5 Common Investment Mistakes and How to Avoid Them

Unit trust investing is a good way of building long-term wealth. However, the process requires time, discipline, knowledge and a great deal of patience from investors. Without laying the groundwork, investors are prone to making mistakes in their unit trust investments which could steer them away from long-term financial success.

For this purpose, we have identified five investment mistakes commonly made by unit trust investors and the ways of avoiding them.

Mistake 1: Investing without planning

One of the common mistakes committed by investors (especially new investors) is investing without having clear investment goals. It may be easy to say "I want to grow my money" but for how long and for what purpose? Without a proper financial plan, investors may find it difficult to make wise decisions during periods of market volatility.

Hence, before making any investments, investors need to consider the following:

a. Financial goals

To choose the unit trust funds that suit their needs, investors have to be clear about their financial goals. For example, is the investor looking to achieve capital growth, regular income or capital preservation?

b. Time frame / investment horizon

Once investors have established their goals, they need to consider their investment time frame. Young investors typically have a longer investment horizon compared to investors who are nearing their retirement.

c. Risk tolerance

It is important for investors to take the suitability assessment test to gauge their risk tolerance levels before investing in unit trust funds. In general, younger investors can afford to opt for moderate- to higher-risk funds as they have a longer time horizon to ride out the highs and lows of the market cycle. In comparison, retirees may be more suited for conservative and low-risk funds due to their shorter investment horizon and lower risk acceptance levels.

Mistake 2: Not understanding your investment

Some investors make the mistake of investing without fully understanding what they are investing in. Prior to investing in any fund, investors should look at the fund's

objective and key features such as its distribution policy, asset allocation and foreign market exposure to ensure that these are in line with their investment needs and risk profiles. Investors should also take note of the fees and charges incurred when investing in unit trust funds.

Mistake 3: Trying to time the market

In the face of persistent market volatility, some investors try to beat the market by buying unit trust funds at low prices and selling them at high prices over short periods of time. However, it is difficult, if not impossible, to identify the best times to be in and out of the market given the day-to-day market variability and uncertainties. Furthermore, the frequent switching of funds incurs additional transaction costs which could reduce the overall net return of an investor's portfolio.

Rather than market timing, it is time in the market that is key to long-term investment success. Instead of investing for the short term, investors should buy and hold their unit trust funds for a longer time horizon of 5 years or more to allow time for their investments to grow. As the market goes through cycles, it is important for investors to focus on their long-term goals and stay invested despite short-term market volatility.

Mistake 4: Letting emotions affect your investment decisions

Investing under the influence of emotions often leads to poor investment decisions, as investors who are overwhelmed by feelings such as fear or exuberance are prone to making rash decisions based on short-term market fluctuations.

Instead of engaging in frantic buying and selling during the ups and downs of the market cycle, investors are advised to adopt the Ringgit Cost Averaging (RCA) approach to ride out market fluctuations. The RCA strategy involves buying a fixed Ringgit amount of unit trust investments on a regular basis, such as on a monthly or quarterly basis. This will help investors average out the cost of their investments as they will buy more units when the market declines and fewer units when the market rises.

Mistake 5: Putting all eggs in one basket

Some investors make the mistake of channeling all their money into a single fund, market or asset class, which could put their portfolios at risk when that particular fund, market or asset class experiences a temporary decline or slowdown.

Hence, it is pertinent that investors diversify their portfolios across a range of markets (e.g. domestic, regional and global markets) as well as asset classes (e.g. equity, bond and money market funds). Typically, different markets or asset classes may perform differently in a market cycle. When a specific market or asset class falls in value, others may rise or hold steady and help offset the former's losses.

In addition, investors are advised to review their portfolios and rebalance their asset allocation accordingly as their investment objectives and risk profiles change over time.

Conclusion

Unit trust investing is not nearly as difficult as it looks. By avoiding the common investment mistakes above and sticking to their long-term investment plans with well-diversified portfolios, investors will be well-positioned to achieve long-term financial success.

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