Investing **mistakes** to **avoid**

Investing successfully and improving your investment portfolio can be as much about minimising mistakes as trying to pick the 'next big thing'. It's all about taking a calm and considered approach and not blindly following trends or hot tips.

Let's delve into some of the most prevalent investment mistakes and look at the principles that underpin a robust and successful portfolio.

Chasing hot and trending shares

Every so often there are industries or shares that are all over the media and you may begin to worry that you are missing out on something. For example, there was the 'dot com' bubble in the early 2000s, the social media hyped 'AMC' shares in 2020 or the lithium shares in 2022. Jumping on every trend is like trying to catch a wave; you might ride it for a bit, but you're bound to wipe out sooner or later. That's because the hot tips and 'buy now' rumours often don't pass the fundamentals of investing test.

The key is to keep a cool head and remember that the real winners are often the ones playing the long game.

Not knowing your 'why'

What would you like your investment portfolio to achieve? Understanding your motivations and goals will help you to choose investments that work best for you.

If you want to build wealth for a comfortable retirement, say 20 to 30 years down the track, you can afford to invest in riskier investments to play the long-term game. If you have already retired and plan to rely on income from your portfolio, then your focus will be on investments that provide consistent dividends and less on capital growth.

Timing the market

Timing the market involves buying and selling shares based on expected price movements but at best, you can only ever make an educated guess and then get lucky. At worst, you will fail.

As the world-renowned investor Peter Lynch wrote in his book *Learn to Earn:* "Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves".[i]

Putting all the eggs in one basket

This is one of the classic concepts of investing and something that you have probably heard many times. But it's worth repeating because, unless you are regularly reviewing your portfolio, you may be breaking the rule.

Diversifying your portfolio allows you to spread the risk when one particular share or market is performing badly.

Diversification can include different countries (such as adding international shares to your portfolio), other financial instruments (bonds, currency, real estate investment trusts, exchange traded funds), and industry sectors (ensuring a spread across various sectors such as healthcare, retail, energy, information technology).

Avoiding asset allocation

While diversification is key, how do you achieve it? The answer is by setting an asset allocation plan in place.

How much exposure do you want to diversify into defensive and growth assets? Within them, how much should be invested in the underlying asset classes such as domestic shares, international shares, property, cash, fixed interest and alternatives.

Then review your asset allocation from time to time to rebalance any over or under exposure that may occur due to market movements.

Making emotional investment decisions

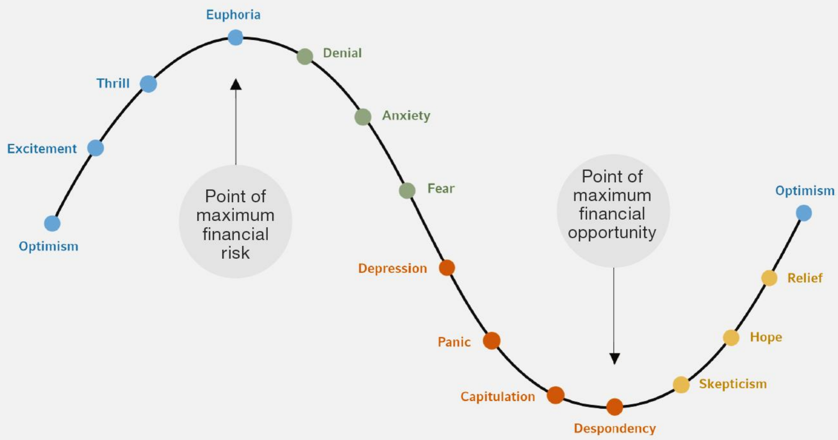
The financial markets are volatile and that often leads investors to make decisions that in hindsight seem irrational. During the COVID-19 pandemic, on 23 March 2020 the ASX 200 was 35 per cent below its 20 February 2020 peak.[ii] By May 2021, the ASX 200 crossed the 20 February 2020 peak. Many investors may have made an emotional decision to sell out during the falling market in March 2020 but then would have missed the some of the uplift in the following months in.

Some of the other common investment mistakes include reacting to the noise in media, trading too much, over-diversification, not reviewing your portfolio regularly to ensure it still aligns with your goals, not doing enough quality research and not working with a professional.

Seeking out quality and trustworthy financial advice can help to minimise investment mistakes. Give us a call if you would like to discuss options for growing your portfolio.

The cycle of investor emotions

Behavioural finance is the study of how psychological influences can affect investing and markets. This chart shows how emotions affect an investor's behaviour at different points in the market.



Source: Russell Investments - Cycle of Investor Emotions | Russell Investments

- When your investments are rising, you feel optimistic and eventually reach euphoria which is at the peak of the market and it makes you feel like the smartest person in the room, tempting you to take more risk.
- As the markets drop, you may deny it as a short-term blip. As it keeps falling, panic sets in eventually leading to despondency – making you question your entire investment decision.
- As markets start to rise again, there is hope which ultimately leads back to optimism which is the start of the cycle all over again.

Having a financial adviser coach you through this wave of emotions can be a way to limit making irrational decisions.

i https://worth.com/from-the-archives-fear-of-crashing/

ii https://www.rba.gov.au/publications/bulletin/2022/mar/australian-securities-markets-through-the-covid-19-pandemic.html

Akambo Financial Group
Level 9
90 Collins Street
Melbourne, VIC 3000
P 03 9602 3233
E contact@akambofg.com
W http://akamboFG.com
Facebook akamboFG
Linkedin /company/akambofg