q wealth: INVESTMENT MISTAKES

The common investment mistakes you need to avoid

There are plenty of mistakes that you can make when it comes to investing. I tend to group them into two main categories. The first group we will call the fundamental mistakes, and the second we will describe as the technical mistakes. So, what are the fundamental mistakes that investors commonly make?

Before I can answer this question, let's take a step back and establish why people invest in the first place. They are looking for an investment to return capital growth, or predominately income or a combination of the two. Growth assets will appreciate in value over time and they include property, shares, rare metals, art, collectibles, etc.

In contrast, income-producing investments are typically made in term investments, government bonds, corporate bonds, and other investments focused on cash-on-cash returns. Investments that can produce growth and income include certain properties and shares

Now to answer the question…

3 of the biggest fundamental mistakes we see investors making are:

1. Not knowing why they are investing in the first place. Many investors simply enter the market throwing their hard-earned dollars into one investment or another without ever really asking why they are getting up each day and investing at all. They do not clearly identify their purpose for investing. Is it just to have enough money so they can survive in retirement? Or are they looking to leave a lasting legacy for thier family, or perhaps it is to create an enduring charity? Whatever, your reasons are for investing, having a clear understanding of them can help you stay focused and make better investment choices.

2. Not knowing what they are investing for. Many investors will fail to take the time upfront to create their investment blueprint. That is, they do not have a clearly defined endgame or a pathway that will map out the exact strategies they intend to follow. This type of investor typically jumps from one thing to another without a clear investment plan. Sometimes they might get lucky and sometimes they might lose everything.

3. Not fully understanding the investment they are making. Now obviously, if you do not know why you are investing, or have a clear strategy to follow, you are going to be left making decisions based purely on the strengths (or weaknesses) of the investment itself. Unfortunately, many investors will fall into investments based on the promise of quick riches or they have had a referral from friends or family, or they may have read something on the internet that claims to be the next big thing. Often they do not understand the investment and simply get swept up in the hype or sentiment around this investment. Bitcoin and other digital currencies could be a recent example of an investment class where many people investing in it do not fully understand the fundamentals behind the investment.

So, what are the 3 biggest technical mistakes that investors commonly make?

1. Putting the cart before the horse. Often people will focus solely on the technical details of any property. For example, where the property is located, historical growth rates, yields, or proximity to schools, shops and transport. This is important information to gather and understand, however only after you have decided if, and how, you are going to use property to generate the wealth results you are targeting. In other words, are you even going to incorporate property into your wealth mix and if the answer is yes, how will this property fit in with your overall wealth strategy Are you investing for capital growth, rental yield, or value-added strategies such as renovation, subdivision or development? Only once the strategy(ies) has been identified should we move into the technical analysis of any property.

2. Not fully understanding the investment cycle. Some people erroneously believe that all property is going to continually increase in value. It is important to understand that property, like any asset class, will go through periods of growth, periods of flatness, and periods of decline. The skill as an investor is knowing which stage a property market is at and making investment decisions according to their plans and strategies at the right time of the market. Unfortunately, many uneducated or undereducated investors will find themselves buying at the wrong time of the market cycle.

3. Not fully understanding the data they are using to make their investment decisions. We really don't have time here to take a deep dive into all the data, information and research that investors need to review to earn their 'black belt' in property research and technical analysis. However, suffice it to say, many investors have a lower level of understanding compared to what they may need to get the best results. The challenge is in making sense of all the data and the often conflicting opinions when it comes to investing. If this is an area you would like to gain more knowledge in then we suggest you check out our events page by clicking https://www.thepropertymentors.com.au/events-and-workshops/

Finally, as experienced investors ourselves, and having had the opportunity to work with literally thousands of investors over the years, we have seen and made our fair share of mistakes. The choice for you as an investor is, do you want to continue to make the same largely avoidable mistakes yourself, or are you looking to short-cut your learning experiences and fast-track your investment results by working with an experienced m mentor and guide?

Luke Harris and Matthew Bateman are co-founders of The Property Mentors, a Melbourne-based business comprising an elite team of property professionals who educate, motivate and facilitate clients from all around Australia. Their new book, Let's Get Real (Major Street Publishing $29.95) is now available.

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