10 Mistakes Every Investor Makes & How to Avoid Them

A Millionaire Money Habits Special Report

Ryan Taylor

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Introduction

Throughout my years of investing I have had the opportunity to be a part of many different experiences – some good and some bad. What I have learned by being trained and working with investors in all different markets is that the discipline to follow the fundamental rules to investing can make or break someone's bank account. Sadly, I've seen a lot of great investors go from multi-millionaires to dead broke in a matter of minutes because they became foolish.

Whether I have seen a stock trader or someone who works in the options and futures pits, I have found that when they lose their shirt it is because they didn't stick to the basics.

While even amateur investors know these basic rules to investing, it is much easier said than done. Maybe this is because most investors have a competitive edge, and we think we can out-perform or outsmart the next guy. But the bottom line is it is pretty tough to outsmart the market.

Investing is a zero sum game. For every winner there is a loser, which is what keeps the market efficient. Knowing this, it is possible to develop an edge in order to win more than you lose. This is why some of the best trading systems make people so much money. These systems have found a way to analyze trading opportunities and automate the process so you can get in and out of trades quickly and profitably.

However, many investors and professional traders still manage to end up in the red. These investors are unsuccessful because they let emotions get in the way, are too stubborn to be successful, or they think they know something other people don't. They can literally have their trading system screaming at them to get in or out of a trade, and yet they ignore all the signs.

What these losers fail to realize is that the market is irrational because it is driven by emotion and institutional houses throwing

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their weight around. For that reason, it is nearly impossible to predict short-term directions and win every time.

If you avoid the common mistakes that every investor makes, you can develop an edge and build an unlimited amount of wealth.

Nothing in this report should come as a surprise. These are basic investing mistakes that every investor should avoid. But for those who like to make money, sticking to the basics may not be an easy task. It involves leaving your ego behind, some planning and sticking to the rules or trading system you have in place.

Let's get to it then . . .

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Mistake #1 – Playing Without Rules

No matter what you invest in you must create and stick to personal investing rules. It doesn't matter if you invest in real estate, currency, stocks or options, before you begin you must create strict strategic rules that you will hold yourself accountable to.

Here is an example of the rules a real estate investor may have:

- I personally look at 10 foreclosure properties a week.
- I only invest in foreclosures that I can obtain at 30% or more below market value.
- I only buy properties that potentially have great curb appeal that will help sell the property fast.
- I do not buy properties that may generate less than $20,000 in returns.
- I do not buy fixer-uppers that require more than $10,000 in repairs and upgrades.
- I only invest in properties that need cosmetic and minor repairs. I will not consider properties that have problems with the foundation, termites or mold.
- I do not use more than 20% of my investing capital in a single investment property.
- Holding onto my cash is okay if it means waiting to find the right opportunity.
- I put my properties back on the market 15 days before they are back in show condition.
- After 60 days of no serious offers, I lower the price 3% and offer incentives, such as a free plasma screen or no closing costs.
- After 90 days of not selling the property, I list the property as a "rent to own."
- In the event 6 months go by without selling the property, I will sell the property to another investor at break even in order to wash my hands and walk away safely.
- At least 50% of my profits are re-invested into acquiring more properties. The rest is for me to have fun with.

The rules above provide a checklist for the investor when considering opportunities. By creating strict criteria, it places limitations on the investor and takes the emotion out of the decision. There could be multiple properties that the investor finds that he knows will create great returns if he does $15,000 in repairs, or cleans up a small mold

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problem, but it simply does not fit into his rules for investing. Therefore, he would pass on such an opportunity.

Secondly, these rules provide a clear exit strategy with deadlines. The investor knows going in that he can potentially make $20,000, but more importantly he also knows the potential that he can lose by not selling the property in a certain amount of time. By having a backup plan, and a backup plan for that plan, the investor minimizes the downside and eliminates the need to make an important decision that is influenced by emotion or hope.

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Mistake #2 – Ignoring Taxes and Fees

Investors often get excited about the potential income an investment can make and forget to consider fees and tax implications that can diminish their profits.

When trading stocks, for example, a single stock purchase can cost you $10 or more, even with a low-cost, online brokerage account. If you are buying 10 shares of a $10 stock, that value of the stock will have to increase 10% before you can break even.

Add capital gains tax you now owe on the appreciation of this asset, and you have actually lost money on your prudent stock purchase. How much you are paying in taxes depends on the type of investment and how long you hold the asset. Below is a break down of common investment tax rates, but visit moneychimp.com for a capital gains tax calculator,

Type of Capital Asset	Holding Period	Tax Rate
Short-term capital gains (STCG)	One year or less	Ordinary income tax rates up to 35%
Long-term capital gains (LTCG)	More than one year	**5%** for taxpayers in the 10% and 15% tax brackets
		15% for taxpayers in the 25%, 28%, 33%, and 35% tax brackets
Real Estate Main Home	One year or less	STCG
	More than one year	LTCG taxed at 5% or 15% after any exclusion amount

You're not out of the woods yet in escaping fees. If you invest in a mutual fund, you are paying additional fees. Typically you pay a small management fee and you may even be paying an extra load fee to your financial planner. The load fee is simply an extra charge that goes to pay your financial planner a commission. These fees take

5% or more of your investment capital right off the top. If it is an upfront load fee, you pay this charge before your money is even invested.

Secondly, if you buy mutual funds at the wrong time, you can get nailed with paying a taxable dividend that you didn't actually receive. According to SmartMoney:

> It's always dangerous to buy mutual funds at the end of the year, since you may be buying right into a big taxable dividend. If you are purchasing shares of a fund in the fall, check the distribution date and wait until it passes before writing your check.

So how do you escape all of these fees and make money on your investments?

Thanks to Zecco.com, investors can now buy commission-free stocks and avoid trading fees all together. They offer 10 free stock trades per month, and only $4.50 after your 10 free trades. Zecco makes their money with advertising and margin spreads, so you can now invest for free.

To avoid capital gains, you have a few options. The most obvious would be to invest in a tax sheltered retirement account, such as an IRA or 401k. These programs offer exceptional tax benefits that can't be beat.

A stock investor can also offset their capital gains by selling losing stocks during the same year that they liquidate their winning stocks. Consult with a certified financial planner when considering this or any of these options.

If you are a real estate investor, you can roll your profits into a 1031, tax deferred exchange. This allows you to roll your profits from the

sale of one investment property into a new acquisition. In doing so, you avoid paying taxes on the sale of your property.

To escape the commission fees that you are paying your broker or financial planner for buying a mutual fund, just don't pay them. Just about any mutual fund that has a load fee has an equivalent lower cost, no-load option. According to The Motley Fool:

> The only thing that you really need to know and remember about mutual fund loads is that you don't ever have to pay any. Everything that a broker could ever find for you in a load fund, you can find for yourself, and find much better.

Visit Morningstar.com to research your low cost mutual fund options.

Mistake #3 – Confusing Investing with Trading

People who are not investors often think investors are the high-strung, fast-paced people in the New York Stock Exchange pits, or those that stare at stock charts all day long to catch a quick profit. These people are not investors. They are day traders who play markets for a living.

Investors view stock trading behavior as the same as gambling. Traders may not even care about the company they are buying, they just hope to accurately predict the direction of a movement in order to make a quick profit. They move in and out of positions quickly and try to make money off the short term ups and downs the market takes.

Often they use margin balances, or borrowed money, in order to leverage their positions and make money on each up or down tick of the market. With this strategy, it doesn't take much movement in the market to make money, but it also doesn't take much to lose it all.

Investors are much different. They are interested in the certainty the stock market returns as a means to produce wealth, as opposed to the possible income it can produce. For that reason they are less concerned with the day-to-day activity in the market and are not depending on how the day goes in order to produce immediate income. They know that over time the stock market has historically trended up and they take advantage of the slow and steady profits the market will return. With those profits, they reinvest their earnings in order to take advantage of compound interest and accelerate their net worth.

Investors also think differently about the assets they are purchasing. A stock trader is simply trying to buy something cheap and flip it for more money in a matter of days or even minutes. An investor knows that the market is too complicated and does not act rationally in the short-term, and is too difficult to predict. But they do know that great

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