The 17 Mistakes to Avoid While Investing in 2017

Keep these points in mind to rake in the moolah from the markets this year

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Ed's note: Last month we carried a list of seven things that you should do in 2017. That article prompted Viral Bhatt to list 17 things that you shouldn't. Happy reading!

As 2017 starts and a new financial year comes on, investors should be careful about what they believe in and how they approach their investments. Many a times, it is not the investment itself but the approach and attitude with which the investment was made that is wrong.

While a thorough review of financial investments and goals is best performed by a certified financial planner who will align the same with your goals, here are some common mistakes that investors should take care to avoid in the new year.

1) Expecting too much or using someone else's expectations

Investing for the long term involves creating a well-diversified portfolio designed to provide you with the appropriate levels of risk & return under a variety of market scenarios. But despite having the 'right' portfolio, no one can predict or control what returns the market will actually provide. It is important to expect a rate of return that is line with your financial goals, and your current asset allocation.

2) Unclear investment goals

The adage, "If you don't know where you are going, you will probably end up somewhere else," holds true for investing as anything else. Everything from the investment plan to the strategies employed to the portfolio design and even stocks chosen need to be aligned to your life goals. Many investors blindly follow the latest investment fad or look at maximising short-term investment return instead of designing an investment portfolio that has a high probability of achieving their long-term investment objectives. Either way, once an investment fad has become popular and gained the public's attention, it can no longer be used to have an edge.

3) Failing to diversify sufficiently

Often, investors think they can maximise returns by taking a large investment exposure in a single scrip or sector. But when the market trend is against such a concentrated position, the effect on your portfolio can be disastrous. At the same time, excess

diversification and too many exposures can also affect your portfolio's performance. The best course of action is to create a balanced portfolio.

4) Refocus from short-term to long-term
You can eye returns over both the short and the long term, yet confusing both is erroneous. If you are a long-term investor, speculating on a stock's performance in the short term can be a recipe for disaster, as it can make you second guess your initial strategy and motivate short-term portfolio modifications. Hence, you must look past near-term chatter to factors that drive long-term performance is a worthy undertaking. If you find yourself looking at the short term, refocus.

5) Buying high and selling low
While the fundamental principle of investment is to buy low and sell high, why do so many investors do the opposite? It is so because fear and greed overshadow rational decision-making regarding investments. In many cases, investors buy high to maximise short-term returns instead of trying to achieve long-term investment goals.

6) Taxation fixation
Making investment decisions on the basis of a potential tax incidence is a bit like the tail wagging the dog. Unfortunately, is a common investor mistake. While you should be smart about taxes it is important that the impetus to buy or sell a security is driven by its merits, not by tax implications.

7) Not reviewing your investments regularly
If you hold a diversified portfolio, there is an excellent chance that some stocks will rise, while others fall. Thus, it is essential that you review your portfolio every quarter or year, as market movements may affect the efficacy of your portfolio. Don't get too far off track! Regular monitoring ensures that your investments still make sense in changing situations and more importantly that your portfolio doesn't need re-balancing.

8) Going wrong on risks
Every investment involves some risk in exchange for the potential reward. Taking excess risk can cause volatility in the performance of your investment that may be outside your comfort zone. Taking too little risk can result in returns too low to achieve your financial goals. Make sure that you are aware of your risk-taking capacity and the ability to recognise those risks.

9) Underestimating your investments
It is shocking how many people have no idea of how their investments have performed. Even if they know the headline result, or how a couple of their stocks have done, they rarely know whether they have performed in the context of their portfolio. Moreover; you have to know whether your portfolio's performance aligns to your goals, even after accounting for costs and inflation.

10) Reacting to media tips
There are plenty of 24-hour news channels that make money by offering successful 'trading' tips. The key is to parse valuable information out of all the noise. Successful and seasoned investors gather information from several independent sources and conduct their own proprietary research and analysis. Using news as a sole source of investment analysis is a common mistake because by the time the information has become public, it has already been factored into market pricing and used by a lot of other participants.

11) Chasing yields
A high-yielding asset is very seductive. Why wouldn't you try to maximise your returns? However, past returns are no indication of future performance and the highest yields carry the highest risks! Focus on the big picture and don't get distracted while disregarding risk management.

12) Trying to time the market
Timing the market is possible, but only for experienced traders/ investors. Novices could do well to avoid trying at all. For example, an investor who was out of the market during the top 10 trading days for the S&P 500 Index from 1993 to 2013 would have achieved a 5.4% annualised return instead of 9.2% by staying invested. However, identifying those '10 days' would have been difficult for most investors. that the lesson here is that investors are better off contributing consistently to their investment portfolio rather than trying to trade in and out in sporadic attempts to time the market.

13) Delaying the beginning
Individuals often fail to begin investing in the markets simply because they lack basic knowledge of where or how to start. Those who invest may also hesitate to continue investing owing to discouragement from previous investment losses. However, investment is a discipline that is not overly complex, but requires continual effort and analysis for one to be successful.

14) Lacking a financial advisor
An investment advisor should be your partner in achieving your investment goals. The ideal financial advisor not only has the ability to solve your problems but shares a similar philosophy about investing and even life in general. The benefits of taking extra time to find the right advisor far outweigh the comfort of quick decisions. A good advisor will be able to help you construct a plan that answers sticky questions and issues such as involving near and dear ones in the investment process.

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DO NOT FOLLOW INVESTMENT FADS — A PROPERLY DESIGNED PORTFOLIO WILL ENSURE YOU ACHIEVE YOUR LONG-TERM OBJECTIVES

15) Letting emotions get in the way
Investing involves rational decision-making. To let issues that involve family, friends while making a gambit in the market, can impede decisions and affect returns. Do you want to involve your spouse in planning your finances? What do you want to happen with your assets after you die? Don't let the enormity of these questions get in the way of making a good investment.

16) Ignoring inflation
Most investors focus on nominal returns (which doesn't consider inflation) instead of real returns. After accounting for inflation (and fees) you may be surprised to find that your returns have shrunk considerably, especially if the economy is experiencing high inflation. Another factor to consider is that high inflation can pull down markets, creating a 'buy low' opportunity. However, the challenge is to identify and stocks in inflation-proof sectors, so as to stabilise returns.

17) Not controlling what you can
People say that they can't predict the future, but it is often forgotten that they can act on time to shape it. While it is impossible to control market movements and the factors that drive it, you can save significant money by investing wisely. Continually investing in small amounts over time can stabilise wealth accumulation and the return on investment. It is the surest way to increase the probability of reaching your financial goals.

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