# MISTAKES
## MOST INVESTORS MAKE

TABLE OF CONTENTS

# TABLE OF CONTENTS

Introduction....3
Mistake #1: Taking Profits Too Early....4
Mistake #2: Failing to Plan....6
Mistake #3: Trading Too Often....8
Mistake #4: Following Others' Recommendations Blindly....9
Mistake #5: Trading Emotionally, Not Analytically....11
Conclusion....12
About Us....13

# INTRODUCTION

How can someone increase their odds of making money in the stock market? It is a question that all investors ask, but it is one that doesn't have a simple answer. The ability to analyze the stock market properly isn't something that you can just sit down and learn in a weekend. Consequently, inexperienced investors tend to fall victim to chronic poor judgment, with many of them pursuing poorly thought out strategies that fail more often than not. The ways investors can go awry are many and varied, but for the sake of convenience, we have identified five specific mistakes that have ruined many portfolios. Let's take a look at these common mistakes.

# MISTAKE #1
## Taking Profits Too Early

"You'll never go broke taking profits" is one of the oldest adages in circulation on Wall Street, along with "Buy low, sell high," and a few other sayings that come to mind.  People tend to rely on sayings like these as crutches rather than do the hard work of figuring out how to analyze the market properly.

In a limited sense, it is absolutely true that you cannot go wrong taking profits.  If you buy a stock at $50 one day and sell it at $52 the next day, then you will make a profit on that transaction, minus any applicable fees (and taxes!).  That's a simple mathematical fact.

However, in the long run, consistently taking profits in this manner means you run risk of leaving a lot of money on the table when stocks make bigger moves, and people who "jump the gun" like this often discover in hindsight that rather than trying to trade every zig- and zag that a stock made over the course of a bull market, it would have been much more profitable for them to have simply held onto that promising stock and let the stock market works its magic.  To succeed – really succeed – in the stock market, you must know how to hold winning positions and be willing to watch your stock as it rises over the long-term.

This is very difficult concept for a lot of people to grasp, especially investors who are just starting out in the stock market. When a stock is doing well, it can be extremely tempting to take profits while the going is good. However, in doing so, you may be ditching one of the best investments in your portfolio - and make no mistake – it is the “big winners” that help generate above-average returns in a portfolio as time goes by.

You have to give yourself the chance to score big over the long haul – that’s how real money is made in the stock market: by finding great investments and holding onto them while the company grows and matures. The average holding period of stocks recommended in *Nate’s Notes* is three to five years – and some of our biggest winners (Apple and Celgene, for example) have been in the newsletter for more than fifteen years now. Patience and prudence will serve you well in the long run.

# MISTAKE #2
## Failing to Plan

"Failing to plan is planning to fail" – here's another one of those sayings that everyone likes to quote.  This time, however, there's a lot of truth to this particular adage.  You must have a solid, well-thought out game plan in order to have a reasonable shot at success in the stock market.  Don't expect to be able to rely on flashes of intuition that magically enter your brain.  Don't expect to get rich chasing trends that other people are already following. Make a plan and commit yourself to following it.

The problem with failing to plan is that people who fall into this habit tend to buy stocks with no long-term goal in mind.  Why is that a problem?  For one thing, impulse buyers of this sort don't have an escape route planned out.  They're not prepared for the eventuality that the stock won't do well, or at least not as well as they hoped.  What do they do when the stock starts dropping like a stone?  At what point do they call it quits?  They don't know because they haven't thought the trade through from start to finish... and that's what gets them into trouble.

Making a plan is all well and good, you may be thinking, but exactly what do we mean when we talk about creating a plan for investing? How do you go about devising a plan that achieves results? In a nutshell, it is important to understand why you are buying a stock in the first place (i.e. what makes the company a particularly attractive investment relative to the thousands of other stocks you could invest in?), what price you are willing to pay for it, and, perhaps most importantly, what sorts of clues you will be looking for as warning signs that perhaps you have made a miscalculation and should sell the stock rather than buy it (even pros get it wrong sometimes - nobody has a perfect track record when it comes to investing… and if they claim they do, you absolutely should not be listening to them for investment advice!). Whenever you're suffering from a bout of indecisiveness, you can refer to the notes you jotted down when developing your game plan to help you get back on track.

But what if you're a gambling type who wants to be able to run with those sudden hunches and impulses? One simple trick is to build an allowance for this into your investing plan. Set aside a certain amount of money – maybe 2% or 5% of your total portfolio – for rolling the dice and satisfying this "gambler's urge." Just keep in mind that whatever you set aside for this pursuit should be a small enough sum that you won't mind too much if you lose it all.

# MISTAKE #3

## Trading Too Often

Patience—it can literally pay dividends for investors. Unfortunately, because there is a natural desire to "get rich overnight," far too many people simply can't sit still long enough to reap the real benefits of their investments. They buy and sell with a sort of manic enthusiasm, eager to secure a quick profit.

To be sure, there is a certain satisfaction that goes along with making a profit on a stock, even if it's just a modest amount. During a bull market, this strategy can indeed net some significant gains. In less favorable times, however, it's likely that this desire to get rid of stocks will produce unfavorable results, as timing the bottom of a downtrend can be just as difficult as calling a top. Also, concentrating on small gains like this can be enormously stressful. Chasing thin profit margins is a tricky business, and it is easy to quickly find yourself in the red after even just a couple of mis-timed trades.

Another issue that often arises is a failure to account for expenses associated with excessive trading. Transaction fees and capital gains taxes are not to be ignored, but eager investors tend to forget this when they are adding up all those pennies they think they have earned with their trades – they are so focused on the trades themselves rather than the overall value of their portfolio that they don't even notice these fees are wiping out a good chunk of the profits they think they have earned.

A better approach is to find good stocks and hold onto them – for all of the reasons mentioned above, it is best to think in terms of years, not days or weeks. In the long term, you'll have more success with patience than with a never-ending attempt to outsmart the market with constant trading.

# MISTAKE #4

## Following Others' Recommendations Blindly

This is a mistake that derives from a perfectly reasonable impulse to seek out expert opinion. For people new to the stock market, it can be very difficult to get one's bearings. There's a dizzying amount of information out there, and inexperienced investors usually have trouble cutting through all the noise. They need guidance, counsel, and wisdom. This may lead them to find some kind of guru (or maybe just some opinionated guy with a blog?), who will tell them exactly what needs to be done – buy this stock, not that one; do it now, not later. There is no shortage of people out there, possessing widely varying levels of expertise, who are willing to offer their allegedly expert advice to those in need of it – often for free.

It is, as we've said, a very reasonable desire... but it can still get you in a lot of trouble. Why is this?

One major problem with this approach is that it inspires people to buy stocks without knowing why they are doing so. They buy a stock on someone else's recommendation, but what then? When should they sell? Should they hold onto the stock even when tough times seem to be fast approaching? They didn't think about these matters at the outset, and when it's time to make a tough decision, they're totally lost. This is closely related to Mistake #2, and you may have noticed that these common mistakes that we're exploring also tend to have a common root. It all boils down to people following a poor strategy (or not really having a strategy at all).

It is not enough to follow the recommendations of others – you must do your homework and understand the reasoning behind the recommendation. This will enable you to detect bad advice, even when it is presented on a shiny silver platter… and it's quite certain that anyone is capable of passing out bad advice. Even the biggest names in the business have committed major misjudgments. The name of Warren Buffett is known across the globe, and for good reason, but even his record is spotted with some notable failures. You shouldn't follow his advice – or anyone else's – unless you can also follow their logic. That doesn't mean you have to do your own comprehensive analysis of the stock, but you do need some indication that this advice is grounded in valid principles.

A lot of this blind-leading-the-blind activity tends to happen with the arrival of stocks that represent a promising new trend. No one wants to be Johnny Come Lately, so there's often an overwhelming temptation to throw one's money at the next big thing on Wall Street. Unless these actions are based on a proper analysis of these new companies and their relationship with emerging trends, however, it is likely you'll be throwing away your money. Mindlessly jumping on bandwagons will cost you – no matter who is driving them. You have to be informed.

# MISTAKE #5

## Trading Emotionally, Not Analytically

It really is true that the stock market runs on fear and greed. This is particularly true with inexperienced investors, who tend to rely way too heavily on "gut feelings" that have a shaky relationship to reality. Going with your gut can get you into serious trouble, and investors that do so often panic when their stocks experience a momentary dip, frantically selling them off to minimize the damage. In many cases, however, this is exactly the opposite of what they should be doing – namely, they should not only be hanging onto their stocks during the temporary dip, but also adding to their positions while prices are low.

Another problem with impulse selling is that it tends to upset the balance of the overall portfolio. Far too many people damage their carefully diversified portfolios by giving into that fear/greed panic and suddenly ditching key stocks or buying new ones.

Investors also have a habit of falling in love with their stocks. For a variety of reasons, investors can view certain stocks with a sort of halo. This can happen with a stock that gets labeled The Next Big Thing, or if it carries prestige for other reasons. As a result, it's all too easy to forget that stocks should be purchased primarily for financial benefit. Often, investors won't have an exit strategy in place, even after it has become clear that the stock should be abandoned. They lose money – sometimes lots of it.

Making rash decisions based on emotion has spelled disaster for many inexperienced investors. How do you avoid falling into this trap? You need a well-thought out strategy, not bursts of unreliable inspiration. You also need to follow what the market is actually doing, not what you think it should be doing. By staying properly informed, you can resist the temptation to cave in to fearful impulse. Let other investors fall into the trap.

# CONCLUSION

Taking profits too soon, failing to create an investment plan, trading stocks too frequently, mindlessly following the recommendations of others, letting emotion override sound judgment – these are probably the most common causes of investor failure.  To succeed, it is imperative to be well-informed about stocks and their behavior on the market, as well as general Wall Street trends.

ABOUT US

# ABOUT US

Launched in February 1995, *Nate's Notes* is a monthly investment newsletter that promotes a sensible, long-term approach to making money in the stock market. Each issue features updates on stocks currently recommended by the newsletter, as well as expert commentary from the editor, Nate Pile. The newsletter's official website is **notwallstreet.com**.

NotWallStreet.com
PO Box 667
Healdsburg, CA 95448

phone: (707) 433-7903
email: contact@NatesNotes.com