Herald Sun

Rewarding leap from hobby investing to trading plan

TERMS OF TRADE

with CARL CAPOLINGUA

IF YOU'VE chosen to manage your own money then you've undertaken on one of the most important responsibilities you'll have to contend with in life.

Apart from providing for your family, and perhaps building a career, the next most important thing is generally how you manage your money.

That is, whether that little bit you've set aside grows, stagnates, or worse, whether it shrivels and dies in the next GFC! This will depend on the quality of the decisions you make now and into the future.

Of course, if we manage our money better, then perhaps we'll be in a position to shorten our careers or not have to rely solely on them to produce our income. This will allow us to spend more time with our families. So the fruits of successful investing can have a significant positive impact on the other important areas of our lives.

In my seminars and workshops, I'll often push people on their investing approach and try to understand just how much time and effort they're actually putting into their investing. The results are uncannily consistent and disturbing: Not enough.

Most investors have little understanding of the work required to be really successful in the markets.

Unfortunately most investors can be best described as "hobby" investors. They don't apply the same time, effort and professionalism to their investing as they would to their careers.

Professional career investors on the other hand possess a well-thought-out, researched and documented approach, commonly referred to as an "investing plan", or for some, a "trading plan".

It makes sense that every individual or business to achieve great success did so through excellent planning and execution of that well-thought-out plan. It certainly wasn't luck. Investing is, and should, be no different.

In some cases investors believe they're doing a great job with their investments because those investments appear to be rising over the long run and are perhaps paying a steady dividend.

The important thing to note here is that, in the markets, success is relative. The goal is not to just make money, but to beat the markets. By this I mean that the average investor might look at a 10 per cent return on their portfolio over the course of a year and assume that they've done a good job, but what if the market returned 20 per cent over this time? If this is the case then you've made money but lost significant opportunity.

You would have been better off giving your money to an index fund manager, not having any stress and just receiving the market return.

Most investors I talk to realise that what they thought was good performance is actually costing them thousands in missed opportunity. A dollar not earned today is going to cost you $6.72 in spendable capital in 20 years, assuming a compound rate of 10 per cent per annum. That might not sound like much, but extrapolate this out over every investing dollar you've flittered away over the years and you'll get some idea of just how important it is to get your investing right today.

If every successful individual and company achieved success through meticulous planning, why then do so many investors put their hard earned money at risk in the markets without the same application?

Can you afford to treat your investing like a hobby or are you going to commit to becoming a more professional investor? I'll discuss what goes into a professional investing plan next week.

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