Common Investing Mistakes To Avoid

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We all have our wins and losses especially in the realm of investments. But that's all part of the ups and downs of life just like markets. However, by practising self-awareness there are some common investment mistakes that we can avoid.

Here are some typical investment don'ts that you should avoid to achieve your wealth goals:-

Not Doing Your Homework

Never invest in something you don't understand. It is critical that you do read up and ask questions before putting your hard-earned money to work. Read up the relevant investment or Fund's collaterals to understand what exactly the underlying asset class is and what you're getting yourself into.

Following The Crowd

The herd mentality is a natural instinct and we can get easily attracted to any information that gets the most attention. This is evident in FOMO (Fear of Missing Out) which can lead to irrational decisions such as blindly chasing market trends. Set your own rules, have your own investment plan, and stick to it.

Not Separating Your Feels

Have a clear distance between your emotions and investments especially when it comes to buying or selling. Being overly exuberant when markets are climbing and panicking when the market declines could derail your long-term investment plan through impulsive decisions that are not rational. Remain calm and stick to the plan.

Lacking Patience

Everyone wants a quick buck and to get rich quickly. But as legendary investor Charlie Munger puts it, "It's waiting that helps you as an investor and a lot of people just can't stand to wait." Being a great investor is not necessarily how much you know, but really how you behave.

Doing Too Much

Call it a case of itchy fingers. But if you find yourself constantly looking and adjusting your portfolio each time markets rise or fall, you're probably doing too much. Instead, stick to your plan and invest consistently by dollar cost averaging. Trying to time the market usually ends up badly with you getting your fingers burned in the end.

Forgetting To Rebalance

Forgetting to rebalance your portfolio can lead to asset allocation drifts which might result in you taking too much or too little risk in your investments. Stay on track by correcting your allocation so that your portfolio is geared to suit your needs and risk profile.

Not Understanding Your Risk Profile

An investor who has a natural tendency to take risks because of his psychological imprint may have a high risk tolerance. But if you consider his financial standing as well as personal circumstances (e.g. high debts, no emergency savings), his risk capacity is actually limited. Investors should not confuse between the two and invest according to their actual risk capacity.

Putting Off Investing

Some investors tell themselves that they cannot invest because they "do not have enough money" or "do not know how to begin". The truth is anyone can invest as long as they have a plan. You can start with a small amount in Unit Trust Funds and Private Retirement Scheme (PRS) by having a minimum investment amount of just RM100. Starting early will give you the time to reap the power of compounding.
