

Are you a self-directed investor? If so, are you completely satisfied with the current performance of your investments? Or, have you struggled to consistently meet your investment goals over time?

Chances are you feel some level of improvement can be made. We all typically seek the same general objective: to maximize our returns while, at the same time, protecting ourselves from downside risk. However, for many it is becoming increasingly difficult to reach this objective as they are flooded with more information and faced with more investment alternatives. Ultimately, the landscape has become more complex.

Fortunately, many investing fundamentals have remained unchanged. Through more than 30 years of managing money for many prestigious institutions and individuals, I have learned some important lessons on what brings success — and what can lead to failure.

Through this guide, it is my objective to help investors recognize these common mistakes — and provide insight on how you can avoid them. In doing so, I'm confident the guide can help you increase your chances of reaching your investment goals.

“Common mistakes can add up. Ultimately, they diminish the value of your portfolio. It’s my goal to increase investors’ awareness of common pitfalls and help them protect their precious assets.”

Kenneth L. Fisher

CEO & Chief Investment Officer, Fisher Investments

Forbes Portfolio Strategy Columnist

Mistake #1

Underestimating the time horizon for your assets

How long do you think you'll live?

How about your spouse?

Most people are far too pessimistic in estimating the length of their lives, a problem when planning their financial future.

...and how to avoid it.

It's a simple fact. Breakthroughs in medicine happen so often, yet we frequently don't even hear about them. As progress has occurred in the effectiveness of disease treatment, improvement in general nutrition and higher standards of living, most people now live longer than they think they will.

This means there are new and costly healthcare methods now available for increasing life span as the population ages, which raises the costs of healthcare and of living longer.

For these reasons, we find that most people estimate on the low side when it comes to how long they'll live. As a result, many fail to implement financial plans to accommodate their longer life-span. Many today run the risk of depleting their funds long before their lives are over.

It's important to have a sound financial strategy, one that will provide for your financial stability and income needs throughout your entire life. Sound financial planning is equally important for those whose goals are to grow their assets so they can pass an inheritance on to loved ones and family members who survive them. In either case, a realistic life expectancy time horizon is vitally important.

Mistake #2

Misaligning investment objectives and portfolio strategy

Aligning your portfolio strategy with your objectives is a critical factor in determining long-term investing success.

This may sound obvious, but many investors actually employ strategies that work *against* their objectives.

...and how to avoid it.

A common investor error is improperly judging risk. Generally, the longer the time horizon of an investor's assets, the more risk they are able to take on. However, many investors end up taking too little risk. By focusing on short-term volatility rather than the long-term horizon of their assets, investors become short sighted and inevitably ignore the various probabilities of achieving their objectives. As a result, many investors don't meet their goals.

For example, some persistently load up their portfolios with low coupon Treasury bonds, due to fear that stocks will drop in the short-term. Then, they often barely generate a return that's over the rate of inflation. This reduces the odds of achieving a long-term goal of growth— especially if withdrawals are also anticipated.

Conversely, those with short-time horizon objectives are often overly exposed to risk, which creates a danger of asset loss during a short-term period of volatility. This can put their entire financial future in jeopardy.

“...short time-horizon objectives are often overly exposed to risk...”

Mistake #3

Confusing income needs with cash flow needs

Income and cash flow are not the same thing, even though many investors think they are. In fact, the two different concepts, and the distinctions between them, are extremely important.

...and how to avoid it.

Put simply, cash flow is how much money you need for living expenses and other personal uses of cash. Income, on the other hand, is the amount of dividends and interest earned by a portfolio that, in the case of a taxable account, you will pay current income taxes on. Here is the important difference:

The way in which you generate income can have a tangible effect on the growth of your assets, as well as on the taxes you pay, both of which impact your ability to get cash flows.

It's a mistake to think that you should get the level of cash flow you need solely from income, and never touch principal. This is an emotional bias that for many simply cannot be overcome. Instead, your focus should be on total after-tax return. For example, selling stock to meet income needs can allow you to stay fully invested and create 'homegrown' dividends by selling selected securities.

When compared with some dividends, as well as with interest from fixed income, selling stock may offer tax advantages, because the transaction might be taxed at the capital gains rate rather than at the client's marginal rate. Harvesting losses can also be tax advantageous.

Mistake #4

Overlooking unintended risk factors

Many investors are unaware that managing a diversified portfolio of assets can be fraught with hidden risks. Too often, we find that portfolios are over-exposed to certain risk factors that were never properly recognized.

Don't let this happen to you.

...and how to avoid it.

Unintended concentration produces excess risk. This exposes you to larger fluctuations and the possibility of accelerated losses. Factors such as sector, country, currency, valuations, and size all play a role in a properly diversified portfolio. What's more, some securities are highly correlated for other reasons (like interest rate movements or commodity prices).

For example, let's say you own one Japanese stock and one English stock. These seem unrelated, right? However, have you considered the revenue source for each company? Are they both sensitive to interest rate fluctuations? Perhaps the performance of each is tied in a similar fashion to currency movements.

Too high a concentration of any of these, or other factors, can expose your assets to risks you never intended!

Mistake #5

Ignoring foreign securities markets

Contrary to popular domestic belief, the United States isn't the only country with favorable investment conditions. In fact, in terms of market capitalization, the US accounts for less than half of the value of all global stocks.

As a result of global economic development and expansion, a multitude of innovative companies and investment opportunities are available around the world.

...and how to avoid it.

It's a mistake to think your portfolio is properly diversified simply because you have chosen stocks across differing sectors. That's not enough. Return of stocks is partially related to the overall economic performance and political climate of the home country. A sagging domestic economy makes it difficult for many companies located there to thrive. Without giving consideration to country and region, you may incur the excess risks associated with doing business in that country.

Many average investors suffer from 'home country bias', which means they tend to invest only in the country in which they live. For example, if you were to purchase stocks diversified across all sectors located within the US, performance might depend more upon how the country performs than the quality of the individual companies chosen.

Diversification is a key part of building a well-constructed portfolio that will grow your assets. Investing abroad helps to strengthen your portfolio by expanding the efficient frontier. It also creates a larger pool of possibilities from which to find worthy investments.

Mistake #6

Forgetting the fundamental importance of supply and demand

The fundamentals of supply and demand of securities are easy to overlook. Analysts and pundits cite an endless list of theories about what mechanisms drive stock prices. However, the simple fact remains: supply and demand of securities will always be the fundamental driver of share prices.

...and how to avoid it.

Basic economic theory states that the relative supply and demand for goods in an open market will determine their prices. For example, holding supply equal, the demand for ski equipment increases around the winter months, and thus the price for skis increases at that time. In the other months of the year when people ski less, demand decreases and prices fall. Stocks are no different: we think it is common sense that their prices fluctuate based on short term demand.

Supply of equities is relatively fixed in the short run because it takes time for companies to create new issues of stock; therefore, shifts in demand are the primary cause of short-term price movement. However in the long run, supply has an almost infinite ability to change. IPOs, stock splits, stock buybacks, mergers and acquisitions combine to make the supply the dominant factor in stock prices over longer time periods. Understanding the relationship between the supply and demand of securities is vital in choosing whether or not to be invested in stocks.

The ability to accurately track, analyze, and evaluate this fundamental tenet of economic theory is vital, in our view, to making successful forecasts in the markets because it allows you to screen out unimportant noise.

Mistake #7

Making investment bets based only on widely-known information

What sources of information do you use when considering an investment? With the possible exception of the 'hot tip' that you pick up at a dinner party, your information probably comes from sources that are widely available. That's a problem.

...and how to avoid it.

Whether it's the morning newspaper, research from your broker, commentary on radio, television or the Internet, or any other source made available to the public, they're all essentially useless.

Why? Because the markets are efficient discounters of all widely-known information. This means that as soon as a piece of information is made broadly available to the public, it's reflected in share prices. Despite this fact, many investors still make the mistake of trading on widely-known information.

“...you must know something that everyone else doesn't.”

In order to consistently generate excess returns, we believe you must either know something everyone else doesn't or interpret widely known information differently and correctly from the crowd. In other words, you must know something that isn't already reflected in share prices. The ability to generate this knowledge takes experience, research and discipline.

Mistake #8

Experiencing over-confidence in your investing skills

When investing personal assets, it's natural for investors to experience a lot of emotion as they watch the ups and downs of the markets. After all, their financial futures are at stake. This emotion typically brings a slew of cognitive biases into play, clouding investors' judgment and hampering their ability to make rational, objective decisions.

...and how to avoid it.

Let's face it: the human brain is not wired for investing. Our Stone Age ancestors evolved and survived by focusing on whatever helped them hunt and gather food. Their biases shaped their beliefs, creating and reinforcing their understanding of the world.

The fact is, like our ancestors, we see the world today through a screen of biases. For example, most investors will focus on their successes and try to forget the mistakes they've made, consistently confirming their personal views rather than maintaining objectivity.

One particular shortcoming of investors is their innate tendency toward overconfidence. We naturally put up barriers that allow us to forget the mistakes we've made in the past. At the same time, we tend to focus on the successful investments we've made — which makes us overly confident. This leads to taking on excessive portfolio risks.

None of us are immune to these biases. That is why it's vital to create an investing environment that is detached from emotion and relies on data and impartial analysis to make the right decisions for your financial future.

Have you made any of these mistakes?

It's difficult to avoid all investment pitfalls — even for the savviest of investors. That's because many investors simply don't have the time to process the vast amount of information available today and then apply it to their individual, complex investment needs.

For more than two decades, Fisher Investments has been helping high net worth individuals achieve their investment goals. Through bull and bear markets we apply a dynamic and individualized approach to portfolio management. Our long-term track record speaks for itself. In addition, our clients value our exceptionally high level of service, personalization, and transparent fee structure.

We invite you to find out more about what makes Fisher Investments unique. Even if you're not currently considering doing anything different with your investments, you owe it to yourself to learn more about our services as a potential alternative. Simply call toll free, **1-800-568-5082**, to speak with a Fisher Investments representative.



Kenneth L. Fisher has written four finance books and numerous articles in business and scholarly journals. He is most widely-known for his *Forbes* “Portfolio Strategy” column, which he’s been writing for over twenty-two years.

*Fisher Investments is the business name of Fisher Asset Management, LLC.
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Financial experts are raving about the *New York Times* Best Seller from *Forbes* columnist Ken Fisher, **"The Only Three Questions That Count"** with a foreword by the legendary Jim Cramer

"I believe that reading his book may be the single best thing you could do this year to make yourself a better investor."

---James J. Cramer

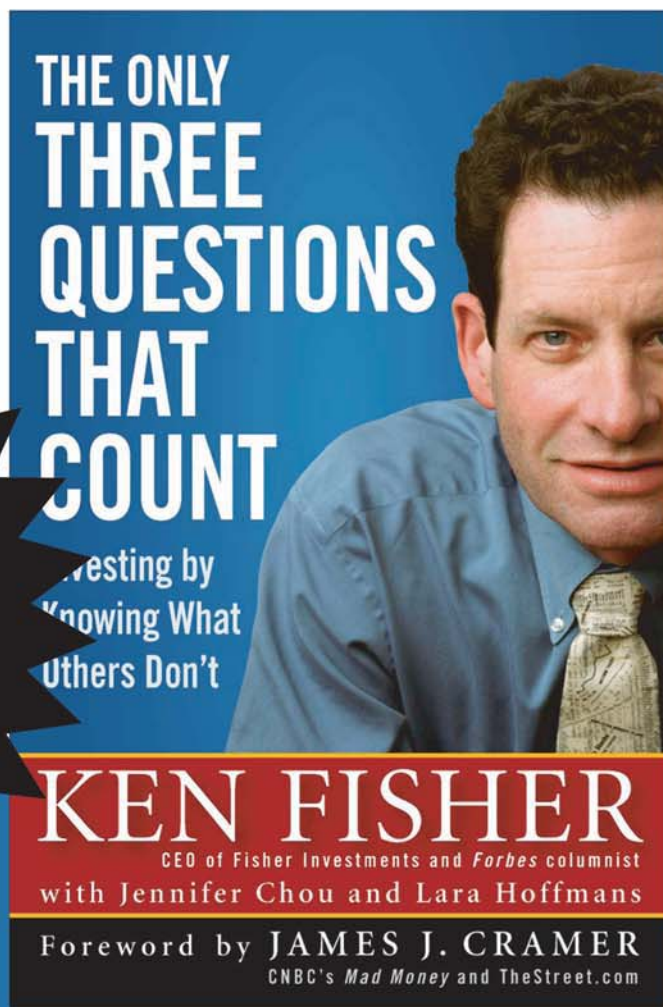
Columnist for TheStreet.com, Columnist for New York Magazine,
Host of CNBC's Mad Money, Host of CBS' Real Money Radio

"Money manager maestro Ken Fisher has been profitably enlightening our readers with his columns for more than 20 years. Investors will find this brilliant book an eye-opening, capital-gains producing experience."

---Steve Forbes

CEO and Editor-in-Chief
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