

The top 7 rules to govern your financial investments

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Identifying the most common investment mistakes can go a long way toward securing your long-term financial goals. Whether you consider yourself a sophisticated investor, or if you're just starting to learn the rules of the market, knowing how to avoid the following errors can help you stay ahead of the game.

1. If you fail to plan, you plan to fail.

Without a clear investment plan or set of objectives, you can lose sight of your financial goals. For many investors, this is the greatest obstacle to achieving investment success.

In order to build your wealth, you need to have a framework to guide you.

You can start by asking questions about your financial needs and investment preferences, and then create a wide-ranging plan around the answers. Here are some sample questions to ask yourself:

- What are your financial goals? Think about both short- and long-term goals, and also whether you strictly want capital growth or may need regular income.
- What's your current situation? For example, what tax bracket are you in? What are your assets, liabilities and income? How much are you currently investing, and how much more could you invest?
- What is your risk tolerance? Don't just think about losing money.

Also consider how you'd feel if your portfolio failed to keep up with the market, other similar portfolios or -- worst of all -- inflation.

On your own or with an adviser, you can use the answers to these questions to determine how much you should be investing, and to find a blend of stocks, bonds and cash that balance risk and return in a way that meets your needs.

But remember that plans are valuable only if they're put into practice. The second-most common problem we see is that people create good investment plans, and then forget they have them.

2. Better late than never -- but not much.

The more you invest and the sooner you invest, the greater the opportunity for earnings in your portfolio to begin to make their own earnings. While this may seem like common sense, perhaps the most common regret investors have is that they waited too long to start investing or they didn't set enough aside early enough.

Don't put off setting your investment plan into motion. This compounding effect is a crucial ally for investors, and one of the surest means of achieving financial goals.

Particularly in tax-deferred accounts, where your earnings are shielded from annual taxes, the effects of compounding can be quite startling.

3. Get diversified -- and stay diversified.

Diversification is the only investment strategy with the potential to curtail risks while also enhancing returns.

One benefit of an investment plan is that it can help you target a diversification strategy that's suited to your goals and risk tolerance.

Striking a balance between stocks, bonds and cash is only the beginning. There's also value in gaining exposure to various market sectors -- large-cap and small-cap stocks, high-quality and high-yield bonds, for example -- and in embracing global markets.

Once you construct a well-diversified portfolio, your work isn't done. Remain vigilant and adjust your asset allocation as life circumstances change.

4. Know when to fold 'em.

Many investors hold on to investments far too long. Some people become attached to winners, many get stuck waiting for a loser to come back and occasionally, investors may hesitate to sell a

winner because they don't want to incur capital gains tax.

It's easy to want to make a lifelong companion of a favored investment. But if a company is losing ground, the sooner you can break it off, the better.

The same works in reverse: Knowing when to sell a winner and book its gain can make a big difference in your long-term success.

When should you pull the trigger? Know what you want from an investment before you buy. If the investment doesn't meet your personal goal for it, it's not right for your portfolio. If it hits the mark, be happy -- and move on.

5. Think before you trade.

The flip side of holding on too long is trading too often. Some investors quickly lose patience in their portfolios. But trading can be costly, and not just from an investment perspective. Portfolio trades often trigger taxes as well as transaction costs, such as brokerage commissions.

Look at the long-term value of your investments. In general, an investor needs three to five years to assess the viability of a particular investment. Patience is an investing virtue, especially in the equity markets.

6. Put facts before feelings.

Money is an emotional subject, and emotions can greatly influence your investment choices. But emotions often work against sound investment fundamentals -- especially when they're not supported by complete information.

That's another reason it's so important to have an investment plan. Say the evening news features a negative story about a sector you're invested in. Or maybe a friend offers a hot tip on a new technology stock. It helps to be able to weigh that information against your plan before deciding what steps you should take.

7. Don't try to trounce the market.

Investing brings out people's competitive instincts. It can be very satisfying to feel that your portfolio is a world beater. But outperforming the market consistently is a daunting task.

Trying to beat the market often leads people to chase after hot stocks or sectors or take on too much risk. And that can cause a lot of harm. When you're tempted, it helps to fall back on the personal goals you've outlined in your investment plan.

If there's a common thread in these rules, it's that investors benefit by putting a priority on their financial success. That means saving on a regular basis and adding to investments whenever possible.

The phrase "pay yourself first" has become a cliché, but it's great advice. We consistently find that the people who do this are the ones who achieve their financial goals.

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