3 Flaws Preventing Your Investment Success

Description

While all investors want to be successful, the reality is that losses are made and financial goals are missed. Although there are a multitude of reasons why this is the case, many investors will find that at least one of the following three flaws has been responsible for them underperforming the wider index over a sustained period. And while investing is always clearer when viewed through the rear-view mirror than the windshield, overcoming these three challenges could boost your investment success.

Discipline

While no two investors are the same, a trait which tends to run through the most successful investors is discipline. They are prepared to wait for the right opportunities to invest and will not buy until they feel a wide enough margin of safety is on offer. Similarly, even if they are in a huge profit in one of their holdings, they will continue to hold if they believe that there are still more capital gains on offer.

A good example of an investor with a vast amount of discipline is Warren Buffett. His favourite holding period is rumoured to be forever, while his focus on companies with a wide economic moat has helped him to become one of the richest people on earth.

Of course, it is not possible to flick a switch in order to become disciplined. However, by coming up with a clear strategy which is based on logic rather than emotion, it is possible to develop a more consistent attitude towards investing. In other words, if you have a plan which you believe in, sticking to it may prove to be easier than you previously thought.

Optimism

Although being optimistic outside of the investment world is generally a good thing, optimistic investors can take on too much risk for too little reward. A company may have the potential to become the next **Microsoft** or the next **Coca-Cola**, but the chances are that they won’t. This is where a more cynical attitude can be of use, since a company’s management team will usually pitch a good story while the investment lacks appeal.

Similarly, inexperienced investors sometimes view the stock market as a get rich quick scheme. While it is possible to generate billions in returns from shares just as Warren Buffett has done, the reality is that this requires tremendous skill and a number of decades. Beating the wider index could be a better place to start than trying to make billions. It may also ensure that the amount of risk being taken is kept to an acceptable level.

Patience

Many investors look at shares as a means to make money. However, investors such as Warren Buffett consider stocks a small part (or in his case a substantial part) of a real business. This means that they make changes, develop and improve at a relatively slow pace, since the business world moves slowly. As such, it makes sense to give investments time to come good.

Often a new management team, new product or revised strategy can take years to have a direct impact on results. During this time, many impatient investors may sell out in search of faster gains elsewhere. But for long term investors, buying and holding for an extended period can prove to be a highly profitable strategy.

CATEGORY

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Author
peterstephens