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Mistakes wealthy investors don't make

Knowledge Into Weath

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Warren Buffett, aka "Oracle of Omaha", and arguably one of the most successful investors of the modern era, has over the years revealed some of his key insights into what makes for a good investment.

Among these are to operate in what he calls an individual investor's "circle of competence".

In other words, investors need to understand how a business operates, makes money and the future sustainability of its business model before deciding to invest in it.

Another key insight to remember is that you are buying a share in a business.

As a part owner of that business you should not be concerned about short-term share price fluctuations or volatility as this is merely temporary noise.

A third rule is to buy stocks with a large margin of safety. These are investments that currently sell significantly below their intrinsic value.

Accurately estimating this intrinsic value requires a rigorous analysis of the business, the sector it operates in and the impact of the economy on the business.

High net worth individuals know the value of diversifying their portfolios beyond their home markets. This is particularly important in SA which has a small local equity market relative to global markets in more developed economies.

Also, the local equity market does not adequately represent a broad enough range of companies required of a globally diversified portfolio.

Offshore investments provide some protection against poor local economic policy and a volatile currency.

Though equities and bonds are typically the first investments that come to mind, it's just as important to have some tangible assets such as private and commercial real estate, gold and even art.

Alternative investments — an investment category which includes real estate, private equity, private debt, venture capital and infrastructure investments, among others — are becoming increasingly attractive for investors looking to diversify away from the traditional listed investment market.

High net worth individuals understand the value of setting their own personal investment goals and sticking to these goals long term.

This means they stay the course and remain invested even when markets go through downturns.

They're not tempted to liquidate their investments to indulge the latest must-have item but instead understand the benefit of compound interest.

High net worth individuals also understand the dangers of chasing investment trends or following suspect advice from social media.

They do their due diligence before deciding where to invest.

High net worth individuals understand the necessity of investing wisely coupled with a savings strategy.

They live within their means, ensure their debt is manageable and they save.

Mistakes — as even Buffett will attest to — are part of the investing process.

However, knowing what they are and avoiding them where possible will limit your investment failures.

● *Marco van Zyl is a senior executive at NFB Private Wealth Management*