Beware! If you are imitating investment decisions of others

Our brains have mirror neurons and hence we are more likely to behave in the same manner that we see in other people around us. But in my view, following others is in our hands and more of a personal choice. We all look for quick fixes to avoid stress, time etc. that comes with a particular job/activity. But finding or adopting quick fixes when it comes to making your personal investment decisions can be very fatal. Often people ask their colleagues or friends about the investment decision they made for themselves and end up simply mirroring that advice.

You might not be able to realize it now, but when you will approach closer to your goals, then you will definitely trace mistakes committed by you.

Factors to be considered before making your financial investment decisions:

1) Income streams

The person whose investment decisions you are following, might have multiple income streams while on the other hand you might have only one source of income and vice versa. The person who is having more income is likely to save and invest a bigger amount of money for his/her future goals. Sometimes you might feel discouraged if the other person is investing a bigger sum and you cannot match his contribution.

2) Role of financial planner

There are all possibilities that a person whose investment decisions you are following, have been guided by a financial planner. The other person may or may not disclose this fact.

Consider an example, wherein you have asked for help from one of your colleague and he recommended you to invest in small-cap funds as he has earned good returns from it. Completely unaware of the fact that how much allocation the other person has in small-cap funds, you invested a lump sum amount in small-cap funds. The fund performed well for the first few months and then it started falling along with the broad markets. Your portfolio value turned half in just a matter of few months while on the other hand, the impact is not that significant on your colleague's portfolio as his investments were well-diversified by the financial planner/advisor. Who would you blame? Your colleague who has helped you by giving advice or you yourself?

In my view, it will be your mistake as you have not considered all the aspects before investing and followed your colleague's advice blindly.

3) Tax slab

Taxation is one of the many crucial aspects that is taken into consideration by informed investors before making any investment decision. For example, your friend is in the lowest tax bracket of 5% and hence can reduce his tax liability to nil by investing some amount in instruments that are eligible for deduction u/s 80C. While on the other hand, if you are in the highest tax bracket then, you should not only exhaust the entire deduction available under section 80C (by investing in ELSS mutual funds or other instruments) but should also avail an extra deduction of up to Rs. 50,000 available under section 80CCD (1b) for investing in NPS.

4) Financial goals

The financial goals of two individuals can never be the same if are expressed in money terms and the duration in which these goals are to be realized. For example, you are planning to send your children abroad for higher studies while on the other hand, the other person whom you are following does not have any such plans. So, if you follow the investment decisions of your friend then there are more chances that you will fall short of the required corpus.

5) Risk

Risk is one of the key aspects which investors usually miss out in the wake of earning superior returns. Not all investors can have the same risk appetite as it depends on many other factors as well. All these factors are interrelated like for example, if your investment horizon is short (i.e. up to 5 years) then the risk-taking capacity will also decrease simultaneously while the risk capacity increases when the time horizon increases. Hence, one should never make an investment decision in hastiness.

6) Liquidity Needs

Liquidity needs of individuals depend upon their financial goals. For example, an individual is investing money towards building his emergency corpus while on another hand you want to invest for your children's marriage, which is far away. The other person would be investing in liquid funds for meeting his emergency needs but you should be investing in equity mutual funds as the goal is to be achieved at a later stage and requires a larger sum.

7) Might not have shared everything

The person whose investment advice you are following might not share the losses which he might be incurring or has incurred in the past. In equity markets, people have tendencies to disclose profits more comfortably than losses.

Therefore, it is always advisable for the investors to look into their own risk profile, liquidity needs, financial goals before making any investment decisions. Simple copying others in your investment decisions is not advisable. You can take the help of the investment advisor for your financial planning needs.