Are You Making These Common Investment Mistakes? Here's What To Do.

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Do you manage your own investments? If so, you may be making one or more of these common mistakes: 1) you have an extreme portfolio that's a poor fit with your needs, 2) you have too many overlapping holdings and/or 3) if you're married, one spouse (often the husband) makes all of the investment decisions. *Even if you have a broker or advisor invest for you, these mistakes may still be occurring right under your nose.* Here's what to do to fix them.

<u>Mistake #1: Extreme, Undiversified Portfolios That Are at Odds With Your Financial Needs and Risk Tolerance</u>

The Smiths are both 55. They have an "average" risk tolerance and they plan to retire in 8 years. Their broker never asked them about their financial goals and retirement plans, and he doesn't provide financial planning services because he doesn't have the credentials, interest and experience to do so. He created a very "busy" and "diverse" portfolio for the Smiths that consists of over 150 positions in different US stocks. The broker constantly bought and sold positions so the Smiths figured he was working actively "on their behalf." What the Smiths didn't realize was that their broker was on auto pilot – buying and selling with directives from management and without regard to the fact that the Smiths have a very low risk tolerance. Their broker received incentives to churn their portfolio and to put them into some commissioned products to boost his income.

When the Smiths changed advisors they discovered their portfolio was extremely risky – with over 75% of their positions in large US value stocks. They held very few bonds, no mid or small-cap US stocks, virtually no international stocks (developed and emerging), no Real Estate Investment Trusts, etc. In a word, they were in a highly undiversified portfolio. The Smiths were running the equivalent of a raging fever in their portfolio. Their new advisor did a thorough financial plan for them and reallocated investments to "bring down the temperature" and create diversification. Doing so strengthened their financial plan and helped them better understand their investments.

What To Do: In my opinion, the best financial advice combined fee-only (no products sold) financial planning AND investment design/management. If you choose to go it alone, use a system like www.morningstar.com to see what your portfolio really looks like in terms of various asset classes.

Mistake #2: Overlap Issues Due to Multiple Mutual Funds Investing in Similar Holdings

Lynn Turner believes she has a diversified investment portfolio because she holds approx. 20 mutual funds. Some have exotic or interesting names – one of the reasons she admits she chose to invest in them. Lynn isn't really sure what she's invested in, all in all. When her new advisor analyzed her holdings, Lynn understands she's invested in concentrated positions in mid and small-cap US stock funds that have overlapping holdings. Her portfolio is NOT diversified.

What To Do: Again, see the advice of a Fee-Only Advisor who will recommend low cost funds and bypass A, B and C share commissioned funds that are expensive and reduce your rates of return.

Mistake #3: If You're Married, Letting Your Spouse or Partner Make All Your Investment Decisions on His Own

Yes, I wrote "making investment decision on ***his*** own" because studies show more than ¾ of heterosexual couples embrace a division of labor that gives the husband sole investment decision-making power. In general, men tend to take on more risk and they tend to do less research before choosing investments (women, by comparison, are more cautious and tend to study things more before making an investment decision).

Even if you engage an advisor, studies show brokers and advisors (most are men) tend to talk more to the husband – and tend to ignore the wife even if a couple comes in together to consult an advisor. If the husband dies, the wife may find she not only has a portfolio that doesn't sit well with her comfort level and her financial needs, but she may also have inherited an advisor who doesn't know how to bring her into a conversation, explain things and take an interest in her.

What To Do: Work with a Fee-Only Advisor who listens to you, draws up a financial plan and creates an investment portfolio that matches your risk tolerance and your long-term financial needs.

In sum, investing can be complicated. While having a prudent investment portfolio is important, it's also critical to make sure your portfolio supports your financial goals and isn't just something that looks "busy" or "interesting" without being consistent with your risk tolerance.