



3 Wealth-Destroying Investment Pitfalls to Avoid

Description

During my career in finance, I have witnessed a number of mistakes that investors repeatedly make that not only reduce their chances of success, but can seriously erode their wealth. If investors are capable of recognising these errors and understanding how to avoid them, there is a far greater chance that they will be successful and create considerable wealth.

Now what?

Firstly, one of the biggest wealth-eroding mistakes that investors make is jumping on the latest hot investment, regardless of whether they understand it or not.

I made this mistake during the dotcom bubble of the late 90s.

During its early stages, I quickly amassed some incredible returns and used these profits to double-down on even riskier tech companies that I didn't understand.

Needless to say, when the dotcom bubble burst, it cost me dearly. Many of those companies weren't financially viable or didn't own assets of any real value. So when they finally imploded, there was nothing left over for investors.

This mistake can be easily avoided by only investing companies with high-quality, easily understood businesses.

One such company is **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)).

Unlike its larger U.S. cousins, Toronto-Dominion is at its heart a retail and commercial bank, which makes it far easier to understand than banks with significant exposure to trading and investment banking. Not only is it Canada's second-largest bank by assets, but it also offers investors considerable exposure to the recovering U.S. economy and world's largest financial market.

Secondly, investors need to avoid panicking when markets fall.

One of the greatest allies of investors is time, and it is important that they recognise this and don't sell out of fear.

Selling when markets are falling only serves to turn paper losses into real losses. In many cases, those losses will eventually turn into profits when markets recover.

You see, investors frequently forget that markets are cyclical in nature, and over the short term they can be very volatile.

However, over the long term they typically trend upwards, and it is the same case for quality companies that possess solid businesses and wide economic moats.

Even after allowing for the sharp market downturns triggered by the dotcom bubble bursting and the 2007 global financial crisis, as well as a myriad of other, lesser market crises, the S&P/TSX Composite Index has risen by 145% over the last 20 years. Had an investor investors invested \$10,000 over that period and merely followed the index, that investment would be almost \$25,000 today.

While this may be an impressive return, it is nowhere near as high as those delivered by high-quality companies with wide economic moats, such as **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)).

For the same period, an investment of \$10,000 in Canadian National, where dividends were reinvested, would now be worth a whopping \$277,000, highlighting that time and the power of compounding are an investors greatest allies. This represents a staggering return of 2,670%, or an annual average of 18—well above the returns that many other asset classes are capable of generating.

Finally, many investors fail to have a clear disciplined strategy in place when investing.

Too many investors fail to appreciate that an important key to success is to have a clear investment strategy and the discipline to follow it. This not only assists with determining what are appropriate investments, but it helps avoid the first two pitfalls discussed. Failing to establish a plan can lead to many investors engaging wealth-destroying behaviour, such as trading too frequently, speculation, and chasing losses.

So what?

While there is no guarantee of success in investing, if investors avoid these pitfalls and follow the guidance provided, they substantially increase their chances of success and creating the desired wealth.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CNR (Canadian National Railway Company)

4. TSX:TD (The Toronto-Dominion Bank)

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Author

matttdsmith

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