



# Ongoing Due Diligence for Investing Success

## Key Takeaways:

- **Due diligence is ongoing:** Continuously monitor your investments for long-term success.
- **Markets are dynamic:** Stay informed and adapt to changing conditions.
- **Sell discipline matters:** Know when to exit to maximize returns and minimize losses.
- **Objectivity is crucial:** Avoid emotional decisions that can derail your investment strategy.

You've done your research, crunched the numbers, made the investment decision, and funded it. But the journey to a successful investment doesn't end there. In fact, arguably, it's just the beginning. Ongoing due diligence – the process of continually monitoring and evaluating your investment – is just as vital, if not more so, than the initial research phase. Failing to do so can leave you exposed to risks, missed opportunities, and ultimately, a less profitable or failed investment.

## THE IMPORTANCE OF ONGOING DUE DILIGENCE

- **Market Dynamics are Constantly Shifting:** Real estate markets, stock prices, interest rates, and business-specific factors can change rapidly. New competitors can emerge, economic conditions can fluctuate, and market demographics can shift. What looked like a sound investment six months ago might be facing unforeseen challenges today. Regular monitoring allows you to stay ahead of these changes and adapt your strategy accordingly.
- **Unforeseen Issues Can Arise:** Whether it's regulatory/legal changes, shifts in markets and competitors, or technology disruptions, unexpected problems that impact an investment's value are inevitable. Ongoing due diligence helps you identify these issues early, minimizing their impact and preventing them from escalating into significant devaluations.
- **Performance Tracking is Essential:** How is your investment actually performing against your initial



projections? Are you achieving the expected returns? Regularly tracking key metrics, such as revenue growth or expense ratios, allows you to assess the health of your investment and make informed decisions about adjustments needed.

- **Identifying Opportunities for Improvement:** Ongoing monitoring isn't just about identifying problems; it's also about uncovering opportunities. Perhaps there's a potential for increased revenue, cost savings, or expansion that you didn't initially consider. By continuously evaluating your investment, you can identify these opportunities and increase your returns.
- **Maintaining Compliance:** Many investments, particularly in real estate and business, are subject to regulations and compliance requirements. Staying up to date with these regulations and ensuring your investment remains compliant is crucial to avoid penalties and legal issues. Ongoing due diligence helps you stay on top of these requirements.
- **Informed Decision Making:** Whether it's deciding to hold onto an investment, sell it, or make changes to its operation, ongoing research gives you the data and insights necessary to make strategic choices that align with your investment goals.

## THE IMPORTANCE OF SELL DISCIPLINE

Knowing when to exit an investment is just as crucial as knowing when to buy. Sell discipline involves establishing clear criteria for when you will sell an investment, whether it's to take profits or to cut losses. This helps prevent emotional decision-making, which can often lead to poor outcomes.

- **Taking Profits:** Don't let greed cloud your judgment. If your investment has reached your target profit level, consider selling, even if you think it might continue to rise. Market conditions can change quickly, and holding on too long can lead to missed opportunities and potential losses.
- **Cutting Losses:** Recognizing when an investment is not performing as expected and being willing to cut your losses is essential. Don't let pride or hope keep you in a losing position. The sooner you exit a bad investment, the sooner you can redeploy your capital into a more promising opportunity. Establish clear stop-loss points - predetermined levels at which you will sell an investment to limit your losses.

## MAINTAINING OBJECTIVITY

A significant aspect of sell discipline, and indeed ongoing due diligence as a whole, hinges on maintaining an objective, non-emotional perspective about your investments. This is where the principles of behavioral finance become particularly relevant. Behavioral finance recognizes that investors are not always rational actors and that emotions like fear and greed can significantly influence investment decisions, often to their detriment.

For example, investors might hold onto a losing investment for too long, hoping it will eventually turn around, driven by fear of realizing a loss and/or emotional ties.

Cultivating an objective, data-driven approach, where decisions are based on facts and analysis rather than gut feelings or market hype, is crucial for overcoming these emotional biases. This involves setting clear investment goals, establishing pre-defined criteria for buying and selling, and regularly reviewing your portfolio performance against these benchmarks, all while consciously



striving to minimize the influence of emotional factors on your decision-making process.

## ONGOING DUE DILIGENCE IN PRACTICE

The specifics will vary depending on the type of investment, but some general practices include:

- **Regularly reviewing financial statements:** This is crucial for understanding the financial health of your investment.
- **Monitoring market trends and news:** Stay informed about changes in the market that could impact your investment.
- **Conducting periodic site visits (if applicable):** For physical assets like real estate, regular inspections are essential.

- **Staying in communication with key stakeholders:** Maintaining open communication can help you identify issues early.
- **Seeking professional advice when needed:** Don't hesitate to consult with experts, such as accountants, lawyers, or financial advisors.

## CONCLUSION

Due diligence is not a one-time activity; it's an ongoing process that's essential for the long-term success of any investment. By continuously monitoring and evaluating your investments, including establishing and adhering to sell discipline, you can mitigate risks, capitalize on opportunities, and ultimately achieve your financial goals. Don't let your due diligence stop at the time of investment. Make it an ongoing practice, and you'll significantly increase your chances of investment success.

**Disclaimer:** This article is intended for informational purposes only and should not be construed as legal or financial advice. It is imperative to consult with qualified professionals to address your specific needs and circumstances.