

# 5 Investments Mistake to Avoid

By Donna Fuscaldo / Published March 07, 2014 / FOXBusiness



When it comes to picking sound investments, you have to do your research. But there's a point where too much information can be detrimental.

"There is so much information people get hit; they think they are more experienced than they really are," says Scott Halliwell, a financial planner with USAA. "Sometimes people make bad moves." From thinking you know more than you really do to chasing past returns, here's a look at five investment blunders and how to avoid them.

#### Mistake No. 1: You Think You're a Stock-Picking Pro

There's no shortage of investment information online, in magazines and newspapers and on TV.

"The financial media is a double-edged sword," says Halliwell. "On the one hand, it helps to make people aware of the investing space, but sometimes it gives people a false sense of knowledge."

Sometimes would-be investors will hear a pundit pound that table about a particular stock or investment idea and start investing in it without fully understanding where the money is going.

Experts recommend going beyond surface-level information when forming investment thesis, and taking the time to learn more about the investment and whether it meshes with your investment goals.

### Mistake No.2 Holding Old Beliefs in a Changing Economy

The old investing advice used to be: If you want to be conservative, invest part of your portfolio in bonds. If you want to be aggressive, put all your money in stocks.

While investing in bonds may have been a safe bet a few years ago, the dynamic is changing. "People think bonds are low risk but because of the interest rate environment, there's a lot of risk," says Scott Cramer, president of financial advising firm **Cramer & Rauchegger**. "When interest rates go up, the value of bonds will go down."

Just because you've heard the same investing advice your entire life doesn't make it true. Instead of holding on to old beliefs, experts say investors have to be as nimble as the markets and be open to making changes when necessary.

## Mistake No. 3: Chasing Previous Returns

When it comes to choosing mutual funds for a 401(k) or individual stock investments, people tend to look to the past to get a glimpse into the future--and that can be a costly mistake.

Take the stock market's performance in 2013: Stocks surged last year, so when it came to choosing investments in 2014, many investors stuck with what they had. "A huge mistake people make is to chase the returns of last year or of the person in the cubicle or office next to them," says Halliwell. "People should take the time a get a base-level education before they invest, otherwise they are prone to not really understanding."

#### Mistake No. 4: Failing to Diversity

One of the best ways to protect your investments from market gyrations is to have a diversified portfolio.

"People think they are diversified because they have four or five mutual funds," says Cramer. "But when we do an overlap analysis, we often find the funds own a lot of the same stocks."

He says investors have to take the time to set asset allocation and should consider diversifying by incorporating assets that are not tied to the stock market. That way if equities don't perform well this year, you'll still be on track with your financial goals, he says.

## Mistake No. 5 Not Asking Your Financial Manager the Right Questions

Some people scoff at investing on their own, but they aren't asking their paid financial advisor the right questions.

According to Cramer, how the financial advisor is compensated can affect the financial advice. If you are working with someone who is licensed to sell annuities, it's likely they might try and push annuities. Go with someone who is only certified to sell stocks and you'll likely get an equities-based investment strategy.

"Find someone who is a true investment advisor and you have a much better chance of getting objective advice on a wide range of subjects," says Cramer.