

Common Mistakes to Avoid as a Beginner Investor

Investing is one of the surest ways to secure a good financial future, and there's never a bad time to start. The idea of gaining financial freedom and easier access to investment and trading platforms are motivating people to start a portfolio more than ever.

Unfortunately, easy access doesn't always mean easy gains, and mistakes as a beginner can be costly! If you're ready to start down the path to a financially secure future, here are some of the most common pitfalls facing a beginner investor, and how to avoid them.

1. Don't Risk What You Can't Afford To Lose

The first and most important rule to set in place before you begin an investment journey is: Manage your risk. Before you even look at what investments might be right for you, set a budget in place, preferably a percentage of your stable income that you can honestly classify as "disposable income". You're not planning on losing money, of course, but not over-extending yourself allows you to approach investing with a level of impartiality that will make it easier to make smart decisions, and for your investments to be a source of financial security.

2. Small Safe Gains Will Beat Big Risky Wins

There are plenty of stories about startups in emerging markets that quickly grew to dizzying heights, and took their shareholders with them. While it may sound great to predict the next "hot" investment and make it big, these markets are often volatile and can be riskier for beginner investors, especially if the market is not something you're familiar with. The reality is that big returns are more about patience and planning than making the right calls at the right time.

Consistent input in diverse indexes, like the S&P 500, which have grown slowly but steadily over the last 20 years, isn't exciting but can yield far more stable returns. Don't look for investments that offer *big* returns *quickly*. Look for ones that offer *small* returns *consistently*.

3. Consistency Is Better Than Windfall

Part of mitigating risk is not going "all in" on whatever seems like the fastest route to getting rich. Set a firm plan in place to continually increase your holdings in a variety of investments with growth over a set period. The reason behind this is that if something catastrophic changes in an economy or an industry, you don't want to be caught with all your eggs in one basket. Trying to

time markets and maximize every change in a market is the quickest way to erase your gains as a beginner. Don't bet on maximizing; instead, aim to average out your returns across a diverse portfolio.

4. Your Biggest Risk Is You

Success is a heady drink. Seeing your personal wealth grow often leads beginner investors to try to capture more of that feeling. Inexperience and the natural inclination of humans can lead to success bias, which can cloud your decision-making.

As well as managing your portfolio, you need to manage your expectations and emotions. Markets can be volatile, and gains or losses can both affect your well-being negatively, which is why it is essential to have a plan and *stick to it*. Your plan should be centered around a lifestyle that you have planned for your future, with real and tangible goals and clear timeframes. Your decision-making should be made around that at all times. It can be tempting to try to fast-forward the plan by putting more than you can afford into your investments or taking financial risks to increase short-term positions.

A good way to protect against your own inclinations is to use the services of a financial advisor who can show you **how to invest**.

5. Use A Financial Advisor

Having someone with experience and expertise to guide you as you're getting started might be the smartest investment you make. Trading on someone else's knowledge will reveal aspects of investing that you likely weren't aware existed, as well as provide a barrier between your money and risky investments. Financial advisors can also help you form your investment plan, and even clarify the best avenues for you to achieve what you want.

There are a vast number of sources that will happily supply investment advice to you for free, and one of the most difficult tasks for beginner investors is sifting the good information from the bad. Having someone whom you can trust, and who is personally invested in your financial well-being, to consult with is simply a no-brainer.

The Takeaway

Being prepared, informed, and disciplined should be your key goals in starting your investment journey. The greatest investors get where they are not by being in the right place at the right time, but by being patient for a long time.