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TIPS FOR AVOIDING THE TOP 20 COMMON INVESTMENT MISTAKES

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When learning how to invest, it is important to learn from the best, but it also pays to learn from the worst. These top 20 most common mistakes have been compiled to help investors know what to watch out for. If any of these mistakes sound familiar, it is likely time to meet with a financial adviser.

1. Expecting too much or using someone else's expectations
Investing for the long term involves creating a well-diversified portfolio designed to provide you with the appropriate levels of risk and return under a variety of market scenarios. But even after designing the right portfolio, no one can predict or control what returns the market will actually provide. It is important not to expect too much and to be careful when figuring out what to expect. Nobody can tell you what a reasonable rate of return is without having an understanding of you, your goals, and your current asset allocation.

2. Not having clear investment goals
The adage, "If you don't know where you are going, you will probably end up somewhere else," is as true of investing as anything else. Everything from the investment plan to the strategies used, the portfolio design, and even the individual securities can be configured with your life objectives in mind. Too many investors focus on the latest investment fad or on maximizing short-term investment return instead of designing an investment portfolio that has a high probability of achieving their long-term investment objectives.

3. Failing to diversify enough
The only way to create a portfolio that has the potential to provide appropriate levels of risk and return in various market scenarios is adequate diversification. Often investors think they can maximize returns by taking a large investment exposure in one security or sector. But when the market moves against such a concentrated position, it can be disastrous. Too much diversification and too many exposures can also affect performance. The best course of action is to find a balance. Seek the advice of a professional adviser.

4. Focusing on the wrong kind of performance
There are two timeframes that are important to keep in mind: the short term and everything else. If you are a long-term investor, speculating on performance in the short term can be a recipe for disaster because it can make you second guess your strategy and motivate short-term portfolio modifications. But looking past near-term chatter to the factors that drive long-term performance is a worthy undertaking. If you find yourself looking short term, refocus.

5. Buying high and selling low
The fundamental principle of investing is to buy low and sell high, so why do so many investors do the opposite? Instead of rational decision making, many investment decisions are motivated by fear or greed. In many cases, investors buy high in an attempt to maximize short-term returns instead of trying to achieve long-term investment goals. A focus on near-term returns leads to investing in the latest investment craze or fad or investing in the assets or investment strategies that were effective in the near past. Either way, once an investment has become popular and gained the public's attention, it becomes more difficult to have an edge in determining its value.

6. Trading too much and too often
When investing, patience is a virtue. Often it takes time to gain the ultimate benefits of an investment and asset allocation strategy. Continued modification of investment tactics and portfolio composition can not only reduce returns through greater transaction fees, it can also result in taking unanticipated and uncompensated risks. You should always be sure you are on track. Use the impulse to reconfigure your investment portfolio as a prompt to learn more about the assets you hold instead of as a push to trade.

7. Paying too much in fees and commissions
Investing in a high-cost fund or paying too much in advisory fees is a common mistake because even a small increase in fees can have a significant effect on wealth over the long term. Before opening an account, be aware of the potential cost of every investment decision. Look for funds that have fees that make sense and make sure you are receiving value for the advisory fees you are paying.

8. Focusing too much on taxes
Although making investment decisions on the basis of potential tax consequences is a bit like the tail wagging the dog, it is still a common investor mistake. You should be smart about taxes—tax loss harvesting can improve your returns significantly—but it is important that the impetus to buy or sell a security is driven by its merits, not its tax consequences.

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9. Not reviewing investments regularly

If you are invested in a diversified portfolio, there is an excellent chance that some things will go up while others go down. At the end of a quarter or a year, the portfolio you built with careful planning will start to look quite different. Don't get too far off track! Check in regularly (at a minimum once a year) to make sure that your investments still make sense for your situation and (importantly) that your portfolio doesn't need rebalancing.

10. Taking too much, too little, or the wrong risk

Investing involves taking some level of risk in exchange for potential reward. Taking too much risk can lead to large variations in investment performance that may be outside your comfort zone. Taking too little risk can result in returns too low to achieve your financial goals. Make sure that you know your financial and emotional ability to take risks and recognize the investment risks you are taking.

11. Not knowing the true performance of your investments

It is shocking how many people have no idea how their investments have performed. Even if they know the headline result or how a couple of their stocks have done, they rarely know how they have performed in the context of their portfolio. Even that is not enough; you have to relate the performance of your overall portfolio to your plan to see if you are on track after accounting for costs and inflation. Don't neglect this! How else will you know how you are doing?

12. Reacting to the media

There are plenty of 24-hour news channels that make money by showing "tradable" information. It would be foolish to try to keep up. The key is to parse valuable information out of all the noise. Successful and seasoned investors gather information from several independent sources and conduct their own proprietary research and analysis. Using the news as a sole source of investment analysis is a common investor mistake because by the time the information has become public, it has already been factored into market pricing.

13. Chasing yield

A high-yielding asset is a very seductive thing. Why wouldn't you try to maximize the amount of money you get back? Simple: Past returns are no indication of future performance and the highest yields carry the highest risks! Focus on the whole picture; don't get distracted while disregarding risk management.

14. Trying to be a market timing genius

Market timing is possible, but very, very, very hard. For people who are not well trained, trying to make a well-timed call can be their undoing. An investor that was out of the market during the top 10 trading days for the S&P 500 Index from 1993 to 2013 would have achieved a 5.4% annualized return instead of 9.2% by staying invested. This difference suggests that investors are better off contributing consistently to their investment portfolio rather than trying to trade in and out in an attempt to time the market.

15. Not doing due diligence

There are many databases in which you can check whether the people managing your money have the training, experience, and ethical standing to merit your trust. Why wouldn't you check them? Ask for references and check their work on the investments that they recommend. The worst case is that you trade an afternoon of effort for sleeping better at night. The best case is that you avoid the next "Madoff" scheme. Any investor should be willing to take that trade.

16. Working with the wrong adviser

An investment adviser should be your partner in achieving your investment goals. The ideal financial professional and financial service provider not only has the ability to solve your problems but shares a similar philosophy about investing and even life in general. The benefits of taking extra time to find the right adviser far outweigh the comfort of making a quick decision.

17. Letting emotions get in the way

Investing brings up significant emotional issues that can impede decision making. Do you want to involve your spouse in planning your finances? What do you want to happen with your assets after you die? Don't let the immensity of these questions get in the way. A good adviser will be able to help you construct a plan that works no matter what the answers to these questions are.

18. Forgetting about inflation

Most investors focus on nominal returns instead of real returns. This focus means looking at and comparing performance after fees and inflation. Even if the economy is not in a massive inflationary period, some costs will still rise! It is important to remember that what you can buy with the assets you have is in many ways more important than their value in dollar terms. Develop a discipline of focusing on what is really important: your returns after adjusting for rising costs.

19. Neglecting to start or continue

Individuals often fail to begin an investment program simply because they lack basic knowledge of where or how to start. Likewise, periods of inactivity are frequently the result of lethargy or discouragement over previous investment losses. Investment management is a discipline that is not overly complex, but requires continual effort and analysis in order to be successful.

20. Not controlling what you can

People like to say that they can't tell the future, but they neglect to mention that you can take action to shape it. You can't control what the market will bear, but you can save more money! Continually investing capital over time can have as much influence on wealth accumulation as the return on investment. It is the surest way to increase the probability of reaching your financial goals.

For more information, please consult http://www.cfainstitute.org/investor/

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