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COMMON INVESTING MISTAKES

HOW TO AVOID THE PITFALLS

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INVESTING in financial markets can be a rewarding endeavour, providing opportunities for wealth accumulation and financial security. However, it is not without risks.

Many investors, both novice and experienced, often make mistakes that can lead to significant losses. Understanding and avoiding the common pitfalls is crucial for successful investing.

There are ways to mitigate these investing mistakes:

Lack of Research and Due Diligence: One of the most common mistakes investors make is failing to conduct adequate research before making investment decisions. Blindly following trends, tips, or "hot" tips without understanding the underlying fundamentals of an asset can be disastrous. Thoroughly researching the company, industry, or asset class is essential to make informed decisions and avoid impulsive actions driven by emotions.

Now, much information is available at our fingertips. The challenge has now become sieving through the plethora of information — separating the chaff from the wheat. Relevant and pertinent information should be the order of the day.

Emotional Investing: Emotions such as fear and greed can cloud judgment and lead to impulsive decisions. Panic selling during market downturns or chasing speculative assets during market euphoria can result in substantial losses. Successful investors maintain a disciplined approach, sticking to their investment strategies and avoiding knee-jerk reactions. Have a methodology and follow the methodology. Methodologies can change and should change as we become more sophisticated as an investor.

Lack of Diversification: Failing to diversify an investment portfolio is a significant risk. Concentrating investments in a single asset or sector amplifies the impact of any adverse events related to that asset or sector. A well-diversified portfolio can help mitigate risk and provide a more stable return profile. Never put all your eggs in one basket. But having too many baskets results in an inability to monitor the numerous baskets.

Market Timing: Attempting to time the market by predicting short-term price movements is extremely challenging and risky. Many investors fall into the trap of trying to buy at the lowest point and sell at the highest, but consistently timing the market is nearly impossible. Long-term investing with a focus on fundamental analysis is generally more effective. We all want to buy at the lowest and sell at the highest but it is a futile and unachievable want.

Overtrading: Frequent buying and selling of assets, driven by impulsive decisions or an obsession with short-term gains, can lead to excessive transaction costs and capital erosion. It is essential to avoid unnecessary trading and adhere to a long-term investment horizon. Overtrading is a sign of a cluttered mind and not that of a fundamental investor. Patience is a virtue. Be prepared to watch the paint dry.

Ignoring Fees and Costs: Fees and expenses associated with investments can eat into returns significantly over time. Ignoring these costs can lead to lower net returns, impacting long-term wealth accumulation. Investors should carefully assess the fees and expenses associated with their investments and opt for low-cost options whenever possible. Some trading platforms offer low fees while others have higher fees. But look out also for the other benefits that are offered. Fees alone should not be the sole determinant.

Herd Mentality: The herd mentality is when investors follow the crowd and make investment decisions based on the actions of others. This can lead to asset bubbles and inflated asset prices. It is crucial to maintain independence in decision-making and rely on individual research. It takes courage to be a contrarian. Herd mentality is seductive.

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Chasing High-Yield Investments: The allure of high-yield investments can be tempting, but it often comes with higher risk. Investors should be cautious of investments that promise exceptionally high returns, as they may carry a higher probability of loss or even be fraudulent schemes. The Securities Commission consistently warns of such schemes and warns investors to be aware.

Lack of a Clear Investment Plan: Investing without a well-defined investment plan can lead to a haphazard approach to portfolio management. A clear investment plan should outline financial goals, risk tolerance, time horizon, and asset allocation strategy. Having a plan in place helps investors stay focused on their long-term objectives. There are dividend yield stocks, aggressive growth stocks, steady growth stocks, real estate investment trusts and many other types of stock. Decide what suits you or what combination of such stocks suit you.

Neglecting to Reevaluate Investments: Market conditions, economic landscapes, and individual circumstances change over time. Failing to reevaluate investments regularly can result in holding onto underperforming assets or missing out on new opportunities. Regular portfolio reviews are essential for making necessary adjustments to align with changing conditions.

The writer is chief executive officer of Minority Shareholders Watch Group.