CANACCORD Genuity
Wealth Management

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Investor Insight

Dekker Hewett Group - Independent. Trustworthy. Experienced.

Common Investing Errors

During periods of buoyant market conditions, making money in the investment markets may not be difficult. You know the scenario: It seems like every security you choose is worth more the next day. There seems to be no need for careful research. On paper, at least, your net worth is ballooning.

The reckoning comes when markets turn down. Suddenly, the mistakes are glaringly apparent. Here are some of the more serious errors that we see on a regular basis, in no particular order.

Diversification Errors

The concentration of investment assets in one situation is a common problem. We should not "put all our eggs in one basket" when selecting stocks for our portfolios. No matter how high quality, there is always the danger that a bad quarter or industry developments may adversely affect values.

The problem goes further. Think back to any of several companies whose stock has dwindled in value in recent years, due to mismanagement, fraud, or other reasons. Many employees of those firms had been encouraged to invest most of their assets in their companies through stock option plans and other incentives. When conditions turned bad, their life savings were jeopardized.

The solution: Think of the consequences. Diversify *all* assets to the extent possible, not just the stock in an immediate investment portfolio. Maintain a healthy balance as asset values change.

Tax Errors

It's easy to forget about income taxes, since the reckoning is done only once a year. Remember that different forms of investment income are taxed at different rates. As an example, a nominal return of 3 percent through dividends can beat higher fixed-income interest returns on an after-tax basis. Capital gain returns are taxed at even lower rates.

Dekker Hewett Group
Canaccord Genuity Wealth Management
609 Granville St., Vancouver, BC, V7Y1H2
T: 604.699.0852
E: dhginfo@canaccord.com
www.dekkerhewettgroup.com

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Also important: A reluctance to sell a security for tax reasons. An investor often may refuse to sell or pare down a holding because it means taxes will be triggered. But, if the fundamentals of the security suggest change and/or portfolio balance is involved, don't let the tax tail be in control.

" Maintain a healthy balance as asset values change"

Failure to Adjust

The financial markets are dynamic — constantly changing. The prospects of specific companies, industries, or even whole classes of securities can be attractive today, not so good tomorrow.

Don't refuse to adapt, or equally as bad, refuse to admit mistakes. Your needs change as well, and your holdings should be adjusted periodically to fit your circumstances. Above all, remember that you are not marrying a security. Your purpose in investing is to earn an excellent return, not to own XYZ Co. forever.

Acting on Emotion

Fear and greed are said to be the drivers of market sentiment. Market peaks, when the mood is euphoric, are usually not good times to invest. Yet, unsophisticated buyers rush to join the party at these times. By contrast, times of gloom and doom can offer many bargains, but most people will sit on the sidelines. Or, perhaps even worse, they might liquidate their portfolios at market bottoms, vowing never to invest again. Having an investment plan and well defined objectives will help control these emotional strains. Maintain perspective by working steadily toward a measurable goal instead.