



The **5** Biggest Mistakes Investors Make AND HOW TO AVOID THEM

MISTAKE NO. **1**

■ UNDERESTIMATING THE TIME HORIZON FOR YOUR INVESTABLE ASSETS

How long do you think you'll live?

What about your spouse? Many individuals are too conservative in estimating the length of their lives, which can lead to a problem when planning their future.

HOW TO AVOID IT

It is a simple fact. Modern day medicine breakthroughs have become so common that we no longer hear about them on a regular basis. This, along with improvements in general nutrition, and higher standards of living, has allowed for people to live longer than their previous expectations. This equates to higher costs in healthcare – medicine, hospital, nursing care, insurance, etc.

It is critical to have a sound financial strategy that will provide for your financial stability and income needs. Perhaps you would like to grow your assets to gift to family members, loved ones or a charitable organization. In either case, a realistic perspective on time horizon is vitally important.



MISTAKE NO. 2

■ MISALIGNING INVESTMENT OBJECTIVES AND PORTFOLIO STRATEGY

Aligning your portfolio strategy with your objectives is essential in determining long-term investing success. This might sound obvious but many investors employ strategies that work *against* their objectives.

HOW TO AVOID IT

Many investors miscalculate the risk within their portfolio. Generally, the longer time-horizon of your investments, the more risk in your portfolio. But a typical mistake that investors make is to take on too little risk. That is correct. Investors have a tendency to focus on short-term volatility rather than long-term probabilities of achieving their financial objectives. This can ultimately lead to underperformance in their portfolio.

For example, a significant allocation to fixed income investments, due to a fear stocks will decline in the short-term, might generate a return that is barely above the rate of inflation. This reduces your probabilities of reaching a long-term goal of growth – especially if withdrawals are anticipated.

Conversely, investors with a short time horizon are often overly exposed to risk, creating a danger of asset loss amid any short-term volatility. This has the potential to place your entire financial future in jeopardy.

MISTAKE NO. 3

■ IGNORING THE FOREIGN SECURITIES MARKETS

The United States is not the only country to invest in. In fact, it accounts for approximately half of the value of world equities as measured by market capitalization.

HOW TO AVOID IT

It is a mistake to think you are diversified by investing in different sectors. That is not enough. Return of stocks is partially related to the economic conditions and political climate of the home country. A weak economy makes it difficult for any company to succeed. Investors need to consider the country and region to avoid excess risk associated with doing business in that country.

Many investors suffer from a bias to investing in only the country they live in. Diversification is a critical component of building a well-constructed portfolio to grow your assets. Investing overseas strengthens your portfolio by expanding the efficient frontier. In addition, it creates a larger pool of possibilities from which to find worthy investments.



MISTAKE NO. 4

■ MAKING INVESTMENT DECISIONS ON WIDELY KNOWN INFORMATION

What sources of information are considered when you invest? Excluding the “hot tip,” most information is delivered from sources that are widely available. This can be a problem.

HOW TO AVOID IT

Whether it is the newspaper, investment research from brokerage firms, commentary on radio, television or the Internet, much of this information is essentially useless.

Why? Because it is our belief that some segments of the equity markets are efficient discounters of widely known information. Once information is made broadly available to the average investor, it is reflected in the stock price. Despite this fact, investors continue to make their decisions on widely known information.

In order to generate excess returns, investors must either know something or interpret widely known information differently (and correctly) from the crowd. This ability requires experience, discipline, research and time.

MISTAKE NO. 5

■ ARE YOU OVERCONFIDENT IN YOUR INVESTING SKILLS?

When investing your personal assets, it is only natural to experience emotions as you encounter the market volatility. After all, this is your financial future.

For this very reason, several cognitive biases come into consideration, having the potential to impair your judgement and affecting your ability to make rational, impartial decisions.

HOW TO AVOID IT

The human brain is not wired for investing. Like our ancestors, we view the world through a screen of biases. As an example, investors might focus on their success stories and forget their mistakes, confirming their personal views as opposed to maintaining complete objectivity.

How about overconfidence? Investors have a tendency to put up a barrier that allows us to forget the mistakes we’ve made in the past while focusing on the successful investments – which leads to overconfidence. This might cause one’s portfolio to carry excessive investment risk as well.

Let’s face it. None of us are immune to these biases. That is exactly the reason it is vital to create an environment that is detached from emotion – one that relies on data and impartial analysis to make the right decisions for your financial future.



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Have You Made Any of These 5 Mistakes?

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