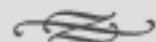
7 Biggest Mistakes Investors Make



Simple Growth Investing

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The Seven Biggest Mistakes Most Investors Make

Results don't lie. Most stock investors, if not all, have some bad habits that keep them frustrated and ineffective in the market.

What kind of results are you getting from your investing?

If you're like most people, you'd probably like to improve your investing results. One of the reasons you're not getting what you want may be that you have no plan for investing in the market. You take tips from friends or TV personalities, and you invest on "gut instinct" rather than zeroing in on a method and sticking to it.

So what habits result in better investing? The good news is: It's not that tough to change your investing habits, though it might mean giving up some of your long-held beliefs. And you'll have to accept that you absolutely won't be able to buy every stock that makes enormous price gains. No one does, and no investing system will help you spot every single huge gainer. But you can get *enough* of them to make a difference in your financial position, and in your life.

One of the reasons you're not getting what you want may be that you have no plan for investing in the market.

So let's jump in, and look at the Seven Mistakes that are preventing you from seeing better results in the stock market.

7 Biggest Investment Mistakes

One: Using too many different investing methods and styles.

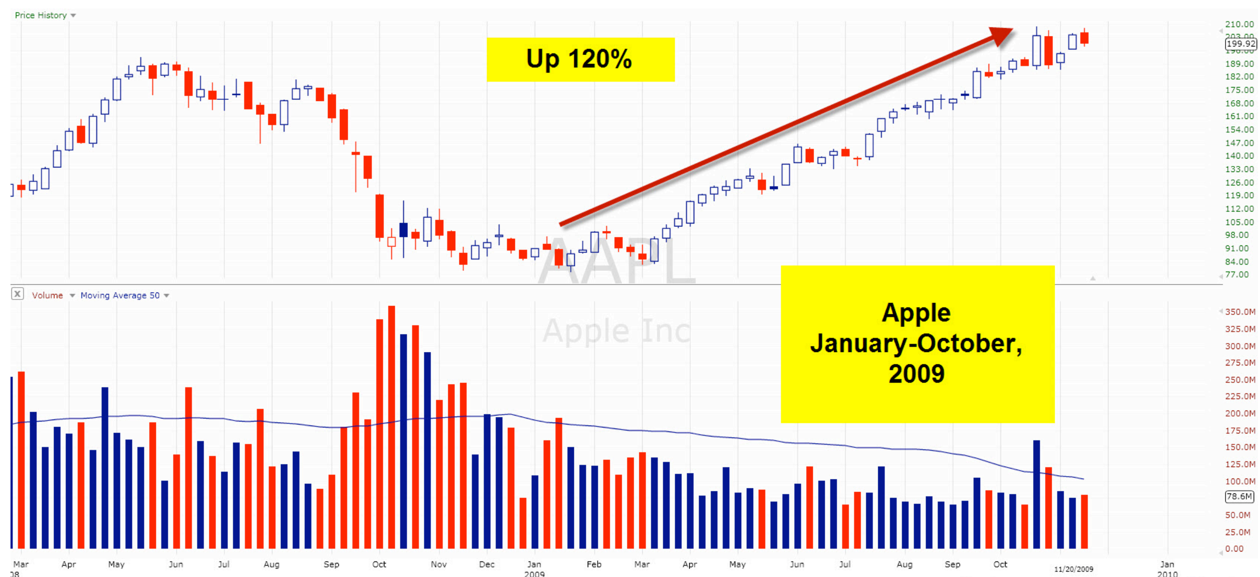
As you might have guessed by our name, Simple Growth Investing, we're growth investors. In a nutshell, that means we focus on stocks with hot new products, or an industry that's in favor now. There's something new driving sales, which in turns drives profit growth.

And when professional investors – like mutual funds, banks, insurance companies, hedge funds and pension funds – see those hefty earnings increases, they snap up shares. And what does that do? It sends the price higher.

An example of an outstanding growth stock from the past few years is Apple. That's a no-brainer: Think of the iPod, the iPhone, increased purchases of MacBooks and iMacs. As the company continued innovating and introducing great products, people kept buying. Investors caught on, and the share price kept moving higher.

Another big growth stock has been Baidu, a Chinese Internet search engine and portal. Another one that's easy to understand. As more and more Chinese citizens move into the middle class, they're using the Internet more, buying stuff online, playing games – everything people all over the world are using the Internet for. And professional investors see plenty of potential remaining for big growth in China – so they've been grabbing Baidu shares.

Stocks like Apple and Baidu (and many others) have rewarded investors with outstanding profits. Between January and October, 2009, Baidu climbed 189%. Apple rose 120% in that time.



You can find other names that have risen even more. Some of those have been growth stocks with a solid track record of sales and earnings growth. That's the kind of stocks we focus on here at Simple Growth Investing.

You might also find speculative stocks – those with no profitability and usually a very low share price – that have also scored big run-ups. It happens, no question. But in our experience, and the experience of many other successful traders, those stocks can be riskier and if you're not super careful, can lead to sudden losses.

So when we say you should decide on an investing style and stick with it, we'd recommend growth investing. We have plenty of posts and materials here on Simple Growth Investing to help you with that.

But if you do choose growth investing, don't mix it with some speculative stocks, some value investing, some long-term investing and maybe some day trading for a quick pop here and there. By mixing all these styles, you'll just dilute your focus and dilute your results.

So pick a style and stick with it. You'll develop an expertise, and you'll begin to recognize the better names, and understand when to buy and sell them.

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MISTAKES

Two: Using too many sources for investing information.

All stock information is not created equal.

Be judicious about what sources you use, and understand what they're really saying.

For example, be very cautious about reading posts on open-access stock forums. It might initially seem like these are populated by knowledgeable people, but the sad truth is: Many of the posters on online stock forums simply have no idea what they are talking about. They're struggling to get direction. They test ideas on others – who are often just as clueless. They have opinions from Mars. They get into pissing matches where nobody has any sense of what's correct.

So why would you bother? Oh, right – to get stock tips, or to validate your ideas. But seriously – don't waste your time on most stock forums. Occasionally, there's a poster who is a bit more knowledgeable, but in many cases, even the most uninformed people can make themselves sound authoritative while they're just spouting their opinions! Avoid these places. You'll get more out of an old Starsky & Hutch rerun.

Be judicious about what sources you use, and understand what they're really saying.

And never buy a stock just because someone in the media recommended it. Do you ever watch those financial TV channels that have market news throughout the trading day? If you do, pay no attention to the parade of professional fund managers who grace the screen all day, telling you "what trade works now!"

Because guess what? Another guy will be on in five minutes, telling you about *his* idea for the best trade, and it'll be something altogether different! Can they both be right? And either way, how is the strategy of a professional money manager – with hundreds of millions to invest, and a full-time research staff at his disposal – right for you? It can't be. He's operating in a different universe from yours. Ever notice how many of the fund managers on TV are touting the big-name, big-cap, widely traded stocks? That's because with tens of millions or hundreds of millions under management, they can't be jumping in and out of illiquid small caps – exactly the kind of stocks you're nimble enough to enter and exit quickly.

Fund managers strive to outperform the major indexes. That makes it too risky to hold large positions in too many thinly traded small caps. Why is that? Because smaller stocks are often more volatile than bigger, more established companies. Say Fund Manager Joe Schmoe decides to start making some purchases in Acme Widgets, which trades 300,000 shares a day. Because so few shares are available, it's probably going to be hard for Joe to get the shares he wants. His buying pushes the stock's price higher.

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But the next day, Fund Manager Jane Schmane realizes that her investment in Acme has netted her a paper profit, and she has some reasons to reallocate cash. So Jane begins unloading shares – which sends the price lower as quickly as Joe sent it higher.

That's grossly oversimplified, of course, but you get the idea. That's a big piece of the reason why these guys on TV will keep telling you why Wal-Mart (which trades about 17 million shares a day) or Microsoft (which trades about 58 million shares a day) is or is not a good idea today. They won't be talking about a little-known tech stock that is showing fantastic gains, and has excellent earnings – but only moves 300,000 shares per day.

Now, Wal-Mart and Microsoft are both great companies. I've shopped in the first one, and I'm using the operating system of the other right now! But because those stocks are so big, and so widely owned, the chances of explosive price growth are quite low. Of course, the chance of a sudden swing to the down side is also low – making the stock a safe choice for big fund managers, who have to show results better than the S&P 500 and have to prove themselves vs. other fund managers.

So by owning the widely traded big-cap stock that's trending along in a more or less sideways fashion, Joe or Jane Fund Manager avoids a lot of risk and the potential for losses. That will make his or her year-end return look better than if the fund showed some weakness due to investments in little-known, volatile, thinly traded stocks.

So all this means: Following the recommendations of fund managers on TV or in magazines is not the way you'll maximize your investment. Those recommendations are not made with you in mind, even though they'll say things like, "Here's what the retail investor [that's you!] should do." Nah. That fund manager has absolutely no idea how to recommend stocks for you. Pay no attention.

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One final thought on this topic. When one of these managers appears on TV, notice how the show host doesn't consistently ask him or her how much the fund is up or down for the year. If the fund is having a great year, you can be sure the guest will want it brought up. Usually, it comes up in the "talking points" that the fund manager's PR person has supplied to the show. But frequently, performance doesn't come up at all. Which leaves you to wonder: How *has* this fund done in the past year? Three years? Five years? If the fund has underperformed during that time, you probably won't hear about it while you're busy writing down this genius' picks. So be wary about the "expertise" of these folks who appear on television.

So it's OK to watch the financial channels to get some basic news on what's moving the markets, but never, ever watch for stock tips. (Or even worse, tips on how to be trading options. More on that a bit later.)

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