# Avoid Common Investing Mistakes

**Here are some common sense guidelines to help you invest successfully and avoid common mistakes.**

## Decide if you're ready

Most financial advisors recommend that you have enough savings on-hand to cover two to six months of expenses before starting to invest. That way, you'll be prepared to cover your expenses in case of an emergency, a sudden illness, or if you lose your job. Once you've built up enough savings—and your debts are low enough that you can comfortably pay them—you're ready to consider investing.

## Start investing as soon as you can

The earlier you start, the easier it will be to achieve your financial goals. Many investors lose out because they wait too long to get started or invest too little. If you don't start early, it can be difficult to catch up.

## Understand the basics

Before you actually invest any money, it's important to understand the basics about different types of investments, such as stocks, bonds, and time accounts. One of the keys to success will be dividing your money among these types.

## Consider your risk-tolerance

Investing involves taking some level of risk in exchange for potential reward. Consider your current financial situation and goals. Determine how much risk are you comfortable taking.

## Diversify

Divide your money among different types of investments to reduce your risk. Have a balance of different types of investments in a variety of companies and industries.

## Have a plan

Before you invest, create an overall plan of what you are trying to accomplish. Set financial goals and determine how much time you have to reach them. Taking your tolerance for risk into account, decide how much money you need to invest every month and the mix of investments you want to maintain.

## Research before you invest

Research is critical to investing success. Always do research before investing. Most online brokerages offer research and financial news in addition to stock and mutual fund quotes. Base your decisions to invest on facts, not emotions. Be as objective as you can about the risks and potential rewards. View "hot tips" about investments with skepticism. Always do your research.

# Avoid common investing mistakes (continued)

## Buy low and sell high

Selling an investment for more than you paid is how you make a profit. The idea is simple, but it's a challenge to do it consistently. The historical trend of a stock's price may help indicate what might happen in the future, but there are no guarantees. When you research possible investments, experts recommend that you focus on the investment's objective (in other words, whether the goal is to give investors income, growth, safety, or some combination of the three), risk profile, and how well it fits into your overall portfolio. Try to avoid buying a stock at its high point. Look for opportunities to buy stocks with good potential at low prices after a major market downturn.

## Buy and hold

Some investors overreact to news items they read or "hot stock tips." They start trading all the time, buying and selling investments very quickly in an attempt to make quick gains. These strategies rarely work and can put you in serious danger of losing your money. Stay objective and focus on the long term. Be an investor, not a gambler. Avoid the impulse to react to sudden changes in the market or to buy the latest hot stock.

## Decide when to sell

One of the keys to successful investing is deciding when to sell investments that are doing poorly as well as those that have increased in value. Most professional investors set strict guidelines for themselves regarding the specific price, either high or low, at which they will sell. To cut your potential losses and maximize your gains, consider adopting the same approach. Review your portfolio on a regular basis to see which investments have significantly increased in value, which have dropped, and whether the time to sell is now. You may also want to consider the tax consequences of selling a particular asset at a particular time.

## Pay attention to costs

Taxes, fees, inflation, and other costs can all affect your return on an investment. It's wise to consult with an investment professional and your tax adviser regarding the best way to minimize these costs.

## Keep track

Whether you trade online or invest though a professional, it's important to keep track of your investments. A fast and convenient way is through online account access offered by many investment brokerage companies. This service allows you to view balance and transaction information, transfer money, contact customer service, and more. It's usually provided for free.

## Understand market and limit orders

Unlike most things you buy, the prices of most stocks change very frequently. This means you need to tell the broker, that is the person or company handling your transaction, the price you agree to pay. Market orders are filled at the price a stock is trading when the order is received. If the stock price is volatile that day, you might pay more than you planned to. With limit orders, you set the buy or sell price, but you run the risk of not getting your order executed. Review your broker's trading guide before getting started to be sure you pick the order type that's right for you.

# Avoid common investing mistakes (continued)

### Be accurate

If you trade online, make sure you type accurately. Check and double-check the order you type in. Have you entered the right stock symbol and number of shares? If you're rushed or distracted, you could make a serious mistake.

### Stick with your plan

Periodically review your investing plan so that you don't lose sight of your goals. Adjust your portfolio as needed to maintain the mix of investments you want at your target level of risk.

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