10 Investing Mistakes to Avoid

Who needs a pyramid scheme or a crooked money manager when you can lose money in the stock market all by yourself? If you want to help curb your loss potential, avoid these 10 practices.

1. Go with the herd. If everyone else is buying it, it must be good, right? Not necessarily. Investors tend to do what everyone else is doing and are overly optimistic when the market goes up and overly pessimistic when the market goes down. For instance, in 2008, the largest monthly outflow of U.S. domestic equity funds occurred after the market had fallen over 25% from its peak. And in 2011, the only time net inflows were recorded was before the market slid over 10%.[1]

2. Put all of your bets on one high-flying stock. If you had invested your money in today's popular tech stocks fifteen years ago, your portfolio is may be looking good right now. But what if instead, you had invested in Enron, Conseco, CIT, World-Com, Washington Mutual, or Lehman Brothers? All were high flyers at one point, yet all have since filed for bankruptcy, making them perfect candidates for the downwardly mobile investor.

3. Buy when the market is up. A basic principle of investing is to buy low and sell high, even though most investors do the opposite. Make sure to have a strategy when investing and that you are not following the latest investment craze or fad.

4. Sell when the market is down. The temptation to sell is always highest when the market drops the furthest. And it's what many inexperienced investors tend to do, locking in losses and precluding future recoveries.

5. Stay on the sidelines until markets calm down. Since markets almost never "calm down," this is the perfect rationale to never get in. In today's world, that may mean running the risk of not keeping pace with inflation.

6. Buy on tips from friends. Who needs professional advice when your new buddy from the gym can give you some great tips? If his stock suggestions are as good as his abs workout tips, you can't go wrong. Think again.

7. Rely on the pundits for advice. With all the experts out there crowding the airwaves with their recommendations, why not take their advice? But which advice should you follow? And remember that what pundits sell best is themselves.

8. Go with your gut. Fundamental research may be OK for the pros, but it's much easier to buy or sell based on what your gut tells you. Had problems with your laptop lately? Maybe you should sell that company's stock. When it comes to hunches, irrationality rules.

9. React frequently to market volatility. Responding to the market's daily ups and downs gives you the potential to lock in losses. Even professional traders sometimes miss on predicting the market's bigger shifts, let alone daily fluctuations.

10. Set it and forget it. Ignoring your portfolio until you're ready to cash it in gives it the opportunity to go out of balance, with past winners dominating. It may also make for a misalignment of original investing goals and shifting life-stage priorities.

Footnotes/Disclaimers

Source/Disclaimer:

[1]Sources: ICI; Standard & Poor's. The stock market is represented by the S&P 500, an unmanaged index considered representative of large-cap U.S. stocks. These hypothetical examples are for illustrative purposes only, and are not intended as investment advice.

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