NEXUS

PRIVATE WEALTH MANAGEMENT

Top 10 Investment Mistakes Report

www.nexusprivate.com.au

WELCOME TO:

THE TOP 10 INVESTMENT MISTAKES

Are you struggling with where to invest, shortlisting your available investment options or uncertain how you can improve the performance of your existing investments?

I should start by saying, investing should be done with a lot more certainty.

This report covers 10 areas where investors consistently fall short, and understanding when these mistakes occur and how to avoid them may help you invest with more than just a 'buy and hope' approach.

Included are plenty of practical examples to help you avoid the behaviours that can compromise your investment performance.

I hope you enjoy the report,

Stephen Vick
Managing Director

NEXUS
PRIVATE WEALTH MANAGEMENT

01

An investment is something that has the ability to earn income over the long-term. Due to the strength of their ability to continue to earn income into the future the capital value of these assets usually increase also.

MISTAKE 01

NOT INVESTING IN INVESTMENTS

THE DIFFERENCE BETWEEN INVESTING AND SPECULATING

Investing is buying something that has the ability to earn income over the long-term. In addition to the regular income, the capital value of these assets usually increase also, due to the strength of their ability to continue to earn income into the future.

Speculating on the other hand, is buying something that doesn't earn income. You're only means of profit here is to find someone who will pay more for it than you did. Without the inherent value of being able to provide a regular income along the way, speculative assets usually have shorter life spans and carry greater risk!

INVESTMENT ASSETS

CASH & FIXED INT.

Refers to cash-based investments like bonds, debentures, term deposits etc. These all pay income in the form of interest.

PROPERTY

Refers to commercial, industrial, retail and residential property, or listed or unlisted property trusts. The income earned from these investments is in the form of rent.

SHARES

Refers to an actual share in a company, that pays income in the form of a dividend. This does not mean a derivative of a share or synthetic product such as options, swaps, or futures.

There are thousands of variations of these three asset classes.

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

SPECULATIVE ASSETS

An Option only exists because somebody is willing to take the opposite view and only one of you is going to be right. The same can be said of Foreign Exchange – you're basically taking a bet on whether the price is going to go up or down. It's a bit like betting on Black or Red at the Casino.

DERIVATIVES

Derivatives include options, warrants, futures, swaps, CFDs etc. – when buying these products you are entering into a 'zero sum game'. A zero sum game means for every winner there has to be an equal loser.

It's important to acknowledge that there's always someone else on the other end of that trade. Often this will be a large institution with enormous resources and research teams, whose job it is to seek out and exploit opportunities from the less informed. And they are very good at what they do. You and I simply don't have the time or resources to regularly compete in these trades.

Other examples of non-income producing speculative assets are gold bullion, art, jewellery, vintage cars etc.

STRUCTURED PRODUCTS

There are many packaged or structured products that are sold by accountants or advisers based on their favourable tax treatment. Examples include mining, manufacturing, and agricultural syndicates. These products can appear attractive because the full cost of the product can usually be claimed against your taxable income in the first year.

Often, a lot of 'middle-men' are involved and large commissions are paid for pushing these products therefore the underlying performance is usually compromised. More often than not these products simply fail.

Recent notable failures in this category include Timbers or Forestry, Oysters, and Ostrich Farms.

Chasing a tax deduction is no reason to invest. Or put another way, there's no point in spending a dollar to save 50 cents.

NEXUS
PRIVATE WEALTH MANAGEMENT
1300 473 347
www.nexusprivate.com.au

02

The time value of money (TVM) is the idea that money available at the present time is worth more than the same amount in the future due to its potential earning capacity.

This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received.

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

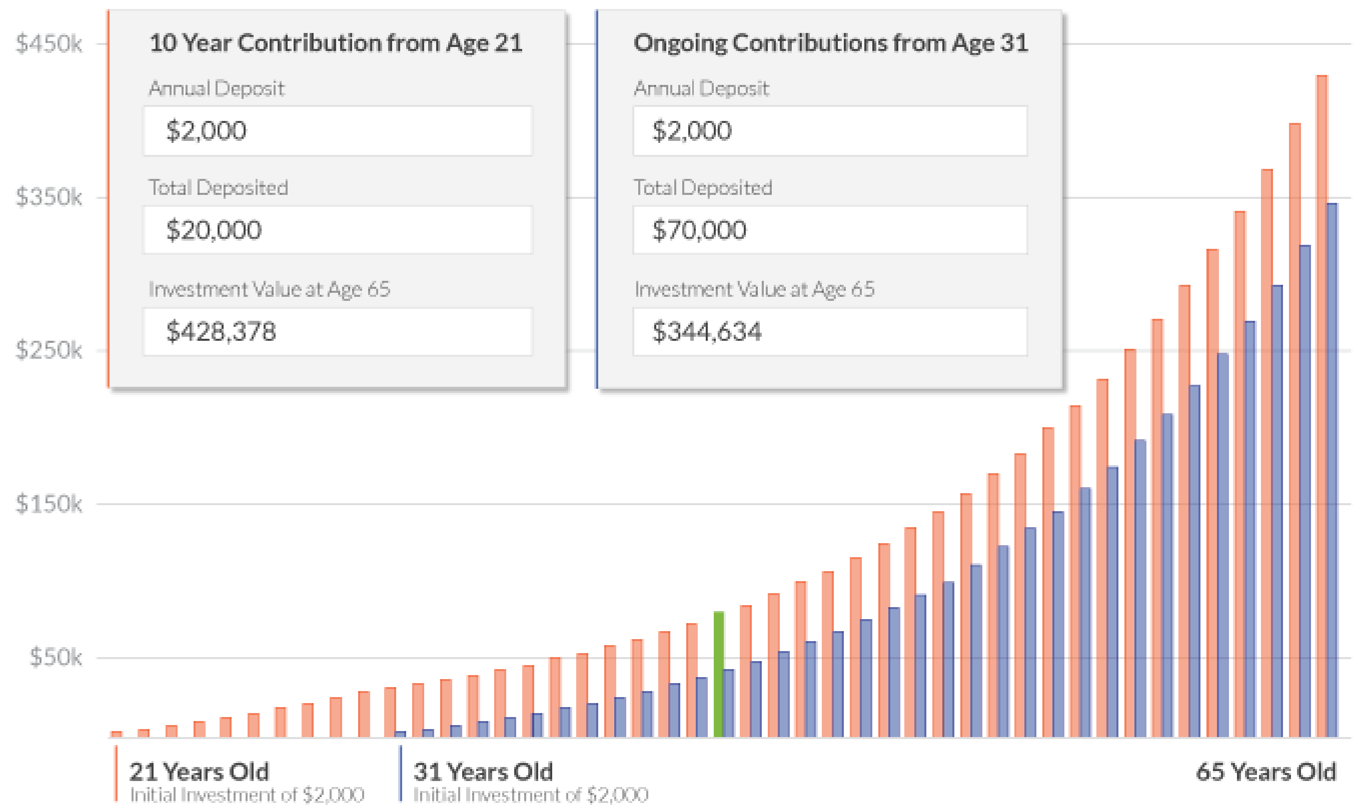
MISTAKE 02

NOT STARTING EARLY

For a lot of people the thought of investing means some sort of sacrifice, like spending less or taking a risk, so they tend to put it off until they're in a "better position". Well it doesn't have to be like this. So many of my clients are surprised by what they can achieve without changing their lifestyle. And really understanding the time value of money or the power of compounding can offer some inspiration here.

THE POWER OF COMPOUNDING

Time is really important when it comes to investing, and the smallest amounts can make a huge difference when invested over the long-term.



The red bars in this table show a 21 year old, who invests just $2,000 per annum for ten years, and ten years only, and then stops making contributions and simply lets his investment grow. With just an 8% pa return, his money grows to over $428,000 by the time he reaches age 65. Not bad for a total investment of just $20,000 over ten years.

The blue bars show that if he were to wait until the age of 31 before starting, and he invested $2,000 per annum, every single year right up until the age of 65, he would still never catch the results he could have achieved if he had started at age 21. This is despite investing a total of $70,000 of his own money.

N E X U S
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

03

Risk can be measured mathematically, and with the speed of information technology, any stock that is under-priced relative to its risk is snapped up instantaneously - immediately bringing the stock back to its risk-weighted value. This makes it impossible for the average investor to find any under-priced opportunity.

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

MISTAKE 03

TAKING TIPS FROM FRIENDS

In today's connected world, financial markets are efficient, meaning that things are priced exactly where they should be priced, with all information currently available. These days, risk can be measured mathematically, and with the speed of information technology, any stock that is under-priced relative to its risk is snapped up instantaneously - immediately bringing the stock back to its risk-weighted value. This makes it impossible for the average investor to find any under-priced opportunity. So you can be sure that if someone gives you a hot-tip, it will also carry the associated risk, and it'll be priced how it is right now, for a very good reason.

There is next to zero timing or insider opportunity left in modern financial markets. Investing is a long-term proposition and looking for short-term winners or taking advice from those trying to appear informed, is simply gambling.

04

The key to long-term investment performance is effective asset allocation and not specific stock selection. asset allocation is the process of selecting the appropriate proportions, or weightings, of asset classes for each individual

MISTAKE 04

NOT ENOUGH DIVERSIFICATION

What is diversification? Let me start by telling you what it's not... It is not adding lower-performing investments to drag down the overall return of your portfolio. Many people think that their favorite investment within their portfolio is the clear winner, and that anything else they add to that will simply dilute their overall returns. This doesn't have to be the case. Effective diversification can smooth out individual asset class volatility without compromising the overall long-term returns. This is really important when balancing the limited resources of both your equity and your cash-flow.

ASSET ALLOCATION PROCESS

ASSET CLASS	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Aust. Shares	24.7%	24.2%	30.3%	-12.1%	-22.1%	13.8%	12.2%	-7.0%	20.7%	17.6%
Int'l. Shares	0.1%	19.9%	7.8%	-21.3%	-16.3%	5.2%	2.7%	-0.5%	33.1%	20.4%
Aust. Property	18.1%	18.0%	25.0%	-36.3%	-42.3%	20.4%	5.8%	11.0%	24.2%	11.1%
Int'l. Property	21.2%	24.2%	3.0%	-28.6%	-31.2%	31.3%	9.2%	7.5%	24.3%	11.8%
Aust. Fixed Interest	7.8%	3.4%	4.0%	4.4%	10.8%	7.9%	5.5%	12.4%	2.8%	6.1%
Int'l. Fixed Interest Hedged	12.3%	1.2%	5.2%	8.6%	11.5%	9.3%	5.7%	11.9%	4.4%	7.2%
Cash	5.6%	5.8%	6.4%	7.4%	5.5%	3.9%	5.0%	4.7%	3.3%	2.7%

Source: Index Charts Pty Ltd

Highest annual growth percentage | Lowest annual growth percentage

As you can see from the table above, different asset classes perform well at different times. Chasing returns or trying to time markets is futile for even the most experienced investors, however, having exposure to multiple asset classes can smooth out volatility without sacrificing long-term investment returns.

NEXUS
PRIVATE WEALTH MANAGEMENT

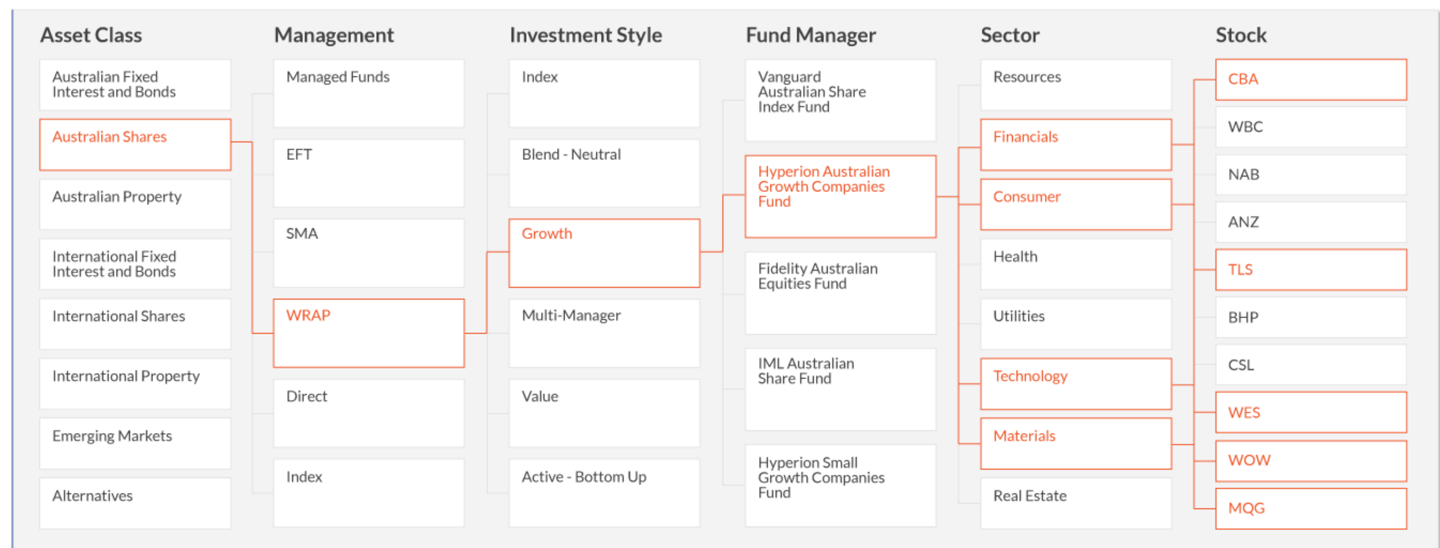
1300 473 347
www.nexusprivate.com.au

When it comes to choosing a portfolio, you may be surprised to learn that the key to long-term investment performance is effective asset allocation, and not specific stock selection. asset allocation is the process of selecting the appropriate proportions, or weightings, of asset classes for each individual.

This process considers a number of factors including your tolerance to risk, your time frame, current economic conditions, your tax position, and your financial capacity. Recent data from Vanguard showing returns of more than 300 fund managers over the last 20 years shows that asset allocation was responsible for over 90% of all portfolio returns. This leaves less than 10% for factors such as market timing or specific stock selection.

ASSET ALLOCATION PROCESS

A well-diversified combination of investments and asset classes can be an effective way of reducing the overall level of risk for the return you're seeking, or conversely, if you're comfortable with a certain level of risk, it can help increase your return on investment.



The asset allocation process will determine the asset class, the management platform, investment style, the fund manager, and the sector. It's these 5 decisions that will drive 90% of the results you'll achieve from your investment choices. So if you're trading just a handful of Australian shares using an online trading account, you may be robbing yourself of a world of opportunity, especially when measured over the long-term.

NEXUS PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

05

MISTAKE 05

TRYING TO TIME THE MARKETS

There's a great quote by Warren Buffet that says "The stock market is a device for transferring money from the impatient to the patient".

It is commonly accepted that we should buy shares when the market is low and sell when the market is high. So why do most people do the exact opposite… well, because they're human. And humans often make decisions based on fear or greed. Taking a short-term view of your investments is a recipe for disaster, but it-is easy to get caught up in the media frenzy of market doom, and lose your nerve. A good investment coach or mentor can be helpful here. Buying and selling to time the markets or pick winners is also a recipe for disaster.

You can see that in each year following a crash, the market experiences large positive gains.

Because no one can predict the bottom of the crash. If you're like most people you'll wait until the market has "normalised" before you re-invest.

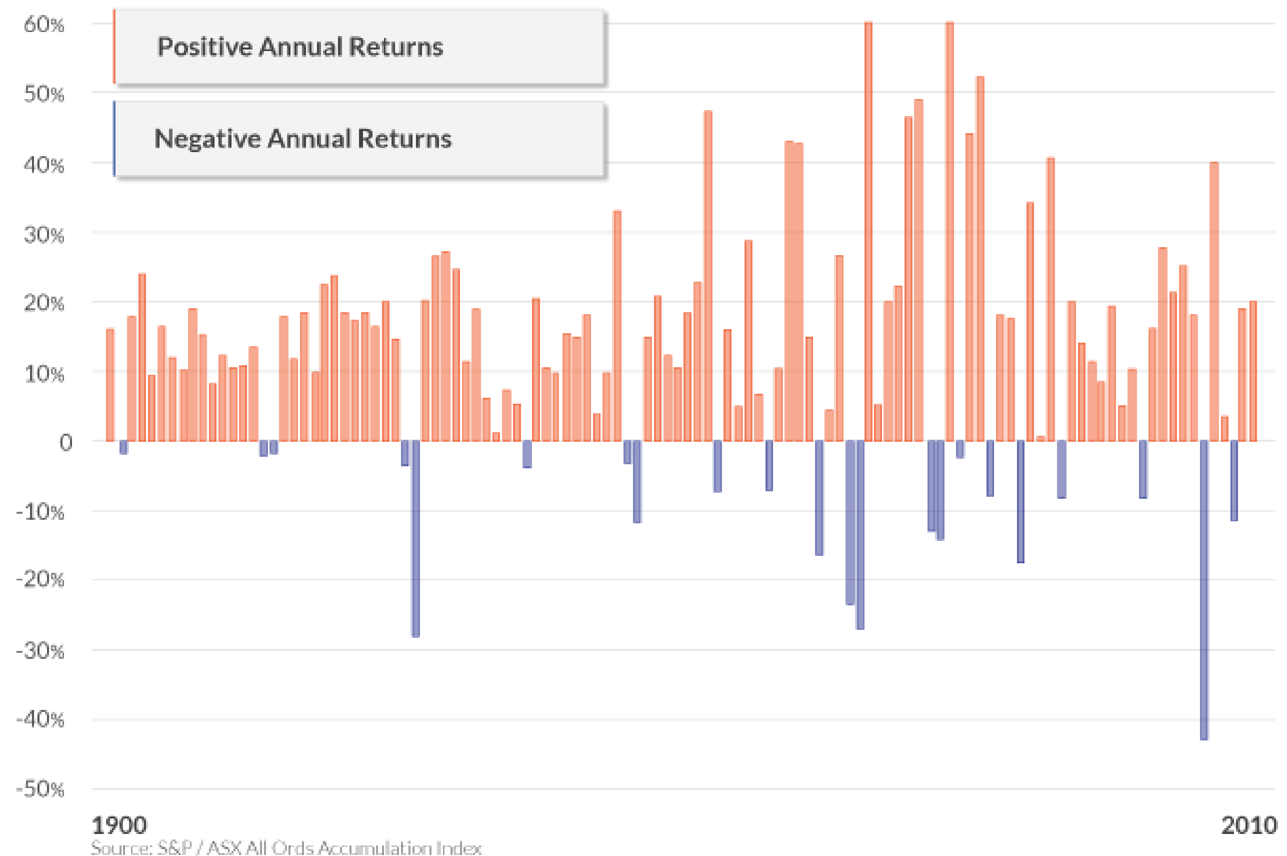
If normal to you means recovering to its former high, then you would be missing out on some of the best returns.

1300 473 347
www.nexusprivate.com.au

(CALENDAR YEAR)

ANNUAL RETURNS OF AUSTRALIAN SHARES 1900 - 2010

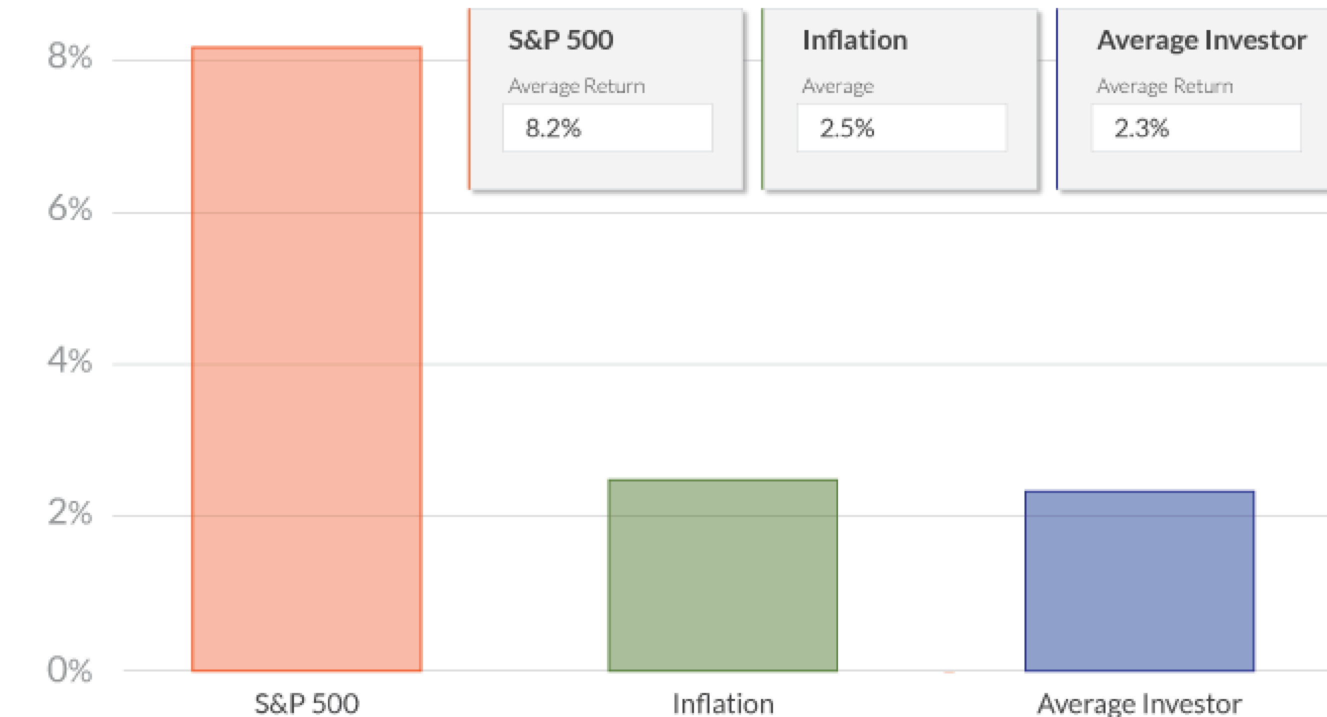
Below shows both the positive & negative annual returns on Australian Shares since 1900.



The red bars above the Zero line represent the years the Australian Stock Market achieved positive returns and the blue bars below the line represent the negative years. You can see that over the last century there have been mostly positive returns with the average return being a touch over 13% pa. You can also see, particularly in the last half century, that there's a crash approximately every 6 or 7 years. These crashes are almost impossible to predict and even the best fund managers in the world become casualties of stock market corrections. Therefore, you should just expect it and accept it as part of your long-term investment strategy, and don't try to out-smart it.

S&P 500 RETURNS VS. AVERAGE INVESTORS 1993 - 2012

The American S&P index rose by an average of 8.2% pa over the twenty-year period (between 1993 and 2013), Inflation rose at an average of 2.5% pa, and the average investor only earnt 2.3% pa.



It shows that the American S&P index, which is like the equivalent to our ASX300, rose by an average of 8.2% pa over the twenty-year period between 1993 and 2013. Inflation over this time rose at an average of 2.5% pa, and the average investor only earnt 2.3% pa over this time. So you might be asking yourself – if the market increased by an average of 8.2% and the average investor only achieved 2.3%, where did the other 5.9% go? Well, it represents the average amount lost due to the majority of investors trying to time the market – basically buying high and selling low. It's Pareto's principle, a small group of investors, or very good fund managers, got it very right whilst the majority got it very wrong.

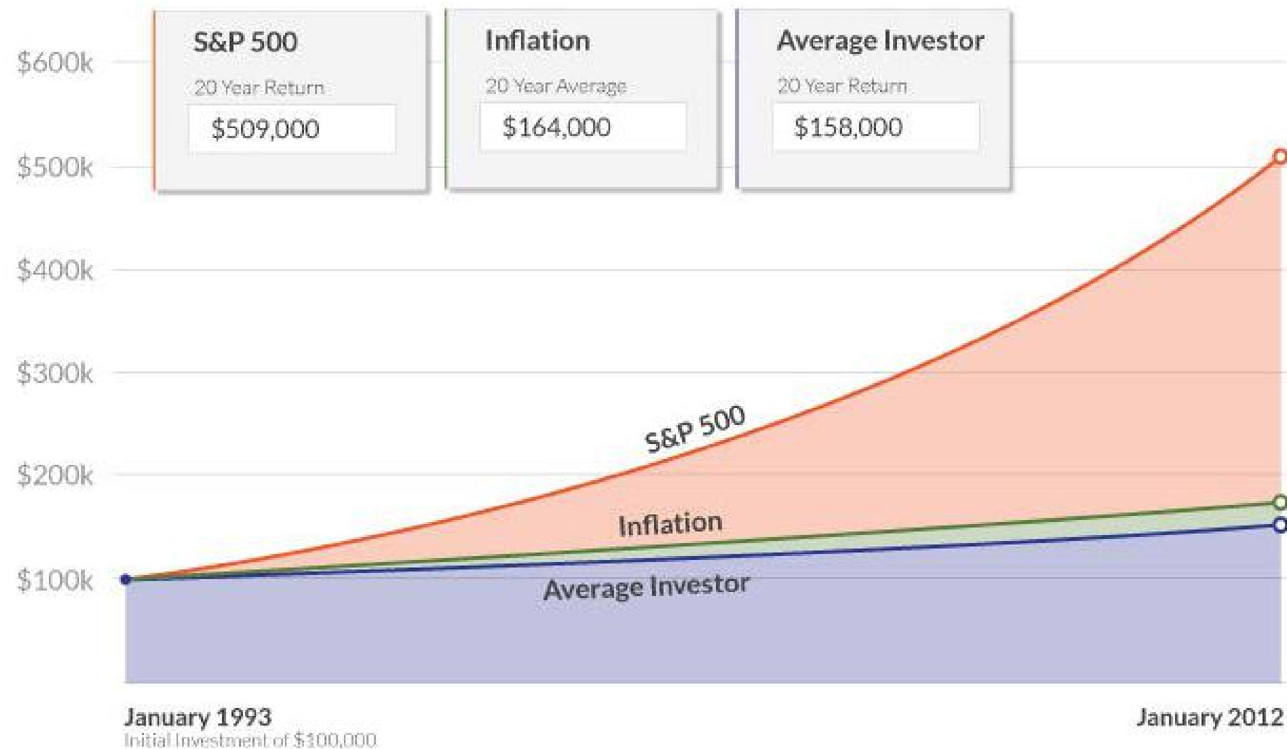
NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

20 YEARS FROM 1993 - 2012

The clear message here is that 'Time In' the markets yields better returns than 'Timing' the markets.

The good news here is that you don't need to time the market or take excessive risks to achieve great results if you're patient. This graph shows the results of $100,000 invested over that same time period:



You can see that for the average investor their $100,000 has risen to a value of $158,000 but it hasn't kept up with inflation which has risen to $164,000. But if you had of just left your investments alone and accepted a boring old 8.2% pa, your $100,000 would have risen to a value of $509,000. Another example of compounding at work.

The clear message here is 'don't destroy your wealth potential by trying to time the markets'!

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

06

MISTAKE 06

FALLING INTO THE YIELD TRAP

This is a very common mistake and an easy one to make. Have you ever heard someone say "This is a great investment, the returns are higher than the holding costs"? Well, this doesn't necessarily make it a great investment. The total returns on an investment are made up of both yield, or the income return, and capital growth. Many yield-focused investments create a false impression, in terms of returns, when measured over the short term.

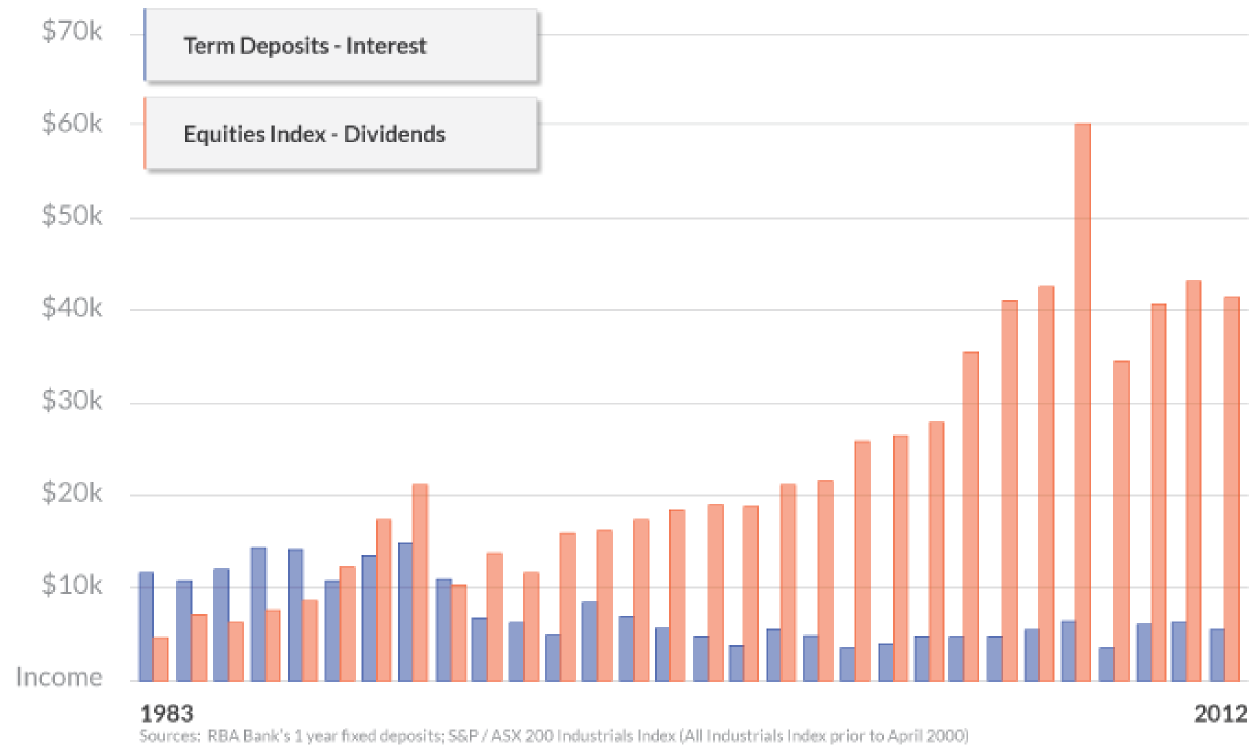
NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

CASH vs. SHARES (INCOME RETURN ON INVESTMENT OF $100,000 IN JANUARY 1983)

Many yield-focused investments create a false impression, in terms of returns, when measured over the short term

The following graph shows the yields on a $100,000 investment in both cash and shares from 1983 to 2012.

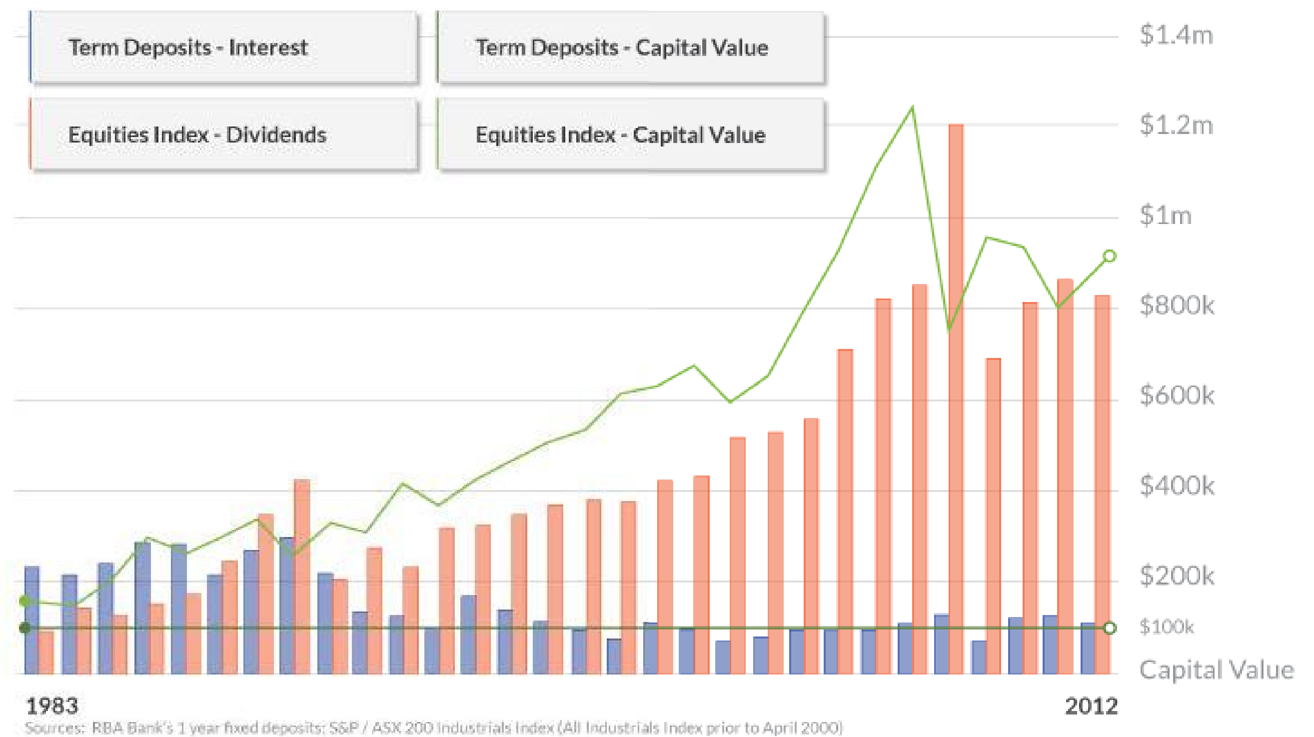


You'll notice that in the first five years the interest paid on cash, being the blue bars, outperformed the dividends paid on the shares - the red bars. However, as the decades passed it's clear to see that annual income return on shares outperformed cash.

In the year 2012, the dividend paid on the shares is approximately $40,000 and the interest paid on the cash investment is approximately $6,000. At this point you may be forgiven for thinking that your share investments have a higher yield, but this is not technically the case.

NEXUS
PRIVATE WEALTH MANAGEMENT
1300 473 347
www.nexusprivate.com.au

CASH VS. SHARES (CAPITAL VALUE ON INVESTMENT OF $100,000 IN JANUARY 1983)

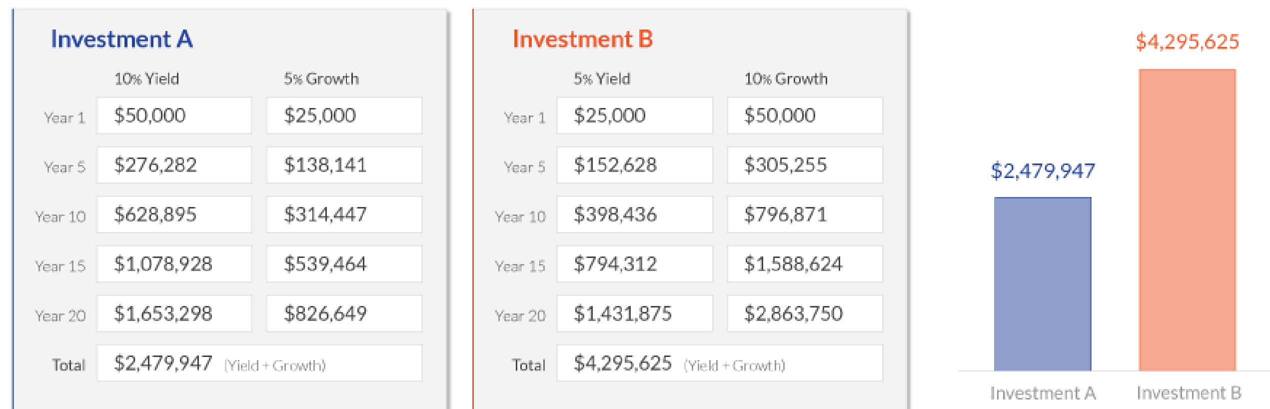


Look what happens when we overlay the growth of the original capital. The dark green line represents the capital value of the Cash and the light green line represents the capital value of shares. As you can see, not only have our dividends on shares risen to approximately $40,000 pa, but the capital value of our shares has also risen from $100,000 to nearly $1,000,000. Because the capital value of our shares has also risen, being the denominator in our yield calculation, it has dragged down the net yield equation, i.e. $40,000 ÷ $1,000,000 = 4%.

As the capital value of the cash has remained constant at $100,000, the yield calculation is $6,000 ÷ $100,000 = 6% which is 6%. So, technically, our cash investments are still paying the higher yield when measured in *percentage* terms. This is a great example of why you should not focus on yield alone. More importantly, you should focus on the overall returns and the long-term characteristics of your investments.

So now that we know both yield and growth are important, it begs the question - If you had the choice of higher yield or higher growth, what would you choose? In answering this question we first need to understand why yield is important. The yield represents an income stream that we may rely on either to live, or to meet the holding costs of the investments. In our wealth accumulation years many of us commonly employ 'gearing' strategies, meaning we borrow to invest. The yield or income from our investments can be an important part of meeting the borrowing costs and any other out-of-pocket expenses incurred in holding the investment. If the yield is not reliable, we may be forced to sell the investment before it's had a chance to increase in value. However, once you're satisfied that you can meet your holding costs despite possible yield fluctuations, your primary concern should be the capital growth of the investment.

VALUE OF A $500,000 INVESTMENT OVER 20 YEARS



Investment A

	10% Yield	5% Growth
Year 1	$50,000	$25,000
Year 5	$276,282	$138,141
Year 10	$628,895	$314,447
Year 15	$1,078,928	$539,464
Year 20	$1,653,298	$826,649
Total	$2,479,947 (Yield + Growth)	

Investment B

	5% Yield	10% Growth
Year 1	$25,000	$50,000
Year 5	$152,628	$305,255
Year 10	$398,436	$796,871
Year 15	$794,312	$1,588,624
Year 20	$1,431,875	$2,863,750
Total	$4,295,625 (Yield + Growth)	

Let's compare two investments both offering overall returns of 15% per annum. Investment A has a yield of 10% and growth of 5%. And investment B has a yield of 5% and growth of 10%. In the first year they both achieve the same amount - $75,000. But because the yield of each is based on the increasing capital value, by Year 20 the total yield of investment B has almost caught the 10% yield of Investment A. In addition, the 5% growth rate means that after 20 years, Investment A has a value of over $826,000 whilst the 10% growth rate on Investment B means it is worth more than $2.8m at this time. In total, Investment B has a cumulative return of over $1.8m more than Investment A.

Clearly, the capital growth of your investment contributes a larger portion of your overall returns. This makes growth assets very important when trying to defend against depletion of wealth via inflation.

So you can clearly see that if you have no problem meeting the holding costs then capital growth becomes the primary contributor to overall returns. These two examples demonstrate why you should not simply choose your investments based on yield alone.

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

07

If you use 10 - 12% as an average long-term return for Shares and Property, then you should expect that returns much higher than this will be risky

MISTAKE 07

FALLING FOR SCAMS

I'm sure you've heard your parents or grandparents say, "If it's too good to be true, then it probably is." And for very good reason! One thing I've learnt in my twenty plus years of teaching investment concepts is that 'Money finds Money'. What I mean by this is that if there's a 'free lunch' or a spectacular opportunity available, the wealthiest people or companies will find it, and out-bid you on it. Any opportunity that has not already been pounced on, by those whose job it is to seek out high returns with low relative risk, is unlikely to be an opportunity at all - except maybe for the person offering it to you.

BERNIE'S SECRET $9B STASH

EXCLUSIVE

SEE PAGES 6-7

Jail boast: Mystery trio has cash

Scams have existed for thousands of years and no doubt will continue to well into the future. It's important to realise that risk and return are related and if you're being offered something with a potentially high return, you can rest assured it comes with a high risk of failure. If you use 10 - 12% as an average long-term return for shares and property, then you should expect that returns much higher than this will be risky. So if it sounds too good to be true... Then don't part with your hard earned money.

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

08

MISTAKE 08

STRUCTURING DEBT INCORRECTLY

It's important to understand the difference between good debt and bad debt when structuring mortgages and bank accounts.

There are lots of mistakes that people make when borrowing money to invest, including structuring their loans incorrectly, buying in the wrong name, turning the family home into an investment property, and not off-setting interest. See our video entitled Top 5 debt management mistakes, for more detail on this topic.

Click here or on the image to watch the video

NEXUS
PRIVATE WEALTH MANAGEMENT
1300 473 347
www.nexusprivate.com.au

09

MISTAKE 09

BUYING ON EMOTION

As we discussed in the 'Trying to Time the Market' topic, emotions can play a big part when investing. It's easy to let our emotions and our biases get in the way when making investment decisions.

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

COMPARE TWO RESIDENTIAL INVESTMENT PROPERTIES

In this example, over time, the charming Queenslander could cost hundreds of thousands of dollars more to hold onto than the new unit, without providing any additional capital growth.

Compare two residential investment properties in the same street in the same suburb. They're both for sale at the same price and both return the same weekly rent, however, one's a beautiful old Queenslander and the other's a brand new run-of-the-mill apartment. It might be easy to be taken by the charm of the Queenslander and think to yourself – It's going to be easy to rent because I'd like to live there, therefore, everyone will want to live there, and, it's going to be easy to sell because it's so charming - so I should get more money for it when I go to sell it. Well on that point if they both sell for the same amount now, then that's what they're worth – this charm has already been factored in. There's also no evidence to suggest that the charming old house with a back yard and a BBQ will sell for any more than the unit in the future – in fact, over the last ten years, unit prices in Australia have outperformed house prices in every capital city.

On the first point of 'being more likely to rent', again, we've already established what the going rate is. But when it comes to calculating the NET yield, it's likely that the old Queenslander would probably have higher annual maintenance costs, such as, gardening, painting, fixing fences etc, and there is most likely no depreciation claimable because the property's over 40 years old. These factors alone can mean as much as $10,000 to $12,000 per year in additional holding costs for the old Queenslander. And long-term the old house may incur more significant restoration costs such as replacing the roof, bathroom or kitchen, repairing termite damage, or even restumping.

Left Image Source: iBuyNew
Right Image Source: Dezeen

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

BUYING AN INVESTMENT FOR THE FRINGE BENEFITS

If you don't let fringe benefits or emotions get in the way and treat your investments as just boring money making devices, then one day in the future you'll be able to afford any beach house or penthouse your heart desires.

Another example of where emotions can get in the way is when we buy investments for the Fringe Benefits. For instance - you really love the Sunshine Coast and you buy an investment property there so that you can use it occasionally for holidays and perhaps even move into it when you eventually retire. Of course the periodic nature of holiday or coastal rentals means that the maintenance and holding costs are again much more than they should be, and by the time you go to retire you've probably got your eyes on something bigger and better anyway.

If there's a fringe benefit associated with any investment, you can be sure that it's dragging down the overall performance of that investment. If you don't let fringe benefits or emotions get in the way and treat your investments as just boring money making devices, then one day in the future you'll be able to afford any beach house or penthouse your heart desires.

Try to keep your emotions and personal biases out of the decision making process and let the numbers do the talking.

Other examples of investing with fringe benefits and personal biases include buying luxury real estate for status or ego, turning your own home into an investment, buying the commercial premises you run your business from, or investing in time-share.

Left Image Source: Wotif
Right Image Source: Visit Snowy Mountains

NEXUS
PRIVATE WEALTH MANAGEMENT

1300 473 347
www.nexusprivate.com.au

10

MISTAKE 10

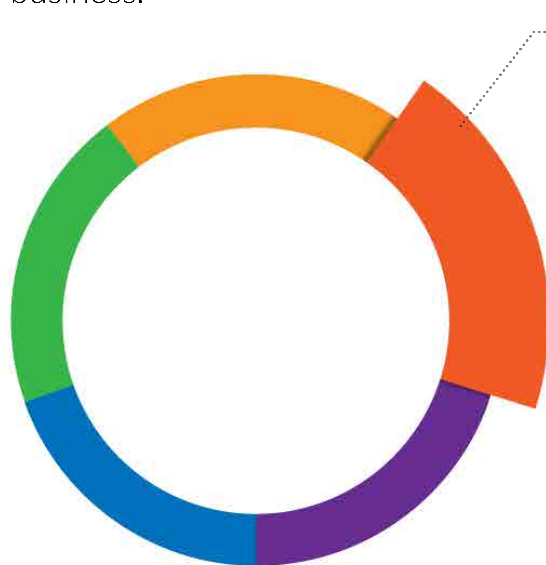
NOT HAVING A RISK MANAGEMENT PLAN

Insurances cover the events that typically represent the biggest risk to investment plans.

There's no point in setting up sophisticated investment strategies without having a safety net. If you're a serious investor, you must simply accept the price of insurance as the cost of doing business.

A robust risk management plan involves performing an in-depth cash-flow analysis on your investments. It also involves assessing all risks, deciding what risks can be accepted, what risks need to be insured, and what risks need to be avoided altogether. We've already touched on assessing, accepting, and avoiding risk, so I'm going to talk briefly about insuring it.

If you're contemplating becoming a serious investor then you'll simply need a personal insurance plan. Personal insurance refers to Life, Total & Permanent Disability, Trauma, Income Protection, and Asset Protection insurance. These insurances cover the events that typically represent the biggest risk to investment plans. But these risks can be mitigated for a cost that will represent only a fraction of your expected investment returns. None of us like paying insurance premiums, but there's no point in setting up sophisticated investment strategies without having a contingency plan. If you're a serious investor, you must simply accept the price of insurance as the cost of doing business.



- **Income Protection:** Provides a replacement income stream should you be unable to work as a result of injury or illness.
- **Life Cover:** Pays a lump sum benefit if the life insured dies during the term of the insurance.
- **Total & Permanent Disability:** Pays a lump sum benefit if you suffer an illness or injury that renders you totally and permanently unable to work.
- **Trauma Cover:** Pays a lump sum benefit if you suffer one of the major health traumas specified in the policy (i.e. heart attack, stroke, cancer or other illnesses).
- **Asset Protection:** Includes property insurance, landlord insurance and the use of trusts, companies and estate planning tools.

RECAP:

TOP 10 MISTAKES MADE BY MUM AND DAD INVESTORS

1. Not investing in investments
2. Not starting early
3. Taking tips from friends
4. Not enough diversification
5. Trying to time the markets
6. Falling into the yield trap
7. Falling for scams
8. Structuring debt incorrectly
9. Buying on emotion
10. Not having a risk management plan

NOTE:

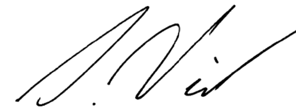
CONSIDER YOUR INVESTMENTS AS PART OF AN OVERALL FINANCIAL PLAN

What we've focused on are the fundamentals of investing and the most common mistakes people make.

Investing on its own, is only a small piece of the wealth creation puzzle. How your investment plans integrate with the rest of your financial life is the key to generating serious wealth. Finding even small gains in other areas of your finances can actually feed into your investment plans and super-charge your wealth creation.

So keep educating yourself, just like you're doing right now, find an expert to help you, and don't wait any longer to start.

Happy investing!



Stephen Vick
Managing Director

TOP 10 INVESTMENT MISTAKES

1300 473 347
www.nexusprivate.com.au

Information contained within this report is general advice only. We have not taken into consideration any individual circumstances and suggest that no person act on the basis of this information without obtaining professional advice as to how it applies to their own personal circumstances. All content appearing in this report is proprietary, copyrighted and owned or licensed by Nexus Private Wealth Management. Any unauthorised use of content from this website is strictly prohibited. All rights reserved.

NEXUS
PRIVATE WEALTH MANAGEMENT