Investment Wisdom and a Good Investor

There is no doubt that some people simply are better at playing the role of a stock market investor than others. When talking about somebody who has successfully worked his way through investing in the stock market, it is never a matter of luck but rather certain personal characteristics that decide how successful they are. While the best investors seem born with all the right characteristics, it is possible to discover and implement them yourself. Believe it or not, much of what you need to know is just stock market investing basics.

These timeless bits of investment wisdom are as true today as they were 100 or 1000 years ago, and we think they will still be true 100 years from now. People who follow these simple common sense ideas will be far ahead of those who do not. Most people who get into trouble financially have broken one or more of these rules. It is amazing how often smart people continue to make the same financial mistakes.

- Don't buy anything you don't understand. Keep it simple. Be wary of expensive, illiquid, non-transparent, and complicated investments. Complex investments are almost certainly designed in favor of the seller, not the investor. A big part of the success of your investment depends on you knowing exactly what you're investing in. It sounds obvious, but many people make the mistake of investing in something they don't understand.

- You should never invest in a company without knowing where it's coming from, where it's going, how their products stack up against competitors. It is also important to know how that particular market is doing in general. Ultimately, you are putting your faith in a company that will make you money over some period of time, but it does not have to be based on complete blind faith. Do your research, and make an informed investment.

- If it sounds too good to be true, it probably isn't true.

- Minimize your investment costs and taxes.

- Invest for the long-term, and keep your portfolio turnover low. Those who get greedy and try to "get rich quick" usually "get poor quick." Investing isn't supposed to be exciting. The stock market is not a place to get rich quickly. Sometimes, it's a "three steps forward, two steps back" kind of environment.

  In the long-term, the best value investments show the most promising returns. Essentially, Warren Buffet-style deep-value investing does very well over the course of years and perhaps decades. However, in the short-term, the market is highly emotional and psychological. The price of a share of stock is just as influenced by how popular the stock is among traders, margin calls, and the like.
  You don't want to be too overleveraged and find yourself whipped out because the market becomes irrational for a week. This all goes back to managing risk. You have to remember that the price of a given stock on any given day can be influenced by just about anything, so you don't want to hurt yourself due to the short-term irrationality of others.

- The key is to always have a plan when you invest. Before you do anything, you need to know when you will purchase stock and when you want to sell. Equally important is knowing what you will do should things go wrong. And most importantly, you always need to know what your ultimate goals are, and be sure that all your investment roads lead to that end.

- Pay as much attention to risk as you do to potential return. Be sure you can handle the risk of your portfolio in a downturn.
  A major part of investing is managing risk. In general, more risk equals more return, but more risk also means more variance. Understanding how much risk you are taking when you invest and understanding your own personal risk tolerance are very important. First, you need to understand how much risk you are taking. If you are buying stocks on margin, you need to understand that you are significantly taking on considerable risk. This may or may not be for you, depending on your risk profile. In general, the younger you are, the more risk tolerant you should be.

- Save more, spend less. Save at least 10%-15% of your income each year. Live below your means. Build a financial safety cushion.

- If you don't know what the market is doing right now, you have no business investing in it. Everybody pretty much has the same information, but everybody interprets that information a little different, which is where some investors succeed where others fail. The key is to find information that is as unbiased as possible, and milk it for everything it is worth.

- Own a diversified portfolio with many different asset classes and investments.
  Diversification is often touted as the only "free lunch" in stock investing. This is because you can mitigate sector risks by investing in a variety of companies. You don't have to worry about a collapse of one sector because your portfolio is diversified among few sectors.
  Proper diversification is important for most individual investors. But there is such a thing as becoming too diversified. There is no need to invest in all 20 Business Sectors for example.

- Don't let your emotions affect your portfolio. With investing your worst enemy is likely to be you and your emotions. Studies have shown that the average investor earns about half the returns of the overall market over time due to poorly timed trading. Have an investment strategy and plan and stick to it.

- Don't try to "time the market." It's "time in the market" that counts.

- Don't invest money you will need in 3-5 years or less in volatile investments.

- Rebalance your portfolio by buying low and selling high. This is easy to say, but very difficult for most people to do in real life. Most investors actually do the opposite.

- Avoid the most popular investments, as they are likely fully priced. Past performance is not a guarantee of future investment returns. Don't simply buy the investments that have done the best recently. Invest where no one else is waiting in line to buy.

- Avoid debt and leverage.

- Invest with people you know and trust. Look for independent, objective, experienced advice.

- Using unbiased information is useless unless you are going to be equally unbiased. Do not allow past exploits and failures get you down or hold you back. And, you cannot allow success to sway you either. Just because you made a decent bank on a particular investment from ten years ago, is no reason to continue putting up your money for them. It is also no reason to be getting headstrong and overly confident about your investment practices.

- You must also be realistic. No investor is going to strike it rich right away, and no investor is going to have a perfectly flawless track record. Understand that sooner or later, you're going to lose a little money. But if you follow the first four steps of this guide, combined with a little common sense, you can minimize how much that loss is and go on to reap greater rewards.

A good investor

- A good investor takes the time to identify financial objectives, risk tolerance and time horizon factors in order to devise a comprehensive investment plan. This information, along with academically validated principles and diversified asset class weightings, is integrated into a well-designed, thoughtfully engineered long-term portfolio strategy.

- A good investor is able to maintain investment discipline in the face of difficult times and worrisome short-term performance returns. The good investor does not allow emotion to override reason as that could prompt reactions that are counter-intuitive to long-term investment success.

- A good investor makes investment decisions that are aligned with the methodical, objective and long-term strategic plan designed specifically for the investor's unique goals and expectations — regardless of any intermittent or unexpected external forces introduced into the market equation

- A good investor understands and accepts that realizing measurable return over time requires investing in the stock market. And that part and parcel with the stock market come volatility and risk. The good investor is also cognizant of the fact that, while stock market performance will wax and wane periodically, its overall historical performance has continued to progress ever upward

- A good investor takes (and is able to take) advantage of the hidden opportunities for portfolio growth uniquely available in a difficult/down/risk-off market.

- A good investor reaches established long-term financial goals through a solid understanding of how the market works, the role that calculated risk plays in incremental return, the reasons for maintaining a long-term buy-and-hold investment strategy and the life-long importance of 'planning the work and then working the plan.