Investments Is Not About Picking Winners

We read a recent financial column in which a reader asked, "What are the best shares to invest in to maximise my investment?" It's a good question, but if we knew the answer to it, we'd be very wealthy people! It's a bit like knowing the result of a race before the race is run.

We know from many years of experience that there is no shortcut to investment success. Yes, some people have struck lucky through buying and selling a high performing share at the right time, or indeed through investing in commodities or the likes of cryptocurrencies and have enjoyed huge returns. But each of these approaches carries significant risk, and for every winner there is usually many losers.

So how do you achieve investment success, if the answer is not about picking winners?

Develop a structured investment plan

Investment success is not built on short-term, tactical decisions. Instead success is built on a carefully constructed plan. First of all, you need to be crystal clear about your investment objectives. What will investment success look like? How much is enough in terms of an investment return? You need to also be clear about your investment timeframes, as the investment term should definitely impact the make-up of your investment portfolio. You must be clear about your approach during the investment term. Are you leaving the investment to run for the term or are you going to dip into the investment, and if so when and for how much? How often will you formally review the investment?

In our experience of helping investors to develop their plans, first of all this information needs to be clearly documented. Otherwise it can soon get forgotten if the investment climate changes. Before any action is taken during the lifetime of the investment, the plan should be revisited – after all this is your guiding document.

Make sure your portfolio reflects your appetite for risk

It is critically important that you have the right portfolio for you. There are many people who claim genius status in having constructed their own portfolio. Yes, they may have enjoyed very significant returns, but at what cost? Their portfolio may be so high risk that they can't sleep at night! High risk portfolios typically generate higher returns in good times, but when markets fall they suffer greater losses than lower risk portfolios. You won't hear as much about these, as people tend to keep a little quieter about their losses…

It is important to be crystal clear about how much risk you are both willing and able to take with your investment. What level of short term losses are you happy to bear in the pursuit of longer term success? Are you going to sweat over every dip in the markets or can you happily live with short-term volatility? Make sure your portfolio reflects your appetite and capacity for risk.

Diversify your assets
There are endless stories of how narrow portfolios have ended badly. Wealth tied up in only bank shares or property ended very badly for Irish investors 10 years ago. People who went "all in" on technology stocks 20 years ago suffered huge losses in the dot com bubble.

An important principle of successful investing is to stay diversified across a number of asset classes, geographical regions and sectors. If one sector or asset class takes a hit, it only accounts for a small proportion of your overall investment.

Stay on your best behaviour!
A real challenge is to prevent investors tripping themselves up. FOMO (fear of missing out) is a constant danger for investors – seeing a stock or asset class inexorably rise and deciding that they have to get in on the action. They end up buying at the peak, and only see their portfolio then fall in value. Likewise when portfolios fall, people panic and sell their assets. Often this happens at the bottom of the market, with people simply locking in their losses.

People also make rash decisions around when and how to commit their money to an investment. Often it is wise to enter markets over a period of time, rather than all in one go. This in itself can protect you against volatility in markets.

One of the most important roles that we play is helping investors to avoid making mistakes. We help you develop your investment plan, keep you focused on the plan and your longer-term investment objectives and timeframe and we gently persuade you against short term actions / mistakes. We help you to invest your money in a way that makes sense…for you.

This makes much more sense than plumping for that sure-fire bet!