3 Reasons Why You're Not Yet a Millionaire

Description

For many people, the idea that they could make a million sounds far-fetched. After all, generating a seven-figure net worth is never easy. And by adopting the wrong strategy, it proves to be elusive for most people even over a long period. Here are three reasons why that is often the case.

The wrong assets

Ask most people what assets they have and a common answer will be 'my house'. Clearly, owning a property is a sound move in the long run and also provides a sense of belonging. However, investing almost all of your capital in your primary residence may not help you to become a millionaire. That's because the cash invested in a house generates no income return. Certainly, it may reduce your outgoings, but equally it will not provide you with dividends or the same level of capital growth as shares in the long run.

Similarly, holding cash for short term emergencies is always a good idea. However, many people will hold larger amounts of cash than they need for short term challenges. Therefore, the returns they obtain are low – especially when inflation is factored in. With the stock market delivering high single-digit returns per annum in the long run, it provides the best opportunity to achieve a net worth of seven figures.

The wrong stocks

Even investors who buy shares often fail to allocate their capital efficiently. For many people, shares generate a degree of fear. They read about the credit crunch, the dot.com bubble and other stock market crashes and believe that they could lose everything. Therefore, they stick to what are perceived to be the safest stocks that offer the least chance of capital losses.

However, the reality is that persistent losses are unlikely. Certainly, shares endure ups and downs, with paper losses being a fact of life for all investors. However, over a long period of time, good quality companies tend to shine through and deliver upbeat total returns. Furthermore, by focusing on only the lower risk companies, many investors inadvertently end up paying a premium for safety which reduces their potential rewards. This may mean lower volatility, but also dents your chances of making a million.

The wrong sectors

Diversification is arguably one of the most underrated parts of investing. It is not practiced enough by many investors. It is important because it reduces company specific risk and helps to reduce a portfolio's overall risk. It also allows an investor to tap into growth in a wider range of industries than they otherwise would access. This could boost their portfolio returns and help them on their way to making a million.

However, in a lot of cases, investors will hold a small handful of shares. If one of them is hit by a profit warning, this could negatively impact on their chance of making a million.

CATEGORY

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