

Common investment mistakes

Outline	Our Swiss VZ Group partners have analysed over 30,000 investment portfolios over the past decade. These health checks have uncovered a range of common mistakes that private investors make, including	taking inappropriate risks, unclear strategies, and misunderstanding fees and charges. Here we zero in on some of the most common mistakes.
Unclear investment strategy	This is one of the cardinal investment sins. Your strategy must be tailored to your goals and objectives, risk profile, and time horizons. The level of risk taken and the corresponding asset mix – for instance 50% or 100% equities – is a big determinant of expected returns over the long term. Soon-to-be or recent retirees often underestimate their time horizon (eg. a 60-year-old may still have an investment horizon that spans several decades).	Private investors who lack a clear strategy may leave themselves open to risks that don't match their long-term time horizon or risk profile. For example, this could include being overly exposed to equities and risky alternative investments. An unclear investment strategy often goes hand in hand with impulsive or panicked decision-making when stocks experience sharp swings.
Not sticking to the strategy	You should stick to your long-term investment strategy carefully, even in a financial crisis. It's about how long you remain invested in the market (the time in, not the timing of the market). Failing to stick to a defined long-term investment strategy can prove costly. Private investors fight against common mis-	takes that often stem from natural human behaviour and instinct, such as moving in a herd (buying what has gone up or selling what has fallen in price), attempting to time the market, or making hasty decisions when stocks experience sharp swings.
Inappropriate risk level	Investment choices often don't match with personal circumstances, objectives and time horizon, which are the three main factors that determine your risk profile. Private investors can also have unusually high allocations towards single markets, sectors or securi-	ties. This is known as concentration risk. We have seen instances where some large companies may account for up to 20% of a whole portfolio. When such a stock tumbles, it has a disproportionate effect on the performance of the entire portfolio.
Not optimising tax wrappers and allowances	Using available allowances and tax shelters is the key to managing money tax-efficiently, but some private investors don't fully utilise these benefits. For example, by applying your capital gains tax Annual Exempt Amount (AEA) each year, and 'harvesting' investment gains, you can make significant tax savings. The AEA was reduced from £6,000 to £3,000 as of 6 April 2024. However, a couple both using their exemptions can still make substantial tax savings. Other tax	breaks for stock market investors can include the following: <ul style="list-style-type: none"> • Tax-free dividend allowance (£500 in 2024/25). • Up to £1,000 personal savings allowance (interest income). • ISAs: Completely tax-free income on all gains and withdrawals. • Pensions: Tax relief available on contributions and tax-free accumulation.
Lack of portfolio construction and monitoring	Investors may be susceptible to overestimating their own skills, which can lead to attempts to move in and out of asset classes based on subjective judgments, or home or familiarity bias, even though global stocks have often outperformed their UK counterparts over the past 40 years.	A lack of diversification – the process of spreading your investments around the main types of assets and geographical markets, so that your exposure to any one of them is limited – can be costly. Allocating your money across different asset classes, such as equities, government bonds, corporate bonds, real estate,

commodities, and alternative trading strategies, helps to reduce exposure to risk and volatility. Professional expertise can help to ensure prudent and balanced diversification and prevent over-diversification, or 'diworsification', which can lead to reduced investment performance.

You should review your risk profile at least annually, or whenever there is a change in your financial or personal circumstances. You may need to rebalance your portfolio to adjust different asset class weightings back to your long-term strategy, possibly with expert help.

Insufficient management of fixed income assets

Many private investors underestimate concentration risks in fixed income investments. They often invest in just a few individual bonds, which are commonly within the same sector or market segment. Often the bonds have similar maturities. It is better to reduce the reinvestment risk by managing the maturity profile and to tactically adjust duration depending on market conditions.

Credit risk should be managed in line with your investment strategy and economic conditions, and individual bonds must be regularly monitored for their creditworthiness. In many portfolios the proportion of bonds in foreign currencies is too high. Currency risk must be managed carefully to prevent unfavourable currency swings wiping out the local currency bond returns.

Fees are often overlooked

Many investors neglect costs and charges, but high fees can considerably hamper portfolio performance over time. Paying excessive costs and charges is like driving with the handbrake on. Do you know how

much you are being charged for buying and selling, administration, and the safekeeping of securities? The cost differences between providers can be large, and some fees can be less than transparent.

Checklist

Good questions to consider:

- Does my investment strategy match my investment horizon, financial circumstances, and my personal risk tolerance?
- Do I know the overall risk of my portfolio?
- Is my portfolio positioned for current market conditions?
- Do tax considerations feed into investment decisions? Is my portfolio managed with a view towards optimising tax allowances?

- Are micro-positions adding costs and confusion to my portfolio?
- Do I know my foreign currency exposure, and is it appropriate?
- How high are my total investment costs, including underlying (hidden) fees? Is the fee structure competitive in a cross-comparison?
- How did my portfolio perform against a benchmark?

Impartial analysis

Does your strategy align with your current goals? How does your portfolio performance compare to benchmarks? Are (hidden) fees impacting your returns? An independent portfolio health check by Lumin can answer these questions and ensure finan-

cial flexibility, wealth preservation, and optimised investment returns. The analysis provides you with an impartial, independent review. Lumin assesses your securities independently because we do not offer any investment products of our own.

In expert hands with Lumin

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