18 Financial Tips to Remember in 2018

Paying off high cost debt should be one of the top priorities for an individual investor this year. Also, diversification of overall portfolio should be assiduously followed to generate decent returns from investments

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1 You Need to Pay Off High Interest Debts

If you have high-interest debts, say anything above 9 % interest rate, there is absolutely nothing better you can do with your money than to pay off that high cost debt. There is no investment that offers higher return that can beat your high cost debts. Not only that, paying off your debt will have an immediate positive impact on your net worth, which will start climbing steadily as it will not be tied to interest payments and finance charges.

2 Eliminate Most of Your Worst Personal Spending Habits

When I look at my clients' finances each month, I tend to look at it as a pile of expenses that have been subtracted from their income. What's left is a much smaller portion, which I call as "the gap"– the difference between income and spending. That "gap" is the money, which is available for investment. There are two ways to effectively increase your "gap." You can either spend less money or earn more money. But let's focus on the spending part of the equation because that's something where you can take direct action right now and see the results immediately.

3 You Need to Establish a Cash Emergency Fund

Like it or not, life sometimes intervenes in the best-laid plans. You might have a great investment plan, but what happens if you lose your job? What if you get sick? What if your car breaks down? I'm an advocate of what I call the "perpetual" emergency fund. Set up a Liquid Mutual Fund account with a particular mutual fund company to meet exigencies.

4 Figure Out What Your Financial Goals Are

The adage, "if you don't know where you are going, you will probably end up somewhere else" holds true for investment as much 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. Investors follow the latest investment fad or look at maximising short term return instead of designing a perfect investment portfolio that has a high probability of achieving their long-term investment objectives.

5 Healthy Understanding of Your Investment Options

Another important step before you invest in any asset class is to know what different investment options are available and how to interpret them. Do you know the basics of stocks, bonds, mutual funds, ETFs, index funds, precious metals and real estate? Do you know how to compare two similar investments? You need those skills before you begin to invest.

6 Refocus from short-term to long-term

You can eye returns over both the short and the long term, but mixing them may prove detrimental to financial success. 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 alter your initial strategy and motivate short-term portfolio modifications. Hence, you must look past near-term chatter to factors that drive long-term performance. If you find yourself concentrating on the short term, then refocus.

7 Taxation fixation

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

8 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.

9 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 witnessing high inflation. Another factor to con-

sider is that high inflation can pull down markets, creating a 'buy low' opportunity. However, the challenge is to identify those stocks to stabilise returns.

10 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 past losses. However, investment is a discipline which requires consistent effort and analysis for one to be successful.

11 Chasing yields

A high-yielding asset is very seductive for investment to maximise your returns. However, past returns are no indication of future performance. Also, high yielding assets carry the highest risks. So, it is better to focus on the big picture and don't get distracted in the short run disregarding prudent risk management principles.

12 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 performance. The best course of action is to create a balanced portfolio.

13 Going wrong on risks

Every investment involves some kind of risk in exchange of the potential reward. Taking excess risk can cause volatility in the performance of your investment, which 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 recognize those risks to meet your financial objectives.

14 Not reviewing your investments regularly

If you hold a diversified portfolio, there is a fair degree of chance that some stocks will rise, while others will fall. Thus, it is essential that you review your portfolio every quarter or every year as market movements may affect the performance of your portfolio. Don't get too far off track. Regular monitoring ensures that your investments still make sense in changed situations and more importantly that your portfolio doesn't need rebalancing.

15 Letting emotions get in the way

Investing involves rational decision-making. To let issues involving family, friends while investing 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 do with regard to succession planning? Don't let the enormity of these questions get in the way of making a good investment.

16 Trying to time the market

Timing the market is possible, but only for experienced traders/ investors. Novices could be well off in avoiding this. Investors can do well contributing consistently to their investment portfolio rather than trying to trade in and out in sporadic attempts to time the market.

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 amount of money by investing wisely. Consistently 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.

18 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 tricky questions and issues involving near and dear ones in the investment process.