



How to overcome the 4 pitfalls of investing

Stories abound about people whose investments have gone wrong. When thinking about right and wrong ways to invest, however, it is important to look behind the stories and at the causes.

Once you have identified the causes, it may well be found that it is not so much the investments, themselves, but what investors chose to do with them, that caused the problems. In other words, the more you know about the causes of common mistakes, the easier it is to avoid making the same mistakes.

4 Common Flaws of Investing

1. One basket beats many baskets,
2. Now beats later,
3. Panic beats patience,
4. Procrastination beats action

Let's take a look at each one of these in more detail.

One Basket Beats Many Baskets

You probably know the old expression "Don't put all your eggs in one basket". Well, it applies equally in investing as in other areas of life. Investment markets move in cycles. They have periods when they are performing well and providing good returns, and other periods when returns are not so good.

If you put all your investment eggs in one basket, you leave yourself open to bearing the full brunt of a downturn in a particular investment market.

Now Beats Later

The "now" flaw is common. The centre of attention is "now", that is, today or in two or three years. It means no attention is being paid to where you want to be later. It may also be that by paying attention to now, you pay too much attention to investments with returns you can predict, for example, term deposits or investments with fixed returns over a set period.

As a result, you tend to stay away from investments whose returns are harder to judge, for example, property and shares, but which have higher returns over the longer term to keep building your capital and provide a buffer against inflation.

Panic Beats Patience

When times are good, it is easy to be patient. When times are bad, the immediate reaction of most people is to panic and bail out. A sound investment plan helps you keep your destination well and truly in your sights during good times and bad.

Procrastination Beats Action

People who are waiting for the perfect time to do something usually procrastinate for so long that they never get around to doing anything.

The answer is to act now, so you never have to wait for the illusive best time to invest.

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