TOP 7

INVESTMENT BLUNDERS

TO AVOID

CALIBER
WEALTH ADVISORY

You can wipe out your hard-earned investment gains with a single blunder. Mistakes happen, but big, persistent mistakes can seriously hamper your ability to grow your money and reap the rewards.

The best way to prevent blunders is to anticipate them. Understanding the most common investing errors can help you make sound decisions and stick with them. By reviewing this guide, you can recognize situations that may throw off your investing plans and how to forestall them.

Let's look closely at seven investment mistakes that you should avoid.

1. Investing Without Clear Investment Goals

The number one mistake many investors make is they don't set goals. "Making money" is not a goal. You need some concrete, measurable milestones in order to set true goals.

For example, "making money" could be better stated as "achieving a 10% growth rate after inflation." The second goal is well-defined and measurable, whereas "making money" could include taking wild chances on stocks of start-up companies or keeping all of your money in a savings account accruing low interest.

A good financial adviser can help you set goals, not only for a single investment, but for your entire portfolio. By aligning your long-term investment goals with your life goals, you can create a pathway to where you want to be in the long term.

In addition, you cannot merely set a goal, create a portfolio, and walk away. You must periodically rebalance your holdings so that you have the right bend of stocks, bonds, large-cap stocks, small-cap stocks, cash, and so on.

This blend, if properly designed, will keep you on track to your goal while reducing risk as much as possible.

To look at an example, if you have an exceptional year with your stock holdings, your original allocation of 70% of your investment money in stocks could become 80% because of gains. At that point, you would be carrying more risk than you originally had and you will want to adjust your allocation across your asset classes to remain in line for your investment strategy. Rebalancing so that you only have a 70% exposure will put you back on track.

Take time to sit with your financial advisor and make a rational plan that has the highest likelihood of getting you to your investment goals. Then revisit that plan at least once a year.

2. Changing Strategies Often

Once your goal is in place, you must choose your strategy. Your investment strategy is a set of guidelines you follow to create the right mix of investments.

Don't get distracted by a shiny penny. Basically, take the time to really understand the strategy you are going after and stick to it. Changing strategies often comes from not understanding what your current strategy can do for you, and becoming anxious to move on to "the next best thing."

For example, a growth investor may seek companies that have strong balance sheets and the potential for earnings growth. Such an investor does not try to time purchases with the rise and fall of prices.

A value investor, on the other hand, looks for companies that are undervalued. The idea is to buy a good company when share prices have dropped and profit from the ensuing recovery. They time their investment decisions.

When a growth investor hears about an undervalued stock and changes strategies, there's a chance he will lose money. Determining when a stock is undervalued vs. headed for bankruptcy is an advanced skill, and is much different than choosing growth companies that are on a steady upward path. Both strategies can work, but switching between them doesn't make the investor an instant expert in the new strategy.

3. Churning Your Portfolio

"Churning" originally meant when an advisor buys and sells frequently just to generate commissions. But many investors do this to themselves. They get buyer's remorse after purchasing a stock, especially if it goes down, and ask their advisor to sell it. Then they buy something to replace it, and soon they regret that one as well. The investor in this case is not changing strategies, but is routinely changing stocks within that strategy.

Here is an example. If someone has adopted the strategy of buying small-cap stocks in hopes of boosting returns, this can be a sound decision. But buying and selling individual small-cap stocks, while technically being in the scope of the overall strategy, is deadly to the portfolio. It is often the equivalent of buying high and selling low, which is, of course, the opposite of what you want to do.

This is where a good adviser comes in. A professional can keep you from making rash decisions and remind you of why you chose the original security, and how it fits into your investment strategy.

You should also be aware of trading fees you are racking up, which could eat into your profits if not managed correctly. Additionally, remember that you are an investor, not a speculator. That means your adviser is there to keep you on the path to your long-term objectives while avoiding the emotionalism of reacting to every rise and fall in your securities.

4. Misunderstanding Your Time Horizon

Since 1929, large-cap stocks have provided a 9.5 percent return, and small-cap stocks have resulted in a 12.2 percent average gain. Past performance is not indicative of future results, but there is validity to the compounding of money. Still, this doesn't mean you can count on these kinds of returns no matter when you invest.

Your time horizon is the amount of time you expect to be in the market. For example, if you plan to invest for ten years then get out of the market, your time horizon would be ten years. Looking at the average yields for the stock market, you see that over a period of about 90 years they have gone up. But there were periods when they didn't.

The average yields are just that, an average. Stocks could be down or flat for any given period. It you buy at the beginning of that period and sell at the end, you won't make any money. The longer your time horizon, the more likely you are to meet or beat the market's returns, because the ups and downs will have more time to average out.

This is why you must make an investment plan that fits your time horizon. An experienced investment adviser can help you assess the risks and opportunities, and choose investments that are most likely to meet your goals in the amount of time you have to reach them.

5. Trying to Catch a Falling Knife

This common phrase on Wall Street refers to trying to buy shares when a stock price plummets. Yes, buying low is a good practice, but not during a selling frenzy. You could buy in too early and lose money.

A wise investor waits until the price settles down and emotions are not running so high. The stock will reach a point where everyone who wants out has sold, and then a buyer can step in and quietly pick up shares. This often works because the fear-based selling usually results in a stock being oversold, meaning its price is lower than the company's strength would suggest.

Most people make the mistake of buying a stock while it is falling fast, and they tend to lose money from the first day. The "falling knife" injures them as they try to catch it.

Remember, there are two types of stocks that tumble: 1) stocks of a good company that is being unfairly devalued, and 2) stocks of companies that are failing and may not recover.

If you are interested in buying a stock when it dips in price, notify your investment adviser of your wishes, and get some professional

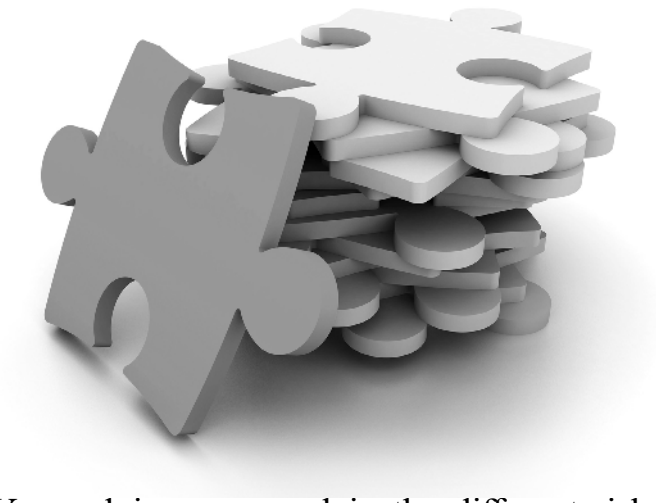
guidance to determine if it fits into your investment strategy. In the meantime, evaluate the underlying company to see if it has sound business practices and a decent balance sheet.

Keep in mind that you should follow a long-term plan, so the idea is not to buy at the rock-bottom price, but at a reasonably low price so you can hold the stock for an extended period and have some price appreciation. Only purchase a stock that fits into your entire portfolio in a logical way.

6. Diversifying Without Considering Risk

Most investors know they should hold diverse investments. So they look at many stocks to purchase, in the hopes that if one drops, the others will make up for it. But this is not really diversification.

To diversify, you and your investment adviser should look for investments that are likely to work independently of each other. For example, if you have stocks in your portfolio, you may want to consider bonds, possibly some real estate, commodities, or perhaps a mutual fund that invests in emerging markets. Each of these investments is likely to rise and fall for different reasons, so you will stand a good chance of weathering an economic storm.



Your adviser can explain the different risks for each type of investment, and recommend what percentage of each would be appropriate for your portfolio and investment goals. You don't want a collection of random holdings; you want a unified, purpose-directed portfolio.

7. Working with the Wrong Advisor

Your relationship with your advisor is one of your most important professional associations. You need someone who will carry out your wishes but will push back a bit when you are violating your own investment rules. You also need someone who listens when you express your concerns and hopes about your portfolio.

If you become concerned that your portfolio doesn't match your desires, it may be that you and your advisor have two different investment philosophies. It is your money, and you have the right to seek the best advice possible.

When you consider changing advisors, talk with potential new advisors and pay attention to how they respond to your unique financial situation and goals. If you "click" with someone, it might be time to have that person evaluate your portfolio. But do your due diligence on any financial advisor you are interested in, starting with making sure he or she is a fiduciary and fee-only advisor.

The Bottom Line

Some blunders come from not having enough information or misreading the information you do have. But the vast majority comes from emotional investing. Any time you find yourself flushed with emotion, you are on the verge of a rash decision. Cool off. Reconsider. You have time. Utilize the expertise and professionalism of your investment advisor to help keep you focused and steady. Investing is not gambling. It is a well-considered, mature approach to putting your money to work.

CALIBER
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Tom LeClaire is the Principal and a Senior Wealth Manager at Caliber Wealth Advisory based in Tampa, FL. Tom holds the CERTIFIED FINANCIAL PLANNER™ designation and graduated from Stetson University with a Master of Business Administration and Bachelor's degree in Political Science. He is also a member of the Financial Planning Association and the Financial Planning Association of Tampa Bay. Prior to starting Caliber Wealth Advisory, Tom worked for Charles Schwab & Company for nearly 10 years primarily as a Financial Consultant where he developed and maintained client relationships focusing on financial planning, investment analysis, and portfolio management. In addition to leading a team of qualified professionals, his core responsibilities at Caliber Wealth Advisory include wealth management covering financial planning, strategic investment management, and client education. Since 1994, Tom serves in the Army Guard, deployed overseas three times, and currently leads a Rifle Company as Company Commander in Leesburg, FL. Tom was born and raised in Central Florida and resides in Tampa. He is the proud husband of his wife Michelle and spends his free time with her traveling and running distance races.