How Millionaire Investors Avoid These 3 Mistakes

Description

While some investors are more successful than others, no investor is perfect. Anyone who has ever invested their own cash in the stock market has made mistakes. With the benefit of hindsight, they seem obvious. But at the time they are usually anything but.

Of course, trying to avoid mistakes is an obvious way of improving as an investor. With that in mind, here are three common mistakes which more successful investors usually avoid. Doing so could improve the risk/reward opportunity of your portfolio in the long run.

Short-termism

One of the more common investing mistakes is short-termism. This is essentially where an investor fails to fully consider the long-term prospects of a business, instead focusing on how it is performing at the present time.

For example, a stock may be experiencing a difficult period. Its profitability may be growing at a modest rate which is lower than some of its industry peers. As a result, its valuation could be low. While this situation may continue over a period of months, in the long run it could deliver a successful turnaround and generate high capital returns.

Investors who are able to overcome this situation are likely to be those who, by default, set out to hold shares for a long-term time period. Warren Buffett, for example, buys shares on the basis that the stock market will not be open for at least five years. In other words, he forces himself to look five years ahead before investing in order to generate a more favourable risk/reward ratio.

Targeted analysis

Analysing any company is always a worthwhile pursuit. It helps an investor to determine whether an investment opportunity is on offer. However, in some cases an investor may focus on areas which are perhaps less important than others. For example, they may only consider a company’s recent track record at a time when monetary policy is set to change significantly. Or, they could fail to focus on the strength of a company’s balance sheet in favour of considering its growth catalysts.

Investors who have a more structured means of analysing a company may be able to overcome a lack of focus when it comes to analysing a stock. As such, having an investment checklist could be a shrewd move for an investor seeking to concentrate on the most important parts of a business.

Knowledge

Clearly, it is not possible for any investor to be an expert in every industry. There will inevitably be some sectors where they have more knowledge than others. Despite this fact, some investors seek to invest in industries where they lack a competitive advantage, while at the same time overlooking sectors where their career background may provide them with a foundation from which to adequately analyse a stock.

Some of the more successful investors accept what they do not know, and seek to focus on areas where their knowledge can have the biggest impact. And if an investor is concerned about lacking diversification due to a relatively concentrated skill set or background knowledge, funds may be a sensible solution alongside direct holdings in companies.

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