THE INVESTORS PODCAST

THE 7 BIGGEST MISTAKES INVESTORS MAKE

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Are you just starting out as an investor and worried that you're making mistakes? Well, this is our list of the 7 biggest mistakes inexperienced investors typically make.

1. Not understanding that 1 share is the same as owning the entire business

What is a share, really? Well, when I first started investing, it seemed like a stock ticker was simply something that changed every second. Not only did it stress me out, but it also made me lose focus on the essence of investing. When you buy a stock, you own a proportional piece of a real company - Period. I gradually found that the simplicity of that one fact was more profound than many realize.

In my own business, if I priced my products too low, I would get less revenue, and if I overpaid my team, I produced a smaller bottom line (or profit). Investing in listed stocks forces you to focus on exactly the same things: The core fundamentals of the business. One share might not seem like a big number (i.e. $30), but smart investors value that $30 share the same way they value a $300,000 small business, or $10 billion dollar large business. It's all proportion. Think of it like this; if you eat one slice of pizza, it has the same taste and ingredients as the whole pizza. After understanding this important fundamental, I started trading a lot less, and I started investing a lot more. Not only did I save a lot of money in commission fees to my broker, it also gave me a peace of mind that I was buying a real business. If you want to learn more about this concept, check out this video I made.

2. Overconfidence

I remember when I bought my first stock. I was jubilant and sure that I had a killer on my hands, but unfortunately, things didn't work out so well. It also made a lot of sense to buy stocks because I had heard lots of people had started buying too. As you can probably predict, I was wrong.

For some reason, I didn't think about the idea that someone needed to be a seller before I could be a buyer of the stock. This means that you are always buying from another party that has decided to sell – which is the opposite opinion of your buy.

Forgetting that you are trading with another party can make you overconfident. Are you knowledgeable about the stock that the other party doesn't have? The funny thing is that, we, as stock investors, tend to focus on a few favorable factors and ignore the countless others. In the short term that is a good strategy because you feel great about the purchase, but I have often found a lot of important information arrives after you own the pick. In my case, I hadn't included crucial information in my original assessment and I found that investing in individual stock picks with limited knowledge is a probable path for a low return, not to mention a lot of stress.

3. Not Protecting Your Downside Risk

For good reason, many investors set out to find any company that can give them 10x their principal. Why wouldn't you want that? As an investor, you want to maximize your returns, so why not aim for the highest possible results? A shrewd investor surprisingly looks at this in a completely opposite manner. He is protecting his downside before he even considers the upside.

I'll advise new investors to diversify by buying into multiple stocks, and depending on the market conditions, buy into other assets classes. Stocks are and have always been a great asset class - on average. However, there are times when stocks are simply less attractive because they are expensive to buy and perhaps hold due to credit contractions. I would argue that at the start of 2016, the US Stock market is very risky at current prices and the downside risk is very high. This is a financial market I'm currently avoiding in an effort to protect my downside risk.

4. Not Understanding that the FED Controls the Business Cycle

Understanding how to invest in the stock market takes time. I really didn't have any great method when I started out, but if I had to do it all over again, I would start by understanding how the FED controls the business cycle and consequently the stock market. , I think no one can explain this better than Ray Dalio in his video, How the Economy Works Like a Machine. He is the founder of the world's largest hedge fund Bridgewater and Associates, and he manages more than $100B and his personal net worth is greater than $15B.

When you watch Ray's video you are going to see how important credit is in the overall system, and how it's actually the FED that controls the credit system by changing the interest rates and monetary baseline. The interest rate is like gravity that increases and decreases the value of all securities, including stocks. If you are a stock investor who has just begun, watching Ray's video will be your best step in education. Make no mistake when I say that his video helps seasoned investors too!

5. Understanding that investing is an Art and Science

The question all new (and experienced) investors keep asking themselves is: "What should I invest in?" The one thing I kept looking for when I started investing was a complete bulletproof method to pick the right stocks. I thought that with so much knowledge out there, I would eventually find the holy grail of investing and that would consistently outperform the market every year. So far, I have had no luck. I've seen almost all other investors making the same mistakes I did. They are not balancing quantitative and qualitative features.

What that means is they heavily rely on the numbers and fail to look at the qualitative traits of the business. They fail to research the industry, growth potential, and the value of the company's brand. Sometimes, they make an even more common mistake, which is to rely too much on the qualitative traits and not dig into a proper valuation, and what is behind the financial statements. In short, investors typically get polarized towards the numbers or the qualitative pieces of the business. Great investors on the other hand, understand both aspects. There is no short cut in investing. It truly is an art and science.

6. Not Matching your Style of Investing with Your Personality

All new investors experience an overload of information as soon as they start researching investing. Whenever they watch the financial news, a ton of statistics and earnings reports are thrown at them, and friends and relatives are usually not shy to provide well-meaning advice about strategies they have heard. So how should you filter all of the information? The first step is as hard as it is simple. You need to match your style of investing with your personality. If you don't do that, I'm sure there is no chance you'll ever beat the market.

I'm not sure I fully grasped this concept before I read Hedge Fund Market Wizards by Jack Schwager. In that book, Schwage interviews 15 of the most successful investors that consistently beat the market. While some of them traded hundreds of times every single day, others didn't bother with it unless something interesting developed. But, what about you? Have you figured what works for you? I'm into accounting and need to see many years of stability in a company before I feel comfortable buying it, and I therefore mirror billionaire Warren Buffett's approach. But, if you don't want to do that, and you are tech savvy, and you love to see new businesses grow, then you should probably listen to Silicon Valley tycoons like Elon Musk and Peter Thiel more often. My recommendation is find a billionaire that has a similar personality to your own and study their approach.

7. Lack of Patience and Inability to Go Against the Crowd

Do you make money when buying or selling a stock? This is a discussion I often hear people debate, but I'll say that you should probably look at this differently. You make your profit by waiting. I can easily understand how absurd that sounds for most people. This is especially true if you follow financial news. I feel like I have to keep buying and selling stocks and rearrange my overall portfolio almost on a daily basis. It can feel almost inhuman to be patient in the stock market. There is a huge myth in the investing world. That myth is that you need to be "making moves" in order to be making money. The mind set probably comes from the idea that if I don't get up in the morning for work, my boss won't give me my paycheck by the end of the month.

Most people carry the feeling of constantly needing to do something in the stock market. When the market is high, it's obviously preceded by a rallying stock market and the most logical thought is to keep buying stocks. Often, you'll hear how "this time it's different" because of the interest rate, oil prices, or something else and you get very confused. A mild confusion might actually be a good thing for most beginners as it forces individuals to do more research. But, on the other hand, if you easily have a polarized opinion that's based on narrow scope, you will likely struggle and have a difficult time. But here's the good news – if you do the hard work of understanding all of the critical variables, you'll eventually be successful.

What Should I do if I have a lot of these traits?

Easy. Study, study, study. For people that lack the ability to continue learning, they will struggle and lack the skills to understand the key variables and big picture.

I would like to bring you on our journey into the wonderful world of investing. The first step for us in that journey was to create a completely free video series on BuffettsBooks.com. The site teaches you how to invest like Warren Buffett through the books that shaped his investment philosophy. It's our own stock investing education that we want to share with you.

We also launched TheInvestorsPodcast.com, where we provide weekly studies on books and articles from billionaires. You can listen to our show in your car if you subscribe with your smart phone (click here for Apple users or here for Android users)

Additional Information

We get asked a lot of questions about our online videos and podcast. Below are a couple more tips we have for those questions.

Frequently Asked Question #1: Which Broker do you use and Why?

So I actually use two different brokers because there are advantages and disadvantages for the way I have things set-up. To start, a broker is nothing more than a company that conducts trades on your behalf. I encourage people to separate their research tools from their broker(s). I personally find the recommendations from stockbrokers to be grossly plagued in self-interest. As you might suspect, a broker has an interest in selling you on their company's mutual funds or highest commission products. You'll want to avoid this trap. A knowledgeable investor needs to think for themselves and do their own homework. Since I don't need the broker's analytical tools, and subsequent high fees, I recommend the following.

My Broker for Personal Use:

I strongly recommend TradeKing. The reason TradeKing works well for me is because I want my frictional costs (or transactional costs) to be an absolute minimum. Although I don't conduct a lot of trades a year (usually about 20 a year), those costs can really add up. Since most brokers charge about $10 a trade, that means I would spend $200 a year just on trading costs. Now, let's imagine you're like most investors and you trade a lot more than I do. For example, the typical day trader might buy and sell once a day during the 252 trading days in the year. That means they would conduct 504 trades in a year. Without much analysis, you can see that this behavior would cost the "investor" $5,040! That's a lot of money. It's very difficult to have any kind of returns when all the money is going to the broker.

TradeKing's personal trading accounts have no set-up fees. No annual fees, and they only charge $4.95 per trade. They'll even refund you $150 for fees associated with switching-over your current service to their platform – here's the link for that benefit. So in short, I only spend about $99 a year conducting all of my trades. For the day trader, they would save about $2,545.20 a year with TradeKing if they were making 1 trade a day. I created a video that teaches investors the difference between using a standard broker and discount brokers - The video can be found here.

My Broker for Corporate Use:

I recommend Scottrade. So I have a second broker because I also have a trading account within my business, The Pylon Holding Company. I don't use TradeKing here because with corporate accounts, they charge a $200 annual fee and also a $250 start-up fee. It's important to note that TradeKing does not assess these fees for personal accounts; only corporate accounts. As a result, I have a corporate trading account with Scottrade because they have no initial sign-up fee and no annual fees. Now the slight downside is that their trading costs are slightly higher, at $7.00 a trade. Since I only do about 20 trades per year, Scottrade offers a better value for my corporate account. (Cost per year is approximately $140; whereas TradeKing would have been $340 with the fees for being a corporation).

My Recommendation for Investors Outside the United States

Since I live in the US, I do not have an account with Firstrade. I'm highlighting them to our international listeners because they have fantastic terms, conditions, and fees. Firstrade is compatible for most international investors, and their fee is only $6.95 per trade (and there's no start up fees, annual fees, or costs when you wire your funds). I strongly recommend Firstrade for new investors as there is $0 minimum deposit, and you have access to a free live support chat to guide you through the process. Right now Firstrade is offering 100 free trades with a new sign-up through this link. The offer is valid for new US customers as well.

Frequently Asked Question #2: How do you Read so Many Books?

So many people ask us, *how do you have time to read all of these books*? The short answer is we don't. That's why we read books using an audio format. This means I can do two things at the same time – driving my car, doing dishes, working in the yard. The best way to read audio books is through Amazon's Audible service.

Reading is hands-down the most important element to a person's success. Further more, I find books to be much more important than "article reading". The reason is it forces people to focus. In today's day and age so many people have enormous distractors that make them bounce from one idea to the next. This is a dangerous environment because the knowledge people are acting on is skin-deep. Not having any substance beneath your understanding of the complex systems in this world means you might be making superficial decisions and potential mistakes in your thinking. At the end of the day, we want to answer this question: What are the fundamental attributes that give something its essence? Understanding the essence of complex systems allows individuals to be more creative, efficient, and productive. That's why we read books.

We personally use an application called Audible to listen to our books. This program is the best because it provides the cheapest price and the largest inventory of books. Audible is owned and operated by Amazon.com.

If you use this link, you will get your first book for free. If you don't like the application, simply delete your account within 30 days and you won't be charged a thing. We recently read the book, Thinking Fast and Slow. The book cost $40 to own the audio CD. If you want, you can download it for free with the link above.