COMMON INVESTING MISTAKES

WAYS TO AVOID GETTING DERAILED

IT IS NOT UNCOMMON for the average investor to make mistakes. Because of those mistakes, they get below average returns. And because of those mistakes and lower returns, it makes it harder for them to pursue their long-term goals.

Whether it's retirement, education for kids or grandkids, a major purchase or charitable giving, investing has proven to be the best way to save for and fund your goals. It is like medication though and has side effects. There are fluctuations daily, and the larger those fluctuations are, the average investor is more prone to make mistakes that will derail their path to pursuing goals. In their defense, they are not typically equipped with the information or investment education they need to avoid making these mistakes.

A lot of people think that investing is very risky. It definitely can be if the funds are not earmarked as long term. In my opinion, funds should not be invested in the market if you are going to need them in the next 5 to 10 years. Over the years I have spoken with a number of people that think you can invest in penny stocks and magically the stock goes from $1 to $100 overnight, then instantly a millionaire is made and that is how the market works. This could not be further from the truth. It's kind of like thinking you go to the casino and hit a few good hands, you make a fortune. Unfortunately that is not the case either and how the big casinos with the bright lights get built. The house always wins right?

The same goes for investing. Long term investors typically win. The old saying is time in the market, not timing the market. But in order to do so, they need to prevent making mistakes the average investor makes.

First, it's important to understand that the stock market, on average, goes up 3 out of 4 years and down only 1 out of every 4 years. Therefore it is important to keep 1 years worth of expenses on hand for living expenses or emergencies. That way when the market is down the one year, you don't have to sell quality investments to raise cash for living expenses or an emergency and take a loss.

Secondly, its important to invest during the 1 in 4 years the stock market is down. Quality investments are like a tennis ball: when they drop, they tend to bounce back. Everyone loves a good sale and buying quality merchandise at marked down prices. Unfortunately, the average investor tries to run as far away from the stock market when its down and stocks are on sale. Warren Buffett Famously said that "the stock market is the only thing in the world people don't like to buy on sale." Also when buying on sale, that tennis ball (quality investment) bounces back quicker and higher.

Finally, the average investor has a hard time recognizing signals from the media. I call these short term event traps. The scarier the headlines and how bad you are told and hear things are, history has shown those to be the best time to invest. Let's take the Coronavirus for example. What are we hearing on the news right now? It's Not good. I am not discounting the virus in any form or fashion but the reality is that this too shall pass. Next month and even next year, there will be new scary headlines - that is a fact of life.

So I urge you consider this: when it comes to investing, less is more and simpler IS better. I can't tell you what is going to happen tomorrow, next week, next month or next year or what those headlines will be. I have done a lot of research on investing over the years and I CAN tell you it has always been a smart and prudent thing to do to invest during downturns. Also, the larger the downturn, the more you should think about investing. Think of the sale in your favorite store, like the market: they don't come along often, but when they do, you should take advantage and buy the quality merchandise at marked down prices.

Happy shopping!

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