



THE WHITE PAPER

Strategies for Managing Your Assets

February 2016



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Ten Investment Mistakes to Avoid

Who needs a pyramid scheme or a crooked money manager when you can lose money in the stock market all by yourself. If you want to help curb your loss potential, avoid these 10 strategies.

1. **Go with the herd.** If everyone else is buying it, it must be good, right? Wrong. Investors tend to do what everyone else is doing and are overly optimistic when the market goes up and overly pessimistic when the market goes down. For instance, in 2008, the largest monthly outflow of U.S. domestic equity funds occurred after the market had fallen over 25% from its peak. And in 2011, the only time net inflows were recorded was before the market slid over 10%.¹
2. **Put all of your bets on one high-flying stock.** If only you had invested all your money in Apple 10 years ago, you'd be a millionaire today. Perhaps, but what if, instead, you had invested in Enron, Conseco, CIT, WorldCom, Washington Mutual, or Lehman Brothers? All were high flyers at one point, yet all have since filed for bankruptcy, making them perfect candidates for the downwardly mobile investor.
3. **Buy when the market is up.** If the market is on a tear, how can you lose? Just ask the hordes of investors who flocked to stocks in 1999 and early 2000 -- and then lost their shirts in the ensuing bear market.
4. **Sell when the market is down.** The temptation to sell is always highest when the market drops the furthest. And it's what many inexperienced investors tend to do, locking in losses and precluding future recoveries.
5. **Stay on the sidelines until markets calm down.** Since markets almost never "calm down," this is the perfect rationale to never get in. In today's world, that means settling for a miniscule return that may not even keep pace with inflation.
6. **Buy on tips from friends.** Who needs professional advice when your new buddy from the gym can give you some great tips? If his stock suggestions are as good as his abs workout tips, you can't go wrong.
7. **Rely on the pundits for advice.** With all the experts out there crowding the airwaves with their recommendations, why not take their advice? But which advice should you follow? Cramer may say buy, while Buffett says sell. And remember that what pundits sell best is themselves.
8. **Go with your gut.** Fundamental research may be OK for the pros, but it's much easier to buy or sell based on what your gut tells you. Had problems with your laptop lately? Maybe you should sell that IBM stock. When it comes to hunches, irrationality rules.
9. **React frequently to market volatility.** Responding to the market's daily ups and downs is a surefire way to lock in losses. Even professional traders have a poor track record of guessing the market's bigger shifts, let alone daily fluctuations.
10. **Set it and forget it.** Ignoring your portfolio until you're ready to cash it in gives it the perfect opportunity to go completely out of balance, with past winners dominating. It also makes for a major misalignment of original investing goals and shifting life-stage priorities.

¹Sources: ICI; Standard & Poor's. The stock market is represented by the S&P 500, an unmanaged index considered representative of large-cap U.S. stocks. These hypothetical examples are for illustrative purposes only, and are not intended as investment advice.

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