Avoid the Five Mistakes Investors Make in Tough Markets

In today's markets, it is important to maintain an unwavering focus on your long-term investment objectives. By keeping your perspective, you can avoid the five most common investing mistakes.

Setting unrealistic investment objectives

Setting your investment objectives at a realistic pitch is an essential first step to making intelligent investment decisions. That means establishing appropriate objectives based on growth, income or liquidity. Keep long-term historical returns for equities, fixed income and short-term investments in perspective when making investment decisions and be prepared to lower your expectations during market declines. If your investment objectives are realistic and your targets attainable, you shouldn't need to be concerned about day-to-day market fluctuations.

Buying high and selling low

Investors set out to buy at the bottom of the market and sell at the top, but then they end up doing the opposite. Why? Because rapid rises and declines in the market can put investors on an emotional roller coaster that turns a rational investment strategy into an irrational market reaction fuelled by fear or greed.

By staying true to your strategy, you'll resist the urge to sell when markets are down or to buy when markets, or individual stocks, are at all-time highs. Stick to the strategy you established in calmer times and let patience not panic determine the long-term success of your investments.

Acting on tips and hunches

Many investors try to take shortcuts. Hot tips, hunches, so-called "newspaper darlings" and other second-hand information usually costs investors dearly in the long run. At the very least, they undermine and clutter an investment strategy and can lead to serious imbalances in your portfolio weighting. There is no substitute for analytical research and the prudent counsel that comes from professional financial advisors.

Putting all your eggs in one basket

Too much of one stock, industry or sector exposure makes your portfolio vulnerable and exposed. The secret to protecting your investment nest egg is to use an appropriate asset allocation strategy that spreads your risk among different investment classes. A well-diversified portfolio will include several types of investments, because different investments perform better at different times. There is no single "correct" allocation, only an allocation that matches your investment objectives.

Ignoring tax consequences and trading costs

Investors can end up with an unpleasant surprise at tax time with substantial taxable capital gains that reduce their overall rates of return or reflect the cost of missed tax-loss selling opportunities. Active traders are often unaware of the aggregate annual cost of their trading that undermines their rate of return. Tax-smart investing strategies can improve investment returns, minimize taxes and save investors money.

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