Discovery

INVESTMENT MISTAKES

AND HOW TO AVOID THEM

PART 1

Investing doesn't have to be difficult. By following simple principles and avoiding common mistakes, you can enjoy the benefits of successful long-term investing. Here are the most common, but avoidable, investment mistakes.

NOT HAVING A FINANCIAL PLAN

Probably the most common mistake is not having a financial plan with clear investment goals. Research has shown that investors with a financial plan are more confident and optimistic about their future. They save more and have fewer financial worries.

Expert advice is an important part of financial planning and helps create a healthy financial future. Financial advisers help you determine your financial needs, identify your level of risk, and recommend appropriate investment products. They are also there to guide your investment journey and ensure you get the most out of your investments.

NOT UNDERSTANDING YOUR RISK PROFILE

It's important to understand your risk profile and tolerance for risk. As an investor, you typically fall into one of the following categories:

- **Conservative:** You are very risk-averse, possibly near retirement, and you cannot afford to risk your capital.
- **Moderate:** You are risk-averse and cannot afford to risk your capital over the long term, but you can tolerate short-term volatility to get higher returns.
- **Aggressive:** You are looking for high returns and you are not concerned about short-term volatility. You probably have a long time to invest, so any capital loss in the short term can be caught up in future.

Understanding your risk profile helps you set investment goals that are appropriate and realistic. It also guides the kinds of funds you choose and investments you make as part of your financial plan.

NOT UNDERSTANDING YOUR INVESTMENTS

It sounds obvious, but you should never invest in anything you don't understand. If you're going to invest in a unit trust, take the time to learn about the manager, the assets they invest in, what the fees are and how the fund has performed in the past. If you choose another investment vehicle, such as exchange-traded funds, make sure you understand how they work, the tax you should pay and the risks you face.

OVERLOOKING FEES

Investors often focus on a fund's performance, but overlook fees when considering how well their investment has done. While performance is very important, it is equally important not to underestimate the impact of fees on your investment. Whatever the performance of your investment, fees are deducted before your investment earns a net return.

Reducing fees is a simple way to get more out of your investment. You can measure the fees on a unit trust by referring to the fund's total expense ratio (TER), which is a measure of all the fees for that fund expressed as a percentage. By law, all unit trust funds must show a TER, and it usually appears on the fund's fact sheet. Consider all fees you will pay, including administration fees and financial adviser fees.

GETTING THE DIVERSIFICATION BALANCE WRONG

Diversification simply means not putting all your eggs in one basket. It's a way of creating a portfolio that includes different types of investments to reduce your overall investment risk. Investments don't perform in the same way during certain economic conditions. So, when one investment doesn't perform well, your diversified investments in other areas will perform well to give you an overall good investment return.

A balanced portfolio will typically contain a blend of equities, bonds, cash and property based on your investment risk profile:

- Equities often provide the highest investment growth.
- Property generally provides protection against inflation in the long term and generally has a low "correlation" to equities.
- Bonds are usually lower risk than property or equities, but with a corresponding lower return.
- Cash provides portfolio security and stability, but has the lowest long-term return potential.

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