Worst Investing Mistakes

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As more and more folks were forced to sit at home during the height of the pandemic, more and more took up online trading and investing. Unfortunately, along with more investors, we have seen more and more investing mistakes from the likes of naïve, new Robinhood investors. The sorts of mistakes made by many of these new investors are not new to the investment world. As such, we present our list of worst investing mistakes to help our readers from falling prey to habits that ruin otherwise successful investing.

Delaying the Start of Investing

The US stock market has been a money making machine for more than a century. Although some investors hit home runs with lucky stock choices the majority of investors make money a bit at a time over many years. Like putting money in the bank to gain interest, putting money in the stock market provides returns over the years. The difference is that stocks rise and fall on their way up and provide a better rate of return over the years than money in the bank. The exponential growth provided by stocks provides a higher rate of return and more rewards the longer you stay invested. Thus, delaying the start of investing is generally a mistake.

Investing Money You Will Need Right Away

Investing is meant to build a rainy day fund, money for retirement, or capital for investing in your own business. It is not meant to be invested and immediately taken out. In fact, it is absolutely possible to invest in an excellent stock and see it fall briefly because of conditions in the larger market. When you start investing, make sure to keep enough cash in the bank to cover expenses for three to six months so that you are not forced to sell a temporarily depressed stock at a loss due to a short term emergency.

Investing without Clear Goals

Why are you investing? What do you expect from your investments and how soon? How much risk are you willing to take while investing? Investors need to be able to answer these questions before they start putting money into the stock market either for individual stocks or into an ETF. Your investment choices will generally flow quite normally from your goals and without goals you will commonly not be successful to the same degree.

Following Bad Social Media Investment Tips

Tips can lead you to great stock investments or totally lead you astray when investing. As we have repeatedly written over the years, investors need to check out any tips before committing any money. Successful investors never put money into a stock until they understand how the company makes money and how that income stream will continue over the years. If your investments are going to be short term, you need to learn how to track market sentiment with market sentiment data. And, for longer term investing you need to understand and use tools like the CAPE ratio.

Chasing Market Trends

Chasing market trends can be worse that following tips. Stocks and the general market go up and down. New investors commonly jump in toward the end of a bull market, paying too much for overpriced stocks. The market falls and they wait until it is ready to bottom out before selling, thus losing most of their investment capital. Then, they stay away from the market until they are enticed in again by a bull market. Choose good stocks based on sound analysis and use dollar cost averaging to avoid chasing market trends.

Watching the Markets Constantly

Successful investors keep track of their investments. But, they do not constantly obsess over the market or individual stocks. Excellent stocks like Apple, Microsoft, and Amazon.com have gone up very nicely over the last decade and more. But, they have all fallen in price both with the larger economy and from simply day to day, week to week, and month to month fluctuations. If you worried about every time Microsoft lost a percent or so and sold your stock you would have lost out on an eight-fold increase in value not to mention routine dividend payments over the last ten years.

Not Investing with a Long Enough Investment Horizon

Someone once asked Warren Buffett what was his favorite holding period for a stock and he answered, “forever.” Successful investors like Buffet only invest when they understand how a company makes money and ideally how the company will continue to execute a successful business plan for the next decades or even century. Well-chosen stocks will perform well over the years but may have months or even a year or two when they are down. So long as you understand their fundamentals, you can generally trust them as long term investments and stick with them. Unsuccessful investors all too often dump good stocks because their time horizon is faulty.

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