10 Mistakes Every Investor Makes & How to Avoid Them

A Millionaire Money Habits Special Report

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Introduction

Throughout my years of investing I have had the opportunity to be a part of many different experiences – some good and some bad. What I have learned by being trained and working with investors in all different markets is that the discipline to follow the fundamental rules to investing can make or break someone's bank account. Sadly, I've seen a lot of great investors go from multi-millionaires to dead broke in a matter of minutes because they became foolish.

Whether I have seen a stock trader or someone who works in the options and futures pits, I have found that when they lose their shirt it is because they didn't stick to the basics.

While even amateur investors know these basic rules to investing, it is much easier said than done. Maybe this is because most investors have a competitive edge, and we think we can out-perform or outsmart the next guy. But the bottom line is it is pretty tough to outsmart the market.

Investing is a zero sum game. For every winner there is a loser, which is what keeps the market efficient. Knowing this, it is possible to develop an edge in order to win more than you lose. This is why some of the best trading systems make people so much money. These systems have found a way to analyze trading opportunities and automate the process so you can get in and out of trades quickly and profitably.

However, many investors and professional traders still manage to end up in the red. These investors are unsuccessful because they let emotions get in the way, are too stubborn to be successful, or they think they know something other people don't. They can literally have their trading system screaming at them to get in or out of a trade, and yet they ignore all the signs.

What these losers fail to realize is that the market is irrational because it is driven by emotion and institutional houses throwing

their weight around. For that reason, it is nearly impossible to predict short-term directions and win every time.

If you avoid the common mistakes that every investor makes, you can develop an edge and build an unlimited amount of wealth.

Nothing in this report should come as a surprise. These are basic investing mistakes that every investor should avoid. But for those who like to make money, sticking to the basics may not be an easy task. It involves leaving your ego behind, some planning and sticking to the rules or trading system you have in place.

Let's get to it then . . .

Mistake #1 – Playing Without Rules

No matter what you invest in you must create and stick to personal investing rules. It doesn't matter if you invest in real estate, currency, stocks or options, before you begin you must create strict strategic rules that you will hold yourself accountable to.

Here is an example of the rules a real estate investor may have:

- I personally look at 10 foreclosure properties a week.
- I only invest in foreclosures that I can obtain at 30% or more below market value.
- I only buy properties that potentially have great curb appeal that will help sell the property fast.
- I do not buy properties that may generate less than $20,000 in returns.
- I do not buy fixer-uppers that require more than $10,000 in repairs and upgrades.
- I only invest in properties that need cosmetic and minor repairs. I will not consider properties that have problems with the foundation, termites or mold.
- I do not use more than 20% of my investing capital in a single investment property.
- Holding onto my cash is okay if it means waiting to find the right opportunity.
- I put my properties back on the market 15 days before they are back in show condition.
- After 60 days of no serious offers, I lower the price 3% and offer incentives, such as a free plasma screen or no closing costs.
- After 90 days of not selling the property, I list the property as a "rent to own."
- In the event 6 months go by without selling the property, I will sell the property to another investor at break even in order to wash my hands and walk away safely.
- At least 50% of my profits are re-invested into acquiring more properties. The rest is for me to have fun with.

The rules above provide a checklist for the investor when considering opportunities. By creating strict criteria, it places limitations on the investor and takes the emotion out of the decision. There could be multiple properties that the investor finds that he knows will create great returns if he does $15,000 in repairs, or cleans up a small mold

problem, but it simply does not fit into his rules for investing. Therefore, he would pass on such an opportunity.

Secondly, these rules provide a clear exit strategy with deadlines. The investor knows going in that he can potentially make $20,000, but more importantly he also knows the potential that he can lose by not selling the property in a certain amount of time. By having a backup plan, and a backup plan for that plan, the investor minimizes the downside and eliminates the need to make an important decision that is influenced by emotion or hope.

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Mistake #2 – Ignoring Taxes and Fees

Investors often get excited about the potential income an investment can make and forget to consider fees and tax implications that can diminish their profits.

When trading stocks, for example, a single stock purchase can cost you $10 or more, even with a low-cost, online brokerage account. If you are buying 10 shares of a $10 stock, that value of the stock will have to increase 10% before you can break even.

Add capital gains tax you now owe on the appreciation of this asset, and you have actually lost money on your prudent stock purchase. How much you are paying in taxes depends on the type of investment and how long you hold the asset. Below is a break down of common investment tax rates, but visit moneychimp.com for a capital gains tax calculator,

Type of Capital Asset	Holding Period	Tax Rate
Short-term capital gains (STCG)	One year or less	Ordinary income tax rates up to 35%
Long-term capital gains (LTCG)	More than one year	**5%** for taxpayers in the 10% and 15% tax brackets
		15% for taxpayers in the 25%, 28%, 33%, and 35% tax brackets
Real Estate Main Home	One year or less	STCG
	More than one year	LTCG taxed at 5% or 15% after any exclusion amount

You're not out of the woods yet in escaping fees. If you invest in a mutual fund, you are paying additional fees. Typically you pay a small management fee and you may even be paying an extra load fee to your financial planner. The load fee is simply an extra charge that goes to pay your financial planner a commission. These fees take

5% or more of your investment capital right off the top. If it is an upfront load fee, you pay this charge before your money is even invested.

Secondly, if you buy mutual funds at the wrong time, you can get nailed with paying a taxable dividend that you didn't actually receive. According to SmartMoney:

> It's always dangerous to buy mutual funds at the end of the year, since you may be buying right into a big taxable dividend. If you are purchasing shares of a fund in the fall, check the distribution date and wait until it passes before writing your check.

So how do you escape all of these fees and make money on your investments?

Thanks to Zecco.com, investors can now buy commission-free stocks and avoid trading fees all together. They offer 10 free stock trades per month, and only $4.50 after your 10 free trades. Zecco makes their money with advertising and margin spreads, so you can now invest for free.

To avoid capital gains, you have a few options. The most obvious would be to invest in a tax sheltered retirement account, such as an IRA or 401k. These programs offer exceptional tax benefits that can't be beat.

A stock investor can also offset their capital gains by selling losing stocks during the same year that they liquidate their winning stocks. Consult with a certified financial planner when considering this or any of these options.

If you are a real estate investor, you can roll your profits into a 1031, tax deferred exchange. This allows you to roll your profits from the

sale of one investment property into a new acquisition. In doing so, you avoid paying taxes on the sale of your property.

To escape the commission fees that you are paying your broker or financial planner for buying a mutual fund, just don't pay them. Just about any mutual fund that has a load fee has an equivalent lower cost, no-load option. According to The Motley Fool:

> The only thing that you really need to know and remember about mutual fund loads is that you don't ever have to pay any. Everything that a broker could ever find for you in a load fund, you can find for yourself, and find much better.

Visit Morningstar.com to research your low cost mutual fund options.

Mistake #3 – Confusing Investing with Trading

People who are not investors often think investors are the high-strung, fast-paced people in the New York Stock Exchange pits, or those that stare at stock charts all day long to catch a quick profit. These people are not investors. They are day traders who play markets for a living.

Investors view stock trading behavior as the same as gambling. Traders may not even care about the company they are buying, they just hope to accurately predict the direction of a movement in order to make a quick profit. They move in and out of positions quickly and try to make money off the short term ups and downs the market takes.

Often they use margin balances, or borrowed money, in order to leverage their positions and make money on each up or down tick of the market. With this strategy, it doesn't take much movement in the market to make money, but it also doesn't take much to lose it all.

Investors are much different. They are interested in the certainty the stock market returns as a means to produce wealth, as opposed to the possible income it can produce. For that reason they are less concerned with the day-to-day activity in the market and are not depending on how the day goes in order to produce immediate income. They know that over time the stock market has historically trended up and they take advantage of the slow and steady profits the market will return. With those profits, they reinvest their earnings in order to take advantage of compound interest and accelerate their net worth.

Investors also think differently about the assets they are purchasing. A stock trader is simply trying to buy something cheap and flip it for more money in a matter of days or even minutes. An investor knows that the market is too complicated and does not act rationally in the short-term, and is too difficult to predict. But they do know that great

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companies provide great shareholder value, so when an investor buys stock they feel they are buying a company. They view their purchase as owning a piece of the business.

Investors are buying something they believe has strong leadership, a great business plan and a competitive edge that will continue to increase corporate earnings for years to come. These companies, in turn, will provide shareholders with a profit by returning dividends and an increase in company value, both which will contribute to increasing an investor's net worth.

But it's easy even for an investor to get caught up in the hype of a hot stock or quick profit now and again and start to act like a stock trader. Investors have to remind themselves what their ultimate goals are and refer back to their investing rules.

As an investor, the most important thing is to protect oneself from losses. When they start to act like a trader to make a quick buck, investors put themselves at too high a risk of losing money. Just think, if you lose 50% in a trade, it will require a 100% profit in another just to break even. These percentages should be too much risk for an investor, who is generally careful to protect his/her downside. One temptation to ignore their investing rules and act like a trader can greatly impact their overall investment returns.

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Mistake #4 – Letting the Media Influence Decisions

The stock market is partially driven by emotion. Many investors would say in the short-term the market is entirely driven by investor psychology. People hear a stock tip about an upcoming earnings report, and they race to get in before everyone else does. An earnings report disappoints Wall Street and the stock drops 10% in after-hours trading, which keeps investors up all night in a panic and they immediately sell first thing in the morning.

While psychology ends up being the primary driver for decisions for individual investors, the assets you buy should not be an emotional decision. This is why it is imperative for investors to create a strategy with specific rules that they can stick to.

However, the media loves to drive this emotion. There are television stations dedicated to the up-to-the-minute movements in the market, rumors and other current events. This coverage keeps viewers glued to the television, which drives advertising revenue.

Notice, though, the pundits that report financial news are not always professional investors. Furthermore, you never get straight answers. The media will interview multiple experts about current economic conditions and how to play the stock market, and every "expert" will contradict the previous expert's recommendation. As a result,

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viewers over think and begin to worry about the worst case scenario and frantically check their portfolio to watch their positions move tick by tick.

The market and the future is unpredictable, so all the media is doing is creating panic or excitement that drives the short-term movements. Ironically, the short-term movements in the market have very little or no relevance to long term investing. The only thing that matters to investors is that over time the stock market increases in value.

The media may provide relevant information to the short-term day trader who is trying to capitalize on investor psychology, but for the most part very little should cause a long term investor to act today. Therefore, to avoid letting the news influence your investing decision, ignore media influence as much as possible, remind yourself why you purchased the equity in the first place and ask if those same reasons still exist.

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Mistake #5 – Taking Too Much Risk

Losing money is the only thing keeping investors from creating wealth. Sounds obvious, but many investors don't pay attention to this mistake. As Warren Buffet so eloquently put, "The first rule of investing is don't lose money. The second rule is don't forget rule number one."

When you lose money, it takes twice as much money just to get back to break even. For example, if an equity loses 50% in value it will require a 100% increase just to get back to break even.

When you take substantial risks, it's not unusual for your asset to decrease 50% in value, but gaining 100% is far more unusual. While the dividends and earnings from your winning stocks can be reinvested in order to take advantage of compound interest, your losers also compound and quickly eat away any gains you achieve in other investments.

No one is immune to losing money, but when investors put themselves in too much danger of losing money, those losses compound. But all investors seek to make money, which is why they take some risk. In order to accumulate great wealth, it is necessary to protect the downside by investing in what appears to be as close to a sure thing as possible.

Bottom line, Investors should stick to their rules and not stray from their investment strategy.

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Mistake #6 – Failing to Readjust Portfolio

There is a good reason why financial advisors stress having a balanced, diversified portfolio – because you will always have losers. By being adequately diversified in the proper asset classes, you balance your risk and reward by distributing your funds in a way that are in line with your financial goals.

Depending on your age, risk tolerance and investment horizon, there are recommendations on how you should divvy up your capital. According to Bankrate.com, the following is what a typical asset allocation may look like based on your age:

Investment allocation by age					
Age	20-39	40-59	60-69	70-79	80+
Bonds	0%	20%	40%	70%	80%
Growth & income funds	55%	45%	35%	20%	10%
Mid-cap funds	15%	15%	10%	0%	0%
Small-cap funds	15%	10%	5%	5%	5%
International funds	15%	10%	10%	5%	5%

As some asset classes will earn more than others, over time your portfolio will become unbalanced and require you to make adjustments to get back on track.

Likewise, if your investing rules are to have $1,000 in shares spread across 5 stocks, your portfolio will also require some maintenance. As a result of some stocks increasing in value and others

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decreasing, you may need to sell where you experience gains in order to buy more shares that are experiencing loses and are still great stocks to own.

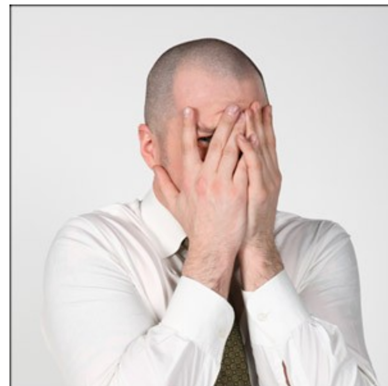
These steps are often ignored, but should be a vital part to your investing strategy in order to maintain a balanced, protected portfolio.

Mistake #7 – Denying Defeat

When an investment doesn't go the way it was intended to, investors often make a big mistake of holding on to their losers in hopes that they will rebound. This should not be the case, as the investor's rules should have a clear exit strategy for both winning and losing positions.

Nobody wins all of the time, and admitting that you were wrong can be a tough thing to do. If an investment goes south, it's important to ask why and re-evaluate the position by asking:

- Was something overlooked and you inaccurately valued the stock?
- Did something change fundamentally, such as a change in management, decrease in sales because of a new competitor, or a change in laws?
- Is this just a short-term reaction that provides an even greater opportunity?



How you decide when enough is enough is up to you. There is no perfect answer as to when to sell a losing stock. Some financial planners recommend a loss of 10% in value, others use a dollar amount or a percentage of total capital. If you use technical trading system, you will have certain indicators that alarm you to sell your position, such as when the stock falls below a 30 day moving average.

If you decide that this is no longer something that you would like to invest in, cut your loses. You're better off taking the funds you are able to recover and investing back into an equity that will make you money rather than watching it continue to fall in value. Don't let your ego get in the way of your investing decisions.

Mistake #8 – Improperly Valuing Investments

Just because a market takes a sudden dip doesn't mean the investment is all of a sudden a bargain buy. This goes for both real estate and equities markets.

Stocks, for example, have been on a bull run since 2002, but at the end of 2007 and the start of 2008 a great deal of volatility occurred. Technology stocks, among others, took a beating. While technology stocks have significantly decreased at the time this special report was published, they are cheap relative to where they were a year ago. This does not necessarily make them a no-risk investment. Cheap stocks can always get cheaper. There is still plenty of room for these stocks to fall in order to be rationally valued.

Just remember that because there is some instability in the market, that doesn't mean it serves as an immediate buying opportunity for cheap stocks. It would, however, be worth determining a suitable entry point and keeping a close eye on, but don't jump in just because prices are down from yesterday's highs.

Secondly, past performance should not be an indicator of future performance when picking stocks or mutual funds. While a history of providing shareholders with great returns is an important factor when selecting equities, it by no means guarantees future results.

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Mistake #9 – Acting on Stock Tips

Think about this: A friend has a tip from another friend who works for a company that is about to report a very strong earnings report. He urges you to jump on the stock in order to make a pile of money on a "sure thing."

The recommendation sounds tempting. You toss and turn all night as you think about how much money you can make if your friend is right. In the morning you decide instead of just buying the stock, you'll buy 100 call options and make 10 times the amount of money you would with a stock.

Obviously this decision has a few problems. For one, it constitutes insider trading, which is illegal. Secondly, it violates any rules of protecting your downside by not doing your own research first and determining if this is a company worth owning.

Maybe most importantly, what does your friend know about investing? Is he qualified to be giving you expert financial investing advice? Why are you trusting your money on a tip?

Avoid listening to the wrong people who are not qualified to be giving you advice, do your own due diligence, and stick to your rules. If professional investors cannot accurately predict the direction of the market, chances are your friend is not capable of giving you advice.

Similarly, just because an analyst suggests that a stock is overvalued during a television interview, this is not a good enough reason to run out and sell the stock. As stated in Morningstar.com:

> Any stock you read about in a newspaper, hear about on CNBC, or learn about in a column like this one deserves further investigation before committing your own money. Why? First of all, it's your money, and second, how are you going to know when to sell? You certainly can't rely on that smart pundit to reappear in your favorite financial magazine and

tell you it's time to get out. You have to know the company well enough to make that decision for yourself.

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Mistake #10 – Timing the Market

Because the stock market is a result of company earnings and forecasts, investor psychology, and the institutional house's ability to move markets in a particular direction with enormous positions, the stock market cannot be predicted accurately. You may be lucky and make an accurate prediction once in a while, but you can also hit black jack at any table in Las Vegas.

Trying to time the market is a loser's game, and for the long term investor it should be an irrelevant concept. As an investor your focus should be to regularly invest in a well diversified portfolio. By regularly investing you take advantage of the market fluctuations by buying more shares when the market goes down, and being a part of the winning crowd when it reverses. This is known as, "dollar cost averaging."

Market timing does not have a place in the wealth equation. The only thing worth timing is to be in the stock market, because over time history proves that it will only go up. That's the only way to outsmart the market.

Conclusion

Wouldn’t it be awful to see the hard earned money that you put to work in order to make more money go to waste? What if you lost your money because you foolishly ignored some of the basic principles of investing? That might be a heck of a disappointing experience.

This happens all of the time, and not just with amateur investors. The investing mistakes listed in this report are common among seasoned professional investors and amateurs. The money managers that you seek advice from and trust with your money are also making these mistakes. Unfortunately in those cases it is with your money, not theirs.

Learn to avoid these mistakes and firmly stick to your investing strategy, and you will produce respectable returns on your investment. Regularly fall for these mistakes during your investment careers, and you will put your retirement account and lifetime savings at great risk.

To receive more reports and information on building wealth, subscribe to *In the Money* newsletter and receive a free copy of Money Matters for All Ages – a complete guide to investing from birth to retirement.

About the Author

Ryan Taylor runs Millionaire Money Habits, a personal finance website that discusses building wealth and retiring rich by developing the habits of self-made millionaires.

Ryan is also the founder of The Wealth Gang, an army of highly successful internet entrepreneurs. Readers of this special report can join TWG free and receive 30-days of personalized, high intensity training on how to build an automated online business. Create the ultimate wealth producing business by joining The Wealth Gang now!

Disclaimer

Nothing in this document constitutes financial advice, but rather general information and the personal opinion of the author. Please do your own research and consult with a certified financial planner before embarking on any investment endeavors.

Resources

Zecco - Commission-free stock trades

Doubling Stocks – Automates stock trading system

Forex Killer – Automated analytical forex software

Power Option Strategy – Options system with 82% success rate

Foreclosure Secrets – Real estate investing course

Morningstar.com – Investment research

SmartMoney – Personal finance news and tools

Bankrate.com – Rates, quotes and calculators

The Motley Fool – Stock investing advice

Moneychimp.com – Investing education

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