Avoid These Investment Mistakes

We all make mistakes in many areas of life. These mistakes are usually fairly harmless — we took a wrong turn while driving, used the wrong ingredients in a recipe and so on. But sometimes, our mistakes can be costly — especially those connected to investing.

Here are some of the most common investment mistakes:

• *Too much buying and selling* – Some people find it exciting to constantly buy and sell investments in the pursuit of big gains. Yet, frequent trading can work against you in a couple of ways. First, it can be expensive — if you're always buying and selling investments, you could rack up taxes, fees and commissions. Perhaps even more important, though, excessive purchases and sales can make it difficult to follow a unified, cohesive investment strategy. Such a strategy requires, among other things, careful construction and management of an investment portfolio that's appropriate for your goals, risk tolerance and time horizon. Heavy trading can disrupt this strategy.

• *Failing to diversify* – If you only owned one type of asset, such as growth-oriented stocks, your portfolio could take a hit when the financial markets go through a downturn. But not all investments will respond the same way to the same forces — for example, stocks and bonds can move in different directions at any given time. And that's why it's usually a good idea to own a mix of investments, which can include domestic and foreign stocks, bonds, certificates of deposit (CDs) and government securities. Keep in mind, though, that while diversification can help reduce the impact of market volatility, it can't guarantee profits or protect against losses in a declining market.

• *Trying to "time" the market* – "Buy low and sell high" might be the original piece of investment advice, but it's pretty hard to follow — because no one can really predict when an investment will reach "low" or "high" points. Also, trying to "time" the market in this way can lead to bad decisions, such as selling investments whose price has dropped, even if these same investments still have good business fundamentals and strong prospects.

• *Not understanding what you're investing in* – If you don't know the nature of investments when you buy them, you could set yourself up for unpleasant surprises. For example, some companies, by the very nature of their business and the type of industry they're in, may consistently pay dividends to their investors even though their stock prices may only show relatively modest price gains over time. If you bought shares of this stock, thinking it had the potential to achieve quite substantial appreciation, you might end up disappointed.

• *Making the wrong comparisons* – You're no doubt familiar with some of the most well-known investment benchmarks — the S&P 500, Dow Jones Industrial Average and the Nasdaq Composite. But it might be counterproductive to compare your results against these indexes. If you have a diversified portfolio, you'll own an array of investments that won't fit into any single index or benchmark, so you won't get an apples-to-apples comparison. You're better off comparing your portfolio's performance against the only benchmark that really matters — the progress you need to make to help achieve your goals.

Investing will always have its challenges — but you can help make it easier on yourself by staying away from as many mistakes as possible.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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