



## The 7 Worst Mistakes People Make With Their Investments

by Nalini Indorf Kaplan

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## The 7 Worst Mistakes People Make With Their Investments

Sadly, more often than not, people make costly investing mistakes.

These mistakes add up to serious money that should be in people's portfolios but it's not.

I purposely chose to focus on the worst ones—meaning those that cost you the most money and emotional energy. There are certainly other mishaps. But I'll save those for future blog posts.

### **Mistake #1 - Thinking more about what's for dinner than about your investment plan.**

Strangely, many people don't think about how to make an investing plan – unless some tragedy strikes in their lives, which forces them to make dramatic intentional changes to their finances.

Over the years, I've discovered that there are two primary reasons people don't think about creating and sticking to an investment plan.

Either they don't know how or they think, "I have time...I can do it later once I have some money to invest." Both of these reasons are simple to address. You can start *today* by writing down a single goal—what you want from your life—what kind of money it will take and then estimate the amount of time to reach your goal. By committing your goal to paper, you've taken a step most people never do.

### **Mistake #2 – Not understanding risk and how to manage it.**

What is risk? Risk is uncertainty...most often thought of in terms of potential for loss. Before plunking down a single dollar, you should assess the ranges and kinds of risk a particular investment has.

Risk management is essential to investing successfully. People tend to fall into one of two categories when it comes to risk. Either they take way too little or way too much. The financial services industry doesn't help in that it promotes survey after

survey trying to gauge a person's tolerance for risk.

Your personal tolerance for risk doesn't matter. What matters is how best to reach your investment goals through your investment strategy for the lowest level of risk that gets you where you need to go.

**Mistake #3 – Being swayed by investment newsletters, tips and your friends.**

Let me ask you something. If someone claims to teach you how to make 25% on an investment, do you really think it's for real? Why would they be hawking their program to you? Wouldn't it be better for them to simply invest quietly and make a fortune?

Stick to academically based principles and proven strategies and forget your friends' stories of how great their portfolios are doing. Chances are, they are only telling you about the winners, not their overall portfolio returns. The same is true for most newsletters.

It's a sad fact that most people don't do as well as the market averages. You can do well by investing in index-based mutual funds and exchange-traded funds (ETFs). You come out better than 80% of investors out there if you do.

**Mistake #4 – Not participating in a 401(k) plan or IRA.**

The US Government provides for amazing investment accumulation through 401(k) plans and IRAs. Moreover, if you work for a company, you probably benefit from your employer matching part or even all of your money that you're putting away for retirement.

Almost everyone can contribute to an IRA – either a traditional one or a Roth. Talk to your tax advisor to get guidance on which plan is right for you.

These plans allow you to put in pre-tax dollars and have them grow on a tax-deferred basis. You'll pay the tax man eventually—when you begin withdrawing the money.

If you've not taken advantage of these vehicles, you are quite literally mortgaging your future.

**Mistake #5 – Buying and selling individual stocks, instead of index funds.**

Here's a radical thought. Most humans have no business buying individual stocks...none!

Why not? Because, as William Bernstein, noted investment advisor and author, states simply, "Human beings cannot pick stocks. Period."

All evidence points to the human inability to predict stock returns. Plus, there's too much risk when you buy a single stock or even a small basket of stocks. No one can say if and when terrible things happen to companies that cause their stocks to lose value or even become worthless. Companies lose money, executives go to jail, foreign governments seize assets and do other nasty things.

Here's what to do instead. Buy the whole market. Buy index funds. Do the research and talk to your investment advisor. Ask about

investment returns. Make sure you look at long cycles – 10, 20, 30 years.

**Mistake #6 – Not taking advantage of the power of asset allocation.**

Most people don't bother with understanding asset allocation. That's a shame because it accounts for 91% or more of a portfolio's success.

The reason people don't bother is because it takes work.

What is asset allocation? It's the principle of spreading your investments across several kinds of investments – investments that move to different market rhythms and cycles. By spreading your investments, you manage your risk better.

You may have seen questionnaires meant to gauge how much of your money you should have in stocks versus bonds. They're peddled by banks and brokerage firms who are often quite keen to push their products as the "perfect solution" for

you, whether you need them or not. Place no stock in these questionnaires. They are overly simplistic and dangerous because they give the illusion of certainty.

Asset allocation is an area worthy of your attention and study. You can find excellent material by studying the books and articles of William Bernstein and Roger Gibson (in addition to my passionate rantings on this essential subject).

**Mistake #7 – Buying and selling from an emotional place, instead of according to your investment plan.**

This is perhaps the biggest mistake people make. Acting emotionally causes people to pile on the bandwagon thinking they can make a quick buck. It's the same energy that you see when investors panic and sell when things seem to be sinking faster than the Titanic.

This behavior is perfectly understandable because most people have no plan, no strategy for what to

do when the markets get rough, no anchor to steady themselves. But this behavior has tragic consequences nonetheless. The lesson here is to prepare, rather than let your emotions take over.

Start today. Commit to learning what you'll need to create your own investment plan. Study proven investing principles, dig in and research the methods that work.

For more information on financial and investing topics that matter to you the most, visit [www.10MinuteInvesting.com](http://www.10MinuteInvesting.com) and check out the 10 Minute system.

Join the 10 Minute Investing community where people empower themselves to make better investment decisions. Email me with your questions and comments. You can reach me at [Nalini@10MinuteInvesting.com](mailto:Nalini@10MinuteInvesting.com).

To your investing success,



Nalini