Why Your Biggest Mistakes Could Lead To Your Greatest Investing Opportunities

Description

No investor has ever been able to avoid making mistakes. Even the most successful investors such as Warren Buffett and Charlie Munger have made poor investment at times in the last few decades.

However, what may separate the good investors from the ones who are less successful is being able to learn from their mistakes. Just as perfecting any job, sport, hobby or other pursuit in life requires practice and patience, investing is an area where a degree of experience and past mistakes could be beneficial in the long run.

Adaptability

At the start of most people's investing careers, they have high expectations when it comes to the returns they may be able to generate from their portfolios. This can be an exceptionally costly mistake, since many people starting out buying stocks have a relatively small amount of capital. As such, losses at this point can severely damage their wealth, or even wipe out their portfolio.

Among the biggest mistakes many people make are a lack of diversification and a short-term holding period. While buying a handful of stocks may seem like a means of spreading the risk, the reality is that a portfolio is unlikely to be well-diversified until it contains 20-30 stocks. Even then, company-specific risk can hurt overall performance significantly. And while many investors may believe that they could generate high returns in a matter of weeks or months, the reality is that it can take years before stocks deliver on their potential.

As such, for investors who have made those mistakes during the early part of their investing careers, being able to adapt to the harsh realities of buying and selling stocks could prove to be a crucial step in becoming a better investor.

Investment style

Continuing to invest even having made mistakes could help an investor to more accurately identify their risk tolerance, as well as discover an investment style that works for them. For example, they may start off investing only seeking lower-risk stocks, but over time they may grow in confidence and seek smaller, more volatile companies. Likewise, they may not place much emphasis on dividends in their early days, but due to the appeal of compounding, this could change over the course of many years.

In other words, mistakes teach an investor how to manage their capital more effectively. Although this can prove to be painful in the short run, the nature of the stock market means that there is always an opportunity to recover. There are always likely to be buying opportunities in a variety of sectors, and in the long run stock prices have historically risen, with their growth being punctuated by bear markets and recessions.

Therefore, in many ways the most successful investors could be the ones who not only learn from their mistakes, but also stick around long enough to eventually find the right stocks at the right time so as to improve their financial situation in the long run.

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peterstephens