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Principal

10 Common Investor Mistakes

This guide, prepared by Robert Higgins, highlights investor common mistakes and biases. Emotional investing does not usually lead to a positive outcome. An important part of emotional maturity is learning to see yourself as others see you. In investing, it helps to know what to look for. Here is a checklist to get you started.

1. **Know Thyself.** According to the Suda, a tenth century encyclopedia of Greek culture, “the proverb is applied to those whose boasts exceed what they are,” and “know thyself” is a warning to pay no attention to the opinion of the multitude.” The last part was popularly rephrased by Warren Buffet in his timeless advice, “to be fearful when others are greedy and greedy when others are fearful.”
2. **Selective Memory.** I recently heard a good friend comment that he had never made an investment that lost money. Wow! That might be true. If so, we could probably assume this person hasn't done a lot of investing or suffers from selective memory. We tend to forget about our mistakes while successes grow in our minds like fish stories.
3. **When something seems obvious,** take heed. Much like the current moving you along the shore, it might not be obvious while you are enjoying the company of those being swept along with you. But pay attention to fundamentals which are relatively fixed, like a lifeguard stand on the beach. A healthy aversion to “hot tips” will serve you well.
4. **Lack of Sell Discipline.** Have you ever said, “I don't want to sell that one. It's been doing so good!” I advised a client to lighten up on a big bank stock holding before the financial crisis in 2007, and that was the response. I didn't see the crisis coming, but my analysis suggested there was little upside likely, and the position was too large (more than 10%). Repeat: emotional investing contributes to bad outcomes.
5. **Anchoring.** Frequently expressed in terms like, “I don't want to sell until it gets back to where I bought it.” Selling makes a loss real seem real, as if the loss does not exist if they hold the position. This is delusional. Selling simply frees funds so they can be redeployed appropriately based on current circumstances and information. Ask yourself, “Would I buy this stock today?” If not, the converse suggests you might consider selling.
6. **If my portfolio were all cash** when I woke up this morning, how would I invest? If current holdings do not resemble your ideal holdings, that's an issue. If you don't know the difference, we can work on that, too.

7. **Don't Wait.** There is always a good reason not to invest. Turn off the TV. Negative news sells. By the time you hear the news, it is probably already priced into the market.
8. **Maintain an Allocation** that makes sense for your situation. Keep track of it, and compare it to your portfolio over time as valuations change. Consider rebalancing once a year, or as otherwise warranted.
9. **Don't Compartmentalize.** Money is fungible. You can place assets in account types to minimize tax drag. Investing with multiple financial professionals is not further diversification; it often fractures your strategy such that no one is managing the big picture.
10. **Diversification** didn't go out of style. As macro risks recede, diversification should serve to reduce volatility.

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Diversification does not protect against market risk. No strategy assures or protects against loss. Stock investing involves risk including loss of principal.