Five Mistakes on the Road to Financial Success

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When it comes to achieving financial success, all too often people end up being their own worst enemy. Letting emotions such as fear or greed drive your financial decision-making will often result in the exact opposite of what you are trying to achieve. The following are five common mistakes that could keep you from realizing your long-term goals.

**Mistake #1 — Short-Term Thinking**

The first common mistake that people make is what I call short-term thinking. It's basic human nature in times of uncertainty to want to do something. Anything. People will ask themselves questions like, "What do I need to do right now?" They wonder if they should sell a position that has declined or if they should buy more. They want to know if this is the time to turn to cash when what they should really do is step back and take a breath. Very often, the thing to do right now is to stay the course.

Short-term thinking can get people into trouble when they start to link their investments to their immediate financial needs or obligations. Worrying about what's going on today and making changes to your long-term growth assets, as a result, is a mistake that can be hard to recover from. Looking at the historical record, long-term growth assets, like those boring buy-and-hold strategies, have survived through the bad times and eventually gone back to scale new highs. That's happened with every market downturn we've ever experienced except for this one, so far.

The flip side of that behavior is when people have positive sentiments toward the markets, they get more aggressive and invest their short-term assets, money they may need in 6, 12, or 18 months, in long-term assets like stocks. That's a short-term decision impacting a long-term asset, and it often ends poorly or at best, less than optimally.

**Mistake #2 — People Buy What They Wished They Owned**

Another common mistake that people make is to invest in assets that they wish they already owned because they are afraid of missing an opportunity to make easy money. Examples of this abound. I remember in the late 1990s when investors saw dot.com stocks doubling and tripling in price even though the companies they represented weren't making any money and were willing to buy in at any price. Then the bubble burst, and with the so-called tech wreck followed by 9/11, the Nasdaq dropped roughly 80% from peak to trough.

More recently, we've seen the same thing happen with cryptocurrencies. Bitcoin hit its all-time high of over $64,000 in late November 2021. But by then, it was already too late. Six months later the value was less than half of that and started this year at about $17,000. Anyone who bought Bitcoin in late 2021 has likely lost a considerable portion of their initial investment.

From a psychological viewpoint such behavior is understandable, but financially it can be disastrous. It relates to Mistake #1, the desire to just do something. Human beings want to do more of what they feel good about, and when the markets are good and running, they'll feel good about it and be more willing to take chances.

**Mistake #3 — Procrastination**

Financial success doesn't just happen. Practical experience has shown me that you have to have a plan that will allow you to achieve. I think most people would agree, but far too many of them just never get around to doing it. On an intellectual level, they know what they should do; they just never get around to actually doing it. They'll say things like, "Next time the market comes back down 15%, we're going to get aggressive," and think that's a plan. They don't really have a plan, or if they do, they don't stick to it, which goes back to short-term thinking.

I often say that people spend more time planning their vacations than they do their financial futures. And if they do make a financial plan, it really is no help if it's just a big, fat binder that sits on the shelf collecting dust and is rarely, if ever, reviewed. I think people would be better off if instead of talking about a financial plan, they considered it a personal business plan. A successful business plan is a living, constantly evolving document. It's not a
set-it-and-forget-it proposition. It starts with figuring out where you are now financially and then outlines those steps you’re going to take as a path that will guide you to get where you want to go. But that plan will require revision as personal and other situations change.

**Mistake #4—Mistaking Speculation for Investing**

Speculation is neither good nor bad in itself, but it’s not investing. It’s gambling outside the casino. People who bought Bitcoin and didn’t care what it cost at the time because the “experts” said it was going to go to $100,000/coin, weren’t investing. They were making a bet based on nothing more than a hunch and hope.

People will often get emotionally charged about making what they call a high-risk investment, but without really doing any research. They just “have a feeling” or got a tip from a friend. That’s an emotionally driven gamble, not an investment. When someone comes to me with an “investment idea” like that, my recommendation is always to walk away. If the person still insists on following through and asks how much to commit, my next response is to put in exactly how much you’re willing to lose. It doesn’t mean you’re going to lose all your money, but it’s much more like going to a casino than it is investing. Some nights you may walk away from the craps table a winner, but you should never gamble more than you can afford to lose.

When you blur the line between speculation and investment and end up losing on those that gamble, you can weaken the bedrock of your personal business plan.

**Mistake #5—Thinking Information is Wisdom**

Finally, people often mistake information, which these days is abundantly online, on TV, and in the financial media, for wisdom. They watch CNBC or Fox Business and try to follow what the “experts” advise and still they never get ahead. The fact is that do-it-yourself investors have access to an enormous amount of information, but they may not know what to do with it. So, they end up making poor decisions that may be based on fear, greed, and their personal psychology around money. Let’s face it, money can be a tremendously emotional topic, that often leads to significant angst. The higher the angst, the higher the pressure, and the harder it is to make rational calm decisions. Just because you can invest for yourself doesn’t mean you should.

Financial success is never guaranteed, but if you can avoid making these mistakes, your chances of success should start to get a whole lot better.

![Image of a graph showing data trends.](image-url)