Avoid Common Investment Mistakes

It is fair to say that most investors make money when markets are going up but when the bull market ends, and they never last forever, many investors will be wondering where they went wrong. The following article lists some sound approaches to dealing with your investments and minimising risk.

Proper Planning

This is where you have to ask yourself a few questions such as:

- What do I want from my investments?
- How much risk would I like to take?
- Do I need regular income or just capital growth?

Let’s first consider a simple form of investment: a bank deposit. Most bank deposits pay a certain rate of interest and are a near risk free investment. The price you pay for this is a lower return. Low risk means low return. Shares on the other hand are different. Shares offer less security than deposits but more potential for profit. BSP’s share price was up around 75% in the first seven months of the year 2008 and about the same for 2007. You will never get that from leaving your money with any bank in the world!

However, the risk is share prices can also fall. No one can predict what will happen tomorrow or next month or next year. When you invest in shares, you must be comfortable with that risk. When it comes to shares, you can also look at investing in overseas markets, like Australia. BSP Capital can help invest your money in shares from anywhere in the world. PNG prospects are very good for the next few years, but the recent pullback in international shares suggests that the timing is right for a good long term investment in quality stocks there also.

Many of our customers see overseas stock markets as offering far more choice and opportunity

When you first consider investing your money in shares or elsewhere, it is these points above you must consider. A common approach is to allocate a little towards low risk investments such as deposits and a little to higher risk investments such as shares. the decision however is a personal one. Choose the approach that is most comfortable for you.

Investing for the right reasons

Quite often we see investments being placed based on factors like year-end tax savings, a friendly tip, hot news, surplus of money at a given point of time and so on. It can mean people are buying stocks without considering the values of that stock.

Your investment decision should be backed up with proper research or reasoning.

What makes someone want to buy BHP instead of RIO or why would someone invest in Australia instead of Asia? You need the right information to answer these questions.

If you do not know where to start, ask BSP Capital. We can provide research on almost any stock worldwide and help develop a portfolio. We can also show you where to get your own quality research.

Choose the right time frame

Some people are more suited to active trading. They will buy and sell several times per week or even dozens of times per day. Others prefer to "buy and hold," meaning they hold shares for years and years. There is no right or wrong way to approach this other than look within yourself and define your preferences and what is reasonable for you.

Short term investing or "trading" takes more time and attention. It can also require greater nerves. It also requires more education and information. Short term trading can be exciting and quite profitable.

Longer term investing is ideal for those people who prefer to "set and forget" as they say. Long term investing involves less of your time and requires less information on an ongoing basis. It's more suitable to people that do not have the time or desire to watch the market every single day.

So who are you? Does the excitement of short term trading interest you or would you rather buy shares and sit on them for years? Everyone is different. Each of us must approach investing in a way that is compatible to our preferences and personality.

How can you make money from shares?

Generally speaking there are two types of participants in the stock market:

- **Traders** tend to transact frequently in the market in order to make a short term profit from any one share. Day traders for example will trade several times every day looking for that quick move in the market.
- **Investors** on the other hand have a long term "buy and hold" view. Investors will hold shares for weeks, months or even years at a time.

There is no one right way of doing things. Some people are more suited to investing and some prefer trading. It is very much a personal preference.

Choose the number of stocks

Successful investing not only requires that you choose the right time frame, you also have to determine how much to invest. Let’s say you have K50,000 to put in the stock market. Do you buy 1 stock, 5 stocks, or 50 stocks?

A simple answer involves using a little common sense. You need to be able to adequately monitor your investments. If you rarely have time to check your share prices, then investing in dozens of different things is probably a bad idea. If you are dedicating time each and every day to investing, then you can afford to have a larger number of shares in your portfolio since you’ll have time to monitor them all.

An ideal portfolio for a small investor would have 5 to 8 stocks from at least 3 different sectors. However there are no hard and fast rules on exact portfolio make up.

Finally, steps to fine tuning your portfolio

An active investor needs to gain appropriate knowledge of the stock market and other products such as **managed funds**. **Knowledge is power**. **The more you know, the more you can fine tune your portfolio** – and the better chance you have of making good money. BSP Capital can help you get going in the market or take your investing to a new level.

How to get going

If you are unsure about some of these issues but want to learn more; please contact your adviser.

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