3 Mistakes All Investors Make

Description

All investors make mistakes. Even the very best investors such as Warren Buffett have bought shares which have lost them money, sold shares that have gone on to perform well and made countless other errors. As such, making mistakes is just a part of life as an investor. However, by reducing the errors you make, you could improve your overall returns. Here are three mistakes all investors make, and which you may be able to avoid in future.

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Diversification

While it is tempting to put all of your capital into the best stock you can find, the reality is that all investments come with a degree of risk. As such, even if the company in question has a strong balance sheet and bright prospects, there is a chance that it could release a profit warning, the industry in which it operates may undergo major change, or an economic recession could take hold.

As such, it is vital to reduce risk by diversifying into a range of companies. They may operate in different sectors, geographies and have different characteristics, such as cyclical or defensive, income or growth. Through buying a range of stocks and assets, you may end up with a portfolio that offers more consistent returns. The effects of compounding in the long run could therefore be magnified.

Contrasting views

It is easy to waver when making decisions in any walk of life. However, in the investment world it is probably even easier. The reason for this is that investing is always a known unknown and the future is never perfectly clear. Therefore, investors often seek confirmation that what they believe is true, or else seek to follow the opinions which are most closely aligned with their own.

The effect of this may be to make the investor in question feel more confident about their own actions and ability. However, it may not produce the best end results. Often, it is better to seek ideas and opinions which contradict your own in order to have all of the information and facts available to be able to make a decision. However, many investors will instead ignore the opposing view and may miss out on the best investment opportunities as a result.

Quick-fire decisions

Many investors will also make decisions quickly, when they perhaps should take their time. After all, any money which is available for investment has taken hard work to earn. Therefore, it seems illogical to rush the decision-making process. Certainly, sitting on the sidelines and procrastinating over what to buy or sell is equally ineffective, but it is all too easy to lose a lot of money quickly in the stock market.

One method of making slower decisions is to buy and sell shares in small parts, with delays of perhaps a week or a couple of weeks in between each sale or purchase. This could ensure an investor has time to reflect on decisions made and if they should have a change of mind, they have not committed all of their capital to that one action. Doing so may mean higher dealing charges, but it could mean lower losses, too.

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