

## 10-03-24 – G & M – 3 Common mistakes investors make

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### Book Excerpt

## Three common mistakes investors make



Avoid slipping up: Cut your losses and don't let too much information rattle you

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*This is the eighth in a series of 10 excerpts from Investing for Canadians for Dummies.*

### Refusing to Accept a Loss

Although some investors realize that they can't withstand losses, and then sell at the first signs of trouble, other investors find that selling a losing investment is so painful and unpleasant that they continue to hold a poorly performing investment, despite the investment's poor future prospects. Psychological research backs this up — people find the pain of accepting a given loss twice as intense as the pleasure of accepting a gain of equal magnitude.

**Tip:** Analyze your lagging investments to identify why they perform poorly. If a given investment is down because similar ones are also in decline, hold on to it. However, if something is inherently wrong with the investment — such as high fees or poor management — make taking the loss more palatable by remembering two things:

\* If your investment is not in an RRSP or other tax-protected plan, you can use the loss to offset the tax you would otherwise have to pay on profits you've made on other investments.

\* Consider the "opportunity cost" of continuing to keep your money in a lousy investment — that is, what returns can you get in the future if you switch to a "better" investment?

## Over-monitoring Your Investments

The investment world seems so risky and fraught with pitfalls that some people believe that closely watching an investment can help alert them to impending danger. **“The constant tracking is not unlike the attempt to relieve anxiety by fingering worry beads. Yet paradoxically, it can increase emotional distress because it requires a constant state of vigilance,”** says psychologist Dr. Paul Minsky.

Special series of excerpts from Investing for Canadians for Dummies:

- [Driving stock prices through earnings](#)
- [Can you get rich with oil and gold?](#)
- [Making the most of your investment options](#)
- [Minimize costs when investing in mutual funds](#)
- [Recouping real estate transaction costs](#)
- [Deciding on a mortgage](#)
- [Test your entrepreneurial IQ](#)
- [Three common mistakes investors make](#)
- [Three things to consider when selling investments](#)
- [Four tips for investing in a down market](#)

In our work, we see that **investors who are the most anxious about their investments and most likely to make impulsive trading decisions are the ones who watch their holdings too closely, especially those who monitor prices daily.** The proliferation of Internet sites and stock market cable television programs offering up-to-the-minute quotations gives these investors even more temptation to over-monitor investments.

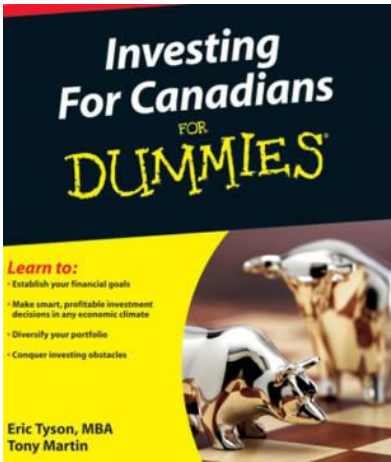
**Tip:** Restrict your “diet” of financial information and advice. Quality is far more important than quantity. **Watching the daily price gyrations of investments is akin to eating too much junk food — doing so may satisfy your short-term cravings but at the cost of your long-term health.** Remember that the goal of the minute-by-minute market “updates” is not to help you make more money, but to help media companies sell more advertising. If you invest in diversified mutual funds, you really don’t need to examine your fund’s performance more than once or twice per year. An ideal time to review your funds is when you receive their annual or semi-annual reports. Although **many investors track their funds daily or weekly, far fewer read their annual reports.** Reading these reports can help you keep a long-term perspective and gain some understanding of why your funds perform as they do and how they compare to major market averages.

## Being Unclear about Your Goals

Investing is more complicated than simply setting your financial goals and choosing solid investments to help you achieve them. Awareness and understanding of the less tangible issues can maximize your chances for investing success.

**Tip:** In addition to considering your goals in a traditional sense (such as when you want to retire and how much of your kids’ university costs you want to pay), before you invest, you should also

consider what you want and don't want to get from the investment process. Do you treat investing as a hobby or simply as another one of life's tasks, such as maintaining your home? Do you enjoy the intellectual challenge of picking your own stocks? Don't just ponder these questions on your own; discuss them with family members, too — after all, you're all going to have to live with your decisions and investment results.



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