Common Mistakes by Investors

No investment strategy.

From the outset, every investor should form an investment strategy that serves as a framework to guide future decisions. A well-planned strategy takes into account several important factors, including time horizon, tolerance for risk, amount of investable assets, and planned future contributions. At the outset, individuals should have a clear sense of what they want to accomplish and the amount of volatility they’re willing to bear.

Thinking you are the smartest.

Every investor bases his decisions on information he knows at a certain moment. Not wanting to hear advice or to hear new things, does not make you smarter, it brings you a great disadvantage and you will only put on hazard with your investments.

Going for too many or too few.

This is a common problem with portfolios; especially in the case of mutual funds. Fund investors normally think they are getting the units cheap if they buy them at Rs 10 each, so they invest in virtually every new fund that comes into the market. Having a huge portfolio ensures nothing except complexity. Diversify sensibly and objectively. While most investors have the problem of plenty, some are guilty of too much concentration. Letting just a few stocks or a fund managers determine your financial fortunes might not be an ideal situation to be in.

Ideally, a portfolio should have at least five to eight stocks from at least three distinct sectors. Fund portfolios should not have less than four funds, preferably by different fund managers.

Unrealistic expectations.

As we witnessed during the recent bubble, investors can periodically exhibit a lack of patience that leads to excessive risk-taking. It is important to take a long-term view of investing and not allow external factors cloud actions and cause you to make a sudden and significant change in strategy. Comparing the performance of your portfolio with relevant benchmark indexes can help an individual develop realistic expectations.

Don’t Know how to Start Investing.

Individuals often fail to begin an investment program simply because they lack basic knowledge of where or how to start. Likewise, periods of inactivity are frequently the result of discouragement over previous investment losses or negative growth in the equities markets. To be certain, investors should continue investing in every market as well as establish a mechanism to make regular contributions to their portfolios. Investors should also regularly review their holdings to ensure they are adhering to their overall strategy.

Not setting an investment objective.

A large number of investors are habituated to carrying out their investment activity in a haphazard and sporadic manner. Very often they fail to set an investment objective which is a basic tenet of financial planning. Investors should adopt a more systematic approach to investing by creating distinct portfolios for all their needs i.e. short-term (planning for a vacation), medium-term (buying a car) and long-term (planning for retirement) needs respectively. Setting of investment objectives also incorporates a degree of discipline which is a vital ingredient for the success of any the investment activity.

Having inadequate diversification.

With mutual funds, you can be "under diversified or over diversified," Investors sometimes invest large portions of their assets in a single fund or into several funds that own similar underlying investments, and that can equal a more volatile portfolio. On the other hand, over diversification can "water down your results. You're really just increasing your expenses for having to invest and reducing your return.

Borrowing money to invest.

No matter how good the investment opportunity or how sure you are that stock is going to take off, do not take a loan in order to invest. The cost of borrowing money exerts pressure on the expected return and you still have to beat inflation. Not to mention the risk of a negative return or the loss of your capital, while still having to repay the loan.

Not Educating Yourself.

This is probably the biggest mistake of all. Far too many people want to invest but they don't know enough about it. Rather than taking the time to learn what they can, they decide to try investing on their own first. It is extremely important to have a good understanding of how investing works before you actually start, especially if you plan on investing in stocks or any riskier investments. Getting experience in investing is important but it's wise to have at least a basic understanding before you decide to do so.

Ignoring risk.

Often investors select an investment avenue/scheme simply because it provides better returns or is recommended by a friend, family member. Investment decisions should not be influenced merely on the basis of performance or a strong recommendation. Investors should understand that various investments have varying risk profiles. For instance, stocks/equity funds have a higher risk profile, while debt is relatively low risk. You must select an investment based on whether it suits your risk profile. For instance, a 55-Yr old who is headed for retirement must avoid technology stocks, which can prove apt for a 30-Yr old.