avoid this common mistake you should try to diversify through holding stocks in various industries, investing in mutual funds and holding bonds with different maturity dates to reduce sensitivity to interest rate movements. After all, not every investment made will be successful and so you need to ensure that risk is well spread. However, it is also equally important to not over diversify by investing in too many financial products- especially if an investor's portfolio is modest, as this can lead to higher overall fees relative to portfolio size.

3: Looking for a quick fix...

Another common mistake that many investors make is trying to time the market to make short term gains. This type of investor behavior usually leads to excessive trading which will result in the paying of exorbitant commission fees. Investing in equity should always be regarded as a long term plan. A successful investor is patient! Chasing after "hot tips" or recent strong performers can lead to more bad than good. Instead of trying to outsmart the market, adopt a more methodical approach to investing that is based on fundamentals rather than noise or technicalities.

4: Falling in love...

Although your investment should be for the long term it does not mean that you should become so attached that you do not realize when it is time to let go. This is investor mistake number four! Falling in love or becoming too attached to investments! This occurs when investors attach sentimental value or prestige to a stock and hold on to it even though all financial signals tell them to sell. Every successful investor knows that there is no room for emotions in the stock market. Your strategy is there to guide you throughout your investment time horizon, so stick to it! Also, there are times when you need to rebalance your portfolio. Rebalancing refers to returning your portfolio to its target asset allocation as determined by your investment plan. This is sometimes very difficult for investors to do because it means selling the asset class that is performing

well and buying more of the worst performing asset class. This follows the fundamental principal of Buy low, Sell high!

5: Cheaper by the dozen...

A large number of investors buy a stock simply because it is cheap! A stock that is cheap is not necessarily a bargain! In fact, most “penny stocks” are quite risky investments. Conversely, a stock that has a high price may actually be trading at a bargain and it would be more prudent to buy a few shares of the more expensive stock rather than a lump sum of the cheap stock. Think of it as quality rather than quantity. Also, when investing in stocks, it is important to remember that you are investing in companies so proper research and analysis should be carried out on the fundamentals of these companies rather than basing your investment decision on day to day price changes. A side benefit of researching information on companies, is that you understand what you are investing in and the more familiar you are with these companies operations and performance, the more comfortable you become with your investment.

In summary, always remember to set your financial goals or targets when investing. Once you know what you want to achieve, then formulating a strategy or plan to achieve those goals would be the next step. You can go to your financial advisor or stockbroker for help on this and they would be able to create a portfolio, based on your risk tolerance, time horizon, etc. Creating a portfolio would ensure that your risk is spread and minimizes your chances for suffering losses. From time to time you will need to rebalance your portfolio to ensure that your asset allocation targets are in order. Once again, your financial advisor would be able to assist you in this process. Also, be patient...”good things come to those who wait!” Once you have a sound investment strategy you will realize your goals- don’t let the day to day bumps of the market put you off. Remember that value is more important than price and that low prices may or may not mean good value and the same goes for high prices. Finally, keep the emotions out! Stick to the fundamentals and have faith in your strategy. Suffice to say, there are many other investor mistakes that can occur in the world of finance. However, by using these tips for successful investing and avoiding the five common mistakes mentioned above- you are well on your way to meeting your investment goals.