HOW TO AVOID UNFORCED ERRORS IN INVESTING

In tennis, the outcome of a match is often determined by the number of "unforced errors" a player makes rather than the number of winning shots they hit. It is said that professional tennis players win points while amateurs lose points[1].

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In investing, just like tennis, success is determined by reducing the number of unforced errors rather than by picking the next big winner. Mistakes are often costlier than the gains made when picking winners so there is a lot to be gained by getting the basics right – and getting the necessary training and assistance.

COMMON UNFORCED ERRORS IN INVESTING

While there are many unforced errors that investors fall victim too when implementing their investment strategies, the five themes below are most common.

- **Not taking enough risk** – for example investing in safe assets such as cash which don't keep up with inflation.

- **Taking more risk than needed** - which makes it difficult to stay on course, especially after major market drops.

- **Buy and selling too frequently** - and incurring unnecessary cost and taxes. This may also lead to the investor behaviour penalty when investor return is lower than the fund return due to the impact of timing going into and out of the fund.

- **Not utilising tax exemptions** - for example, exemptions on retirement savings, tax-free investments and other taxes applicable to investments.

- **Underestimating the impact of costs on investment growth** - for example investment management fees.

This list is by no means exhaustive, but by avoiding some of these pitfalls, investors can significantly improve their investment outcomes.

[1] *Simon Ramo, Extraordinary Tennis for the Ordinary Tennis Player, 1977*

CALL IN THE PROFESSIONALS

In theory, anyone can learn to hit a ball over a net – but the professional players have likely had some help along the way.

Similarly, anyone can set up their own share portfolio or pick several unit trusts to invest their hard-earned savings. In practise however, most investors will fall prey to some of the unforced errors above and not do as well as they possibly could.

In a lot of cases people don't make the time to look at their financial wellbeing and their savings just sit in a bank account. Financial advice combined with professionally managed portfolios such as unit trusts can make a material difference to an investors wellbeing over a lifetime. Most importantly, they can assist in reducing some, if not all, of the common unforced errors as they effectively act as financial coaches and facilitators of financial growth.

WHO IS THE PLAYER: THE INVESTOR OR THE FUND MANAGER?

The financial services industry provides multiple layers of professional services to help investors on their savings journey. Understandably, the competition between professionals is fierce as the financial stakes are high.

Generally, competition is good for consumers - but just as in professional sports, it can also lead to conflicts of interests. Due to the financial incentives involved there have also been numerous cases where providers sold services and products which were not necessarily in the investors best interest.

This has unfortunately led to investors not seeking the professional assistance and financial coaching that they need.

Ultimately, a successful relationship between investors and the professionals providing the needed financial services must be based on trust. Providers whose value proposition is based on being able to hit or pick the "big winners" quite often miss the real need of investors and this can lead to disappointing results. The greatest value-add to investors is helping them to reduce the number of financial unforced errors. The rest is just icing on the cake.

BUILDING BRIDGES AND DEMOCRATISING SAVINGS

Low cost platforms, unit trusts and Exchange Traded Funds (ETFs) are slowly beginning to bridge the gap to investing, especially for millennials. Lower fees and more accessible entry points are attracting more investors.

However, DIY investing is not exempt from all the common unforced errors and young investors will likely pay some school fees in the journey of implementing their own investment portfolios.

Virtual advisors such as *Extraordinary Life* could further enhance outcomes for investors as they address most of the common mistakes and provide the service at very low fees. In time, virtual advice can be supplemented by hybrid advice – a combination of human and machine which could deal with more advance financial planning considerations. The technological innovations are reducing costs which should in time reduce the barrier to entry to investing and advice and lead to better outcomes for investors. ■