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Mind over Money – 8 Bad Habits to Throw you off Track

Written by Janine Purves, CFP, CPCA

I always make use of the travel time to my annual conference by thinking about what I can do to better serve my clients, to be a better advisor.

Each year, I become more entrenched in the belief that most people make money investing when they have the right qualities, the right behaviour. In fact, the returns you receive over the long term are more often to do with your beliefs and behaviour than it is with the return of the market, whatever market that is.

So, today, I will share some of the biggest mistakes I see in advising many people of all ages.

1) First and foremost: not saving enough. We cannot control the markets. We cannot control interest rates, but we can control our saving and spending habits. Ensuring we're on track for the 1 area we can control is critical. Know your habits and do what you can to enjoy today, but also save for the future. Create a cash flow forecast to help identify your target.
2) Taking too little risk. While we all want to make money, it's very difficult to make money in fixed income in the current interest rate environment. Some equity exposure is necessary if we want to get ahead of inflation, and ensure our assets last the longest time. But we can take this very slow.
3) Worrying every time the market has a correction. Market corrections happen on average every 3-5 years. Smaller ups and downs of 5% and less can happen every 6 months or so. While this is not pleasant, it's important to ensure that we are taking advantage of trimming assets when returns are above average. Also, ensuring we have cash flow on the sidelines is important to ensure that we can withstand these small market corrections.
4) Not putting your full "priorities" into the bigger picture. All assets are not equal, nor is every timeframe. If you have money for a large purchase, this needs to be invested conservatively. No matter what, if you can't afford to lose some of it, you shouldn't be investing it in items with a higher risk of loss, especially in the short-term.
5) Not taking enough time to ensure your investments are being managed. Even if it's just a 20-minute phone call, you can ensure that your portfolio is on track, is getting the re-balancing it should, and make changes as necessary for your personal situation. An advisor wants to do what's right for you, but we are not mind readers. Ensure that quick conversation happens on a regular basis as it will help to guarantee better management of your wealth.

6) Getting caught up with what the indexes and what your neighbours are doing. It's important to get solid returns to build long-term wealth, but the most important thing is to be on track for what you need. Every time you speak with a colleague who tells you their investment strategy, it's also important to recognize that they are oversimplifying it and aren't telling you how they reacted when the last correction happened. What you don't know is that they did not sell them when there was a correction. They diligently re-invested each dividend instead of spending it. They have it in a tax-efficient account. For many reasons, any investment may or may not work for you. Be sure to understand all the options before changing strategies.
7) Trying to implement strategies that you don't complete. With every strategy, there are 2-3 steps. Without following all the steps, you end up not taking advantage of the strategy and you shouldn't have started it. In fact, you could be worse off. In fact, doing so often triggers losses at year-end meaning, you must re-invest the money in 30 days to allow it regain. If you don't, those losses won't just be for tax purposes – they become real.
8) Not considering a 2nd opinion. Even the most seasoned investors will consult a professional to help stay on track for their priorities. Sometimes, we can lose perspective when it comes to our own money so keep that in mind when you're dealing with the serious money.

Overall, use your end goal as your main priority. Break this down to smaller goals such as an annual savings target or required returns, and this will put your own priorities in perspective. Your behaviour would then likely reflect your priorities, and if you find yourself frequently falling off this course, then consider having somebody to help steer the ship. The cost of an advisor is far cheaper than making serious investment mistakes.