M&G Investments
October 2022

Six scary investment mistakes to stay away from

Being a good investor requires understanding what you're investing in, why you're investing, as well as figuring out what kind of an investor you are, so you can put together a plan to reach your long-term financial goals. In making these decisions along your investment journey, there is risk involved: it can be costly if you make certain mistakes, especially if you're investing for the long term. So in the spirit of Halloween, here are six of those scary mistakes that you should try to avoid in order to achieve the best possible investment outcomes.

1. Miscalculating your tax benefits
Some investment products come with tax benefits – but to make the most of these perks, you'll need to make sure you play by the rules. A good example would be a tax-free investment. Designed to allow you to grow your wealth, you must stick within the R500,000 lifetime limit (or maximum of R36,000 per year, until you reach the R500,000 cap). If you overcontribute, which can happen if you lose track or if you make sizeable, ad hoc contributions, you may be heavily taxed. However, with proper care and oversight over how much you've actually contributed, this can be easily avoided.

Top tip: The sooner you contribute that R500,000, the longer your money has time to grow, all the while building up tax-free growth.

2. Overexposure to one asset class
The concept of diversification is something we talk about often, because it's a crucial step in successful investing over the long-term. If you are exposed to only one asset class, you can miss out on attractive returns in others and are likely to lose more in a downturn. And as all investments carry some degree of risk, diversification can help you manage the downside and generate inflation-beating returns by investing across different geographies, asset types, currencies and financial instruments.

Top tip: A debit order makes diversification even easier, enabling you to reduce your timing risk, by allowing you to get the average price across all the months you invest, which is known as rand-cost averaging.

3. Following the crowd
It's easy to get caught up in what friends, family and the media are saying about the markets. Although smart investors should get recommendations before they invest, and trust certain individuals or investment managers to inform us on what opportunities we should be taking, this can work for, or against, you. Don't forget that your peers may not share your risk appetite or investment horizon and what works for them, may not be the best option for you.

Top tip: Speak to a financial adviser. A qualified professional who is able to sift through the latest news and trends and advise on practical investment decisions relating to your unique financial circumstances, is a better source to trust.

4. Ignoring the clock
Investing early is one of the fundamentals of successful long-term investing. And while there is certainly an illusion that we have more time than we think, any time that passes is time you could be invested. So, ignoring this means you are ignoring your future financial wants and needs.

Top tip: Embrace the clock and make the most of the time that you have by investing early, reinvesting your earnings and staying the course.

5. Forgetting about fees
Having a solid grasp of the costs in investing is essential. Even fees that appear small can have a major impact on your portfolio over time. By understanding the impact of fees and expenses on long-term performance, you will be able to be more deliberate when selecting investment options.

Top tip: Before you invest, ask about fees upfront so you know exactly what you are paying.

6. Being afraid of risk
Being fearful of risk is not unusual, but letting it override your investment decisions is a long-term mistake. It is important to take some risk to invest successfully, always taking your risk tolerance and investment horizon into account.

Being a good investor means designing an investment strategy that works for you personally, and doing your best to stick to it, no matter what. By gaining a sound understanding of who you are as an investor (i.e. what your risk appetite and goals are) you can avoid making the scary mistakes mentioned above.

Top tip: Understand your risk tolerance better with our recent series on *Which type of investor are you?*

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https://www.mandg.co.za/insights/articlesreleases/six-scary-investment-mistakes-to-stay-away-from/