Three investing mistakes to steer clear of

Not even the best investor in the world is right 100 percent of the time. What you have to avoid at all costs is any big hits to your capital that are difficult to recover from.

DEVINA MEHRA | DECEMBER 06, 2021 / 05:33 PM IST

A bird's-eye view of your portfolio will also prevent overexposure to high-risk areas like cryptocurrencies or new age IPOs or whatever the fad of the season is. (Representative image)

When starting out on, or even some way into, your investment journey, the information and advice about investing can be bewildering and confusing. Here are a few pointers on how to structure your thinking and, in particular, what to avoid doing.

One, always have a clear view of what your portfolio really looks like. This is not as simple or trivial as it seems because I often find that investors' portfolios, in reality, look very different from what they think they are. This is true not just of small retail investors but at times even large family offices, I have found a case where a large family office thought they are mostly in global fixed income and then having done the numbers realise that they are mostly in local real estate!

Therefore, look at your entire net worth (all assets/investments minus debt/loans), and how it is split between various asset classes: real estate, fixed income (which includes fixed deposits, bonds, bond funds, etc.), equities (direct or through mutual funds), global equities, etc.

The thing is that most of your returns are determined by this asset allocation rather than the more sexy-sounding search for multibaggers, which all of us like to discuss at parties.

Within equities, look at how many stocks you hold in total and how many are in each sector. For example, even if you hold 25 stocks, if out of these seven are of banks and non-banking financial companies, six are FMCG, another five are cement, and so on, then each of these groups will tend to move together and you will not get any real benefit of diversification.

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The second important mistake to avoid is to not have proper risk control. Not even the best investor in the world is right 100 percent of the time. What you have to avoid at all costs is any big hits to your capital that are difficult to recover from.

How do you do that? Have very strict laid-down risk control parameters in terms of the maximum exposure to each sector, what stop-loss levels you can live with, and so on. Without that, you are at risk of very hefty drawdowns and effectively crippling blows to your capital.

The third big mistake is to invest without any proper study or thought. Do not invest/ trade based on 'tips' either from your immediate circle or even from so-called experts on media/ social media. This is a serious business and requires a fair amount of study.

If you do not have the time or the inclination for that, the alternative is to look for reliable financial advice. Fortunately, there are services that can provide you a turnkey portfolio solution even at reasonably low entry points. Avail of these services rather than doing a half-baked job on your own.

And even if you think you know something about investing, decide if you are the very best fund manager you know. If not, have some allocation to self-managed investments and some to those managed by others.

These are some simple, easy-to-digest pointers that can make your investment journey easier.

Happy investing!

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