Lansdowne Wealth Management, LLC
Retirement Wealth Advisors

Nine Common Mistakes Investors Make

We see some of the same mistakes repeated over and over again by ordinary investors…

Mistake No. 1:
Looking for a 'magic bullet'

Many investors look for the “best” mutual fund thinking that there must be a handful of funds that can bring the desired return. In fact, each mutual fund focuses on very specific types of investments, such as large company stocks, small company stocks, government bonds, etc. In any given year, any one of these market sectors could do well or poorly. Investors may want to use a mix of different types of funds. This is called asset allocation. Many mistakenly believe that asset allocation is designed to provide greater returns. That's simply not true. Its goal is to reduce volatility risk. Smoothing things out can make it easier for investors to ride out market turbulence, and avoid major portfolio losses.

Don’t be lured in by historical performance – do your due diligence to make sure exceptional results are repeatable.

Mistake No. 2:
Getting out when markets drop

Market declines are inevitable. However, despite all the advice about "staying the course," many investors sell out of their stock position during market declines, often *after* the decline has bottomed out. Somehow they believe that they can sit on the sidelines until the markets go back up again and then jump in. The problem is that we become aware of market declines and market surges only after they have happened – when it's too late to do anything. Following the market decline of 2008, investors sitting on the sidelines from March through December of 2009 missed one of the largest market rallies in history. It's tough to know when to get out and just as tough to know when to get back in.

Mistake No. 3:
Stopping contributions when markets are dropping

For the long-term investor, there really is no better time to be adding money to investment accounts than when they are down in value. Although we know that past performance can't guarantee future results, long-term investors have the potential to benefit by continuing to purchase during market declines, reaping rewards later if the values return. This works best when the investor is using mutual funds or other broad collections of securities.

Portfolios may perform well when the economy appears to be in distress, and vice-versa. All investment returns are not directly tied to the U.S. economy.

Mistake No. 4:

Confusing the stock market with the economy

The economy is the sum total of all the economic activity in the country: jobs, business profits, debt, consumer spending, and lots of other factors. The stock market represents the perceived value of stocks of individual companies. Companies can make money during recessions. Profits affect the perceived value of a company, and so stocks can rise during recessions. Just because the economy is slow to recover, that doesn't mean the stock market will be. Investors have to realize that the stock market and the economy are two entirely different things.

Mistake No. 5:

Paying too much attention to the media

The almost constant onslaught of news about the markets and the economy can cause investors to focus on short-term data that really doesn't have anything to do with their long-term performance. There is always a crisis somewhere that affects the markets, but in the long run, the markets will for the most part reflect business profits of companies. Just make a list of all the worries and predictions made by the talking heads over the course of a week, and then see how many of those issues are talked about six months later – or six days later. Investors need to stay focused on their long-term plan and not be scared out of the market by short-term events. Remember: media exists to sell advertising – sensationalism sells.

The media is not your friend. They are there to sell advertising. Very few media "pundits" have actual experience in finance.

Mistake No. 6:

Choosing an investment simply by historical returns

Investors often select mutual funds in a retirement plan or investment account based on how they performed over the past year or several years. There are many reasons why this mistake keeps happening. First, that superior performance may have been due to certain stock selections that just happened to be really profitable, or a particular market condition that no longer exists. That's now in the past, and is no help for the future. Additionally, the manager who did all that great stock-picking may have left the fund for a better deal somewhere else based on their great performance. So a fund's track record alone isn't enough. Investors need to consider what type of stocks the fund invests in, who the managers of the fund are, what the expenses of the fund are, the style of the fund, and what the stipulations of the fund are in the prospectus.

Remember: the financial conditions that existed when a particular investment performed well may no longer exist today.

Mistake No. 7:

Not having a goal

Ask any number of investors what rate of return they expect on their investments, and their answers sound something like, "Uh, I guess I want them to grow as much as possible." This mistake creates a situation where an investor never knows if they have achieved their goal. Investors can avoid this mistake by knowing what they expect their returns to be over a certain period of time. For example, let's say that you have decided that you need your money to double in value 12 years from now. To achieve that goal, your account would need to average 6-percent growth per year. This target helps you to decide what to invest in, how to mix up your investments, and lets you know if you are on track. If you know that you are on pace for that rate of return, market declines will be much less worrisome and the urge to "get out" will be easier to avoid.

Mistake No. 8:

Getting your advice from the general trough

There are lots of people in the media handing out specific financial planning and investment advice. However, that advice is often general in nature and provided without any knowledge of a particular investor's specific individual needs, desires, or any other unique factors. Knowing any or all of these extra pieces of information might change the recommendation that is being presented on the TV or computer screen. General advice, such as the rules for contributing to an IRA account, can be very helpful. However, specific advice as to whether you should convert an IRA to a Roth-IRA requires knowledge of your individual situation.

Avoid the "Suze Orman" effect; assuming every piece of financial advice you hear on TV or in magazines is appropriate for everyone.

Mistake No. 9:

Following the herd

When markets have been rising over several years, the urge to "get in" or to put more money into investment accounts can be strong. Conversely, when markets are declining, the urge to pull out or move to cash can be even stronger. These impulses can be made even more intense when it seems that everyone else is doing them and that you might be left out of a market rally or be stuck in a market decline. Long term-investors who want to achieve their goals may want to avoid both.

Mistake No. 10:

Comparing your overall portfolio returns to the stock market

Although it is customary to use the S&P 500 or Dow Jones Industrial Average as a proxy for U.S. stock market returns, it is not a good way to compare portfolio returns. Why? Because most investors should not be entirely invested in the stock market. Just as one would not wish their portfolio to drop as considerably as the stock market when there is a major correction, they should also not expect it to rise as much in times of prosperity. This is the thesis behind asset allocation.

At Lansdowne Wealth Management, we believe the best way to achieve your long-term investment goals is to focus on a consistent and objective investment process. It is a process that should seek to avoid large losses, recognize and react to changing market conditions, and seek to provide positive returns through a complete market cycle.

To learn more about us and our investment philosophy, please see our website at www.LWMwealth.com