



## LIFE + MONEY

# 9 Common Mistakes Investors Make

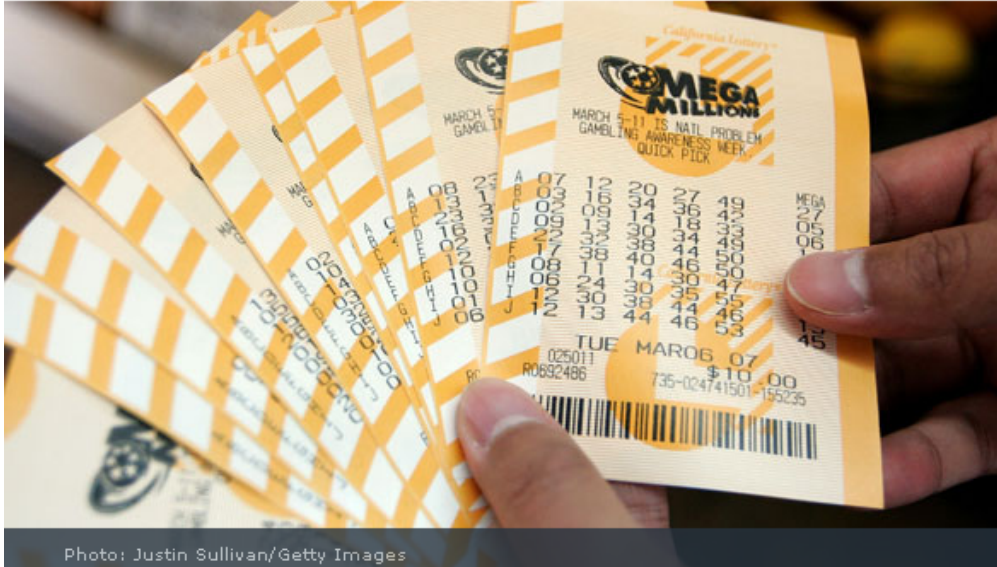


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By ANNE BRENNAN, The Fiscal Times

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**Investing** sounds so simple: Buy low, sell high, make money.

But just like the odds of betting against the house in Las Vegas, if it were that easy, everyone would be [millionaires](#).

Right now, Wall Street is having the equivalent of a bargain-basement sale (just look at Warren Buffett's buying spree), but investors feel safer buying stocks such as Apple at premium prices, explains financial planner Benjamin C. Sullivan of Palisades Hudson Financial Group in Scarsdale, N.Y. It's irrational. But paying top dollar is just one example of [mistakes naïve investors make](#). There are plenty of others, according to [financial experts](#).

"The end goal is to increase your balance. If you're losing money over decades, you're not doing something right," says Jay Ferrara, economic strategist and investment officer of Farmers and Merchants Trust Company in Long Beach, Calif. "Saving cash is a valuable strategy."

Here are 9 common investing mistakes:

**1. Failing Finance 101.** Do your research before you start investing, says Stanley Crouch, chief investment officer at Aegis Capital in New York City. “Investors need to take responsibility for themselves. You don’t need to be a hedge fund manager,” he says, but you do need to know the basics. Crouch started his financial career with degrees in economics and math. But looking back, he says he “was naïve about everything. Experience is huge part of teaching yourself, making mistakes.”

The average investor hasn’t done a good job teaching himself the fundamentals, things as basic as understanding what a stock is, financial planner Sullivan points out. Brushing up on finances is as easy as spending an evening researching financial websites, Crouch says, or better yet, talking to a financial planner.

**2. Not trusting your gut.** “It’s common sense, at the end of the day,” Crouch says. “Even Warren Buffett invests in things he understands.” Buffett has famously put his money into Dairy Queen (ice cream), Fruit of the Loom (underwear), and Burlington Northern (trains) – to name a few of his investments. (His announcement this week that his investment vehicle, Berkshire Hathaway, has taken a 5.4 percent stake in IBM represents a departure from “a long-held aversion to technology stocks,” *The Wall Street Journal* said.) But investing in what you understand and relying on gut instinct goes beyond picking stocks. If your financial planner or stockbroker is taking you in directions that make you uncomfortable or raise red flags, you should speak up.

**3. Being too scared to invest.** Wall Street makes investing appear mysterious, say many of the financial pros. “I think that’s the goal of Wall Street – to make it sound like you need a PhD to be successful,” Ferrara says. Know your strengths and weaknesses before deciding how to manage your finances and learn from your mistakes. But risks are inherent in investing – you need to be comfortable taking them.

**4. Not understanding diversification.** Even bankers are susceptible to this – thinking that by investing in several banks they are diversifying, Sullivan says. Investing predominantly in your company’s stock puts all your eggs all in one basket and is generally considered a risky route to take. When the stock falls suddenly, you have no other investments to offset the losses.

**5. Trying to outsmart the market.** A lot of people try to time the market, buying low and selling high, Sullivan explains. Ironically, investors often wait until the market is trending up to buy. Across the board, experts say timing the market is a bad idea.

**6. Not having a system to track investments.** Beginning investors may think that after buying a stock(s) or investing in a 401k, they can settle back and let the money roll in. You need to have a system, a philosophy that works for you. Something as basic as reviewing 401k statements is a task the average investor doesn’t do. “They forget about it,” Ferrara says.

**7. Focusing on the U.S. market.** Many American investors fail to consider global markets. A strong U.S. stock could still be affected by foreign influences, Sullivan says. Investors need to widen their scope beyond Wall Street.

**8. Not understanding the history of the market.** “This is an unprecedented time in history. We say to all our investors: reduce speculative risk and increase certainty,” Crouch says. Traditional investing strategies, such as buy and hold, were for long-term goals such as funding retirement. Even the idea that you need to be heavily invested in the market, for example, is not always true these days, Ferrara says.

**9. Following “hot tips.”** From the neighborhood dentist to the financial talking heads on TV, it seems everyone is an expert. Many stock tips are bogus. Even if the tip is legit, there may be trouble ahead. “If you somehow get a tip that is based on accurate information from someone close to the company, you may be found guilty of insider trading, Sullivan says. “Your cell is unlikely to be as nice as Martha Stewart’s.”