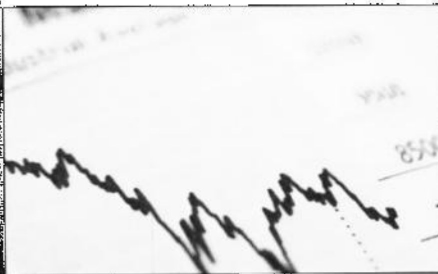
The Eight Biggest Mistakes Investors Make



... And How to Avoid Them

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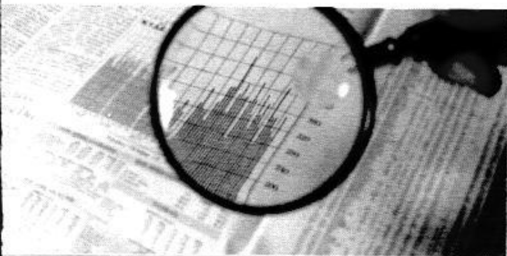


Though the financial panic of 2008 is now behind us, many investors may still worry the economic turmoil of the last recession lingers. With uncertainty in the financial markets, you may wonder how you'll keep your own portfolio on track to meet your financial goals. Successful investing requires more than just selecting the right stocks or bonds. It also requires avoiding big mistakes that can seriously hurt your long-term portfolio growth potential.

Fisher Investments created this guide to help you make better investment decisions. It explains some common mistakes investors make and how to avoid them. Just sidestepping any one of these mistakes could greatly improve your ability to reach your investing goals.

Mistake #1: Not Having Clear Investment Objectives or an Appropriate Time Horizon

Mistake #2: Underestimating the Time Horizon for Your Assets

Mistake #3: Ignoring the Impact of Inflation on Your Portfolio

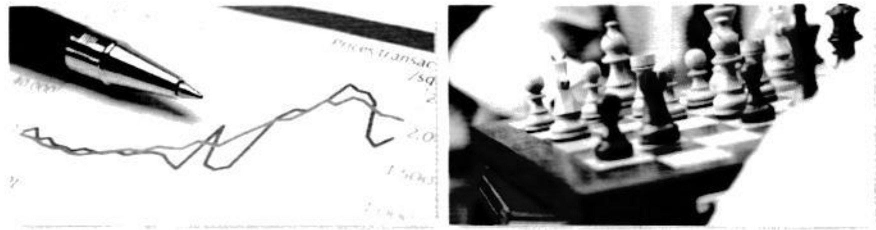
Mistake #4: Turning Away From a Long-Term Investing Strategy After Suffering Losses

Mistake #5: Improperly Judging Risk

Mistake #6: Ignoring Global Securities Markets

Mistake #7: Making Investments Based Only on Widely Known Information

Mistake #8: Forgetting the Importance of Supply and Demand



Mistake #1: Not Having Clear Investment Objectives or an Appropriate Time Horizon

Sadly, people often invest without clear investment objectives or an appropriate time horizon, and focus instead on short-term returns and price swings. Many investors who experience significant declines in a bear market think to themselves, *"I just need to get my portfolio back to where it was before this bear market started, and then I'll get out,"* or *"I need to stay away from stocks because they're too risky."*

While both of these emotional reactions are understandable in the midst of a bear market or correction, they are too narrowly focused on recent events. Neither reaction reflects a cohesive investment strategy. Will either approach provide an investor with enough money to last through retirement? Will either reaction ensure assets will be available for heirs? It's impossible to say without understanding an individual's personal goals and objectives.

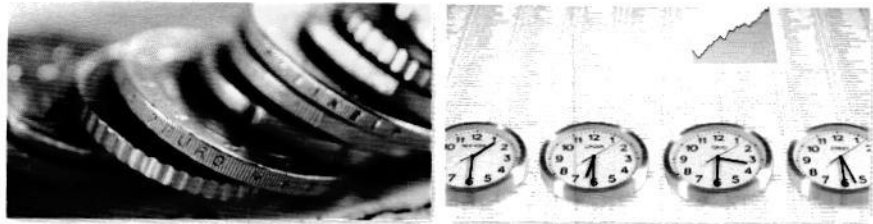
If you don't have clearly defined investing goals over an appropriate time horizon, you're much more likely to have "knee-jerk" reactions to short-term market events. That means you'll have to rely on luck to achieve your goals rather than a strategy with a high probability of success.

This guide can help you begin to identify some personal portfolio objectives—a first step to reaching your long-term financial goals. Since every investor is different, this guide is simply meant to illustrate some goals and objectives you might identify as your own. We encourage you to not only review these goals and objectives, but to also have a detailed discussion about your personal investment strategy with a qualified investment adviser.

Don't skip this critical step—you can significantly increase your chances of long-term investment success by starting with clear investment goals and objectives.

Personal Investment Objectives

Goal	Objective
Grow my assets.	Have $_______ at the end of my time horizon.
Maintain my purchasing power.	Ending value will be at least as much as initial investment, adjusted for inflation.
Provide cash flow for my lifestyle.	Provide $_______ per year.
Provide cash flow for my spouse.	Provide my spouse with $_______ per year.
Provide cash flow for my lifestyle and grow my assets.	Provide $_______ per year and have $_______ at the end of my time horizon.
Have a trusted adviser who can manage portfolio for my spouse.	Work with the adviser for _______ years.



Mistake #2: Underestimating the Time Horizon for Your Assets

Perhaps the most unpleasant risk investors face is running out of money during retirement. People work their entire lives to accumulate enough wealth to make sure this doesn't happen. Unfortunately, investors often underestimate how long their portfolio will need to provide for them. People are simply living longer today on average than decades ago, which means their money needs to last longer.

Given rapid advances in health care and nutrition, we believe this trend will continue. This presents a challenge to today's investors not faced by previous generations. You simply must plan for a longer time horizon than your parents or grandparents did.

Having an accurate sense of your life expectancy can mean the difference between investing success and failure. One of the primary drivers of a successful portfolio strategy is the ability to accurately identify the time horizon for your assets. Time horizon is the amount of time your assets need to be working for you.

A common example of time horizon is your life expectancy. You may need your assets to provide cash flow for as long as you (and your spouse) live, without regard for what is left over. Your time horizon can extend further if you plan to grow your portfolio for the benefit of heirs. Lastly, your time horizon could be based on something different altogether, like purchasing a vacation home at some point down the road.

The table below shows total life expectancies for Americans, based on current age.

Average Life Expectancy*

Current Age	Life Expectancy	Current Age	Life Expectancy	Current Age	Life Expectancy	Current Age	Life Expectancy
51	81	61	83	71	85	81	89
52	81	62	83	72	86	82	90
53	81	63	83	73	86	83	90
54	82	64	83	74	86	84	91
55	82	65	84	75	87	85	92
56	82	66	84	76	87	86	92
57	82	67	84	77	88	87	93
58	82	68	84	78	88	88	93
59	82	69	85	79	88	89	94
60	83	70	85	80	89	90	95

We believe these projections likely underestimate how long people will actually live given ongoing medical advancements. And don't forget these are projections of average life expectancy—planning for the *average* is not sufficient since about half of people in each bracket are expected to live even longer. Factors such as current health and heredity can also cause individual life expectancies to vary widely.

Once you have evaluated your own life expectancy, be sure to consider other factors that may affect the time horizon for your assets. If your spouse has a longer life expectancy, that could increase your investment time horizon. Planning to leave money to your heirs or charity can further increase the time horizon for your assets.

Though some money managers may use cookie-cutter "rules of thumb" based on your age to construct your portfolio (e.g., 100 minus your age equals your percentage in stocks), a more in-depth consideration of the true time horizon for your assets can better help you achieve your investment goals.

As you evaluate your retirement portfolio, don't put your lifestyle or investment goals at risk by planning for too short a time horizon.

**Source: 2007 US Total Population Life Table (revised as of 06/28/2010), National Vital Statistics Reports, Volume 58, Number 21. Life expectancy rounded to nearest year.*

Mistake #3: Ignoring the Impact of Inflation on Your Portfolio

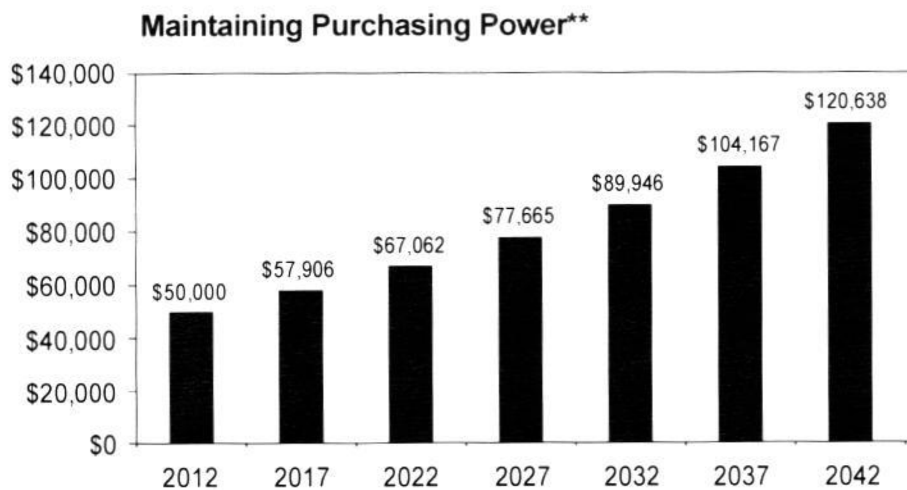
Investors all too often focus on the dollar value of their portfolios without considering their purchasing power. Over time, a portfolio's purchasing power can diminish due to inflation. As the prices of items increase, today's dollars will buy less in the future. For example, a first-class US postage stamp cost only $0.04 in 1959 and rose to $0.44 fifty years later. Inflation's negative impact on purchasing power means many investors may need more portfolio growth than originally anticipated.

Since 1925, US inflation has averaged about 3% per year,* though it does fluctuate over time. If we assume prices continue their long-term trend and rise about 3% per year for the next 30 years, a person who currently requires $50,000 USD to cover annual living expenses will need approximately $67,000 in 10 years, $90,000 in 20 years and more than $120,000 in 30 years *just to maintain the same purchasing power.*

Similarly, if you placed $1,000,000 USD under your mattress today, in 30 years that money would only be worth around $400,000 in today's dollars.

When considering your portfolio's return, it's critical to include the impact of inflation. If inflation averages 3% per year, a portfolio that grows at 5% annually has a real annual return of only 2%—your portfolio can actually only purchase about 2% more, not 5%. That's not much growth in purchasing power.

Investors need to consider inflation and how to grow their purchasing power, as well as the dollar value of their portfolios.



**Source: Global Financial Data, Inc.; as of 01/18/2013. Based on US BLS Consumer Price Index from 1925-2012, shown in USD.*
***Estimate based on a 2.98% rate of inflation.*

Mistake #4: Turning Away From a Long-Term Investing Strategy After Suffering Losses

After a correction or bear market, some investors may be tempted to abandon stocks once they've recovered their losses. Some may swear that when they *"get back to even,"* they'll never look at a stock again. Such emotional decisions can be harmful because they remove the focus from achieving investing goals. In times like these, it's especially important that investors stay focused on their long-term strategies.

Prudent investors know stock markets can sometimes be bumpy and unsettling. However, historically, that volatility has come with a benefit—stronger long-term returns relative to bonds. Since 1926, the US stock market has returned about 10% a year on average.* This includes both bull markets and bear markets. Collectively, bull markets have been greater than bear markets, resulting in the stock market moving higher over time. If stock prices never surpassed their previous highs, growth would not exist. A look at the stock market following significant drops provides historical perspective. The following chart shows the S&P 500 Index—a gauge of US stock performance—during and after the bear market of the early 1990s. The dashed line extends from the prior bull market peak to the point at which stocks returned to their former high. The arrow that follows shows the general direction of stocks after breaking even. As you can see, stocks typically forge ahead after recovering from a bear market and go on to new highs.

Previous highs for stocks don't foretell how the stock market will perform in the future. In the throes of a bear market, it's easy to think the market will never recover. Truth be told, it's impossible to know exactly if and when stock prices will again reach their previous highs, but there's no reason to think they'll stall out once bear market losses have been recovered. Though remaining calm during volatility can be challenging, capturing market moves above previous highs is essential to achieving long-term stock market gains.

Investors need to focus on long-term goals in all market conditions, especially after suffering a loss.

**Source: Global Financial Data, Inc.; as of 01/18/2013. Based on 9.72% annualized S&P 500 Index total returns from 1926-2012. The S&P 500 Total Return Index is based upon GFD calculations of total returns before 1971. These are estimates by GFD to calculate the values of the S&P Composite before 1971 and are not official values. GFD used data from the Cowles Commission and from S&P itself to calculate total returns for the S&P Composite using the S&P Composite Price Index and dividend yields through 1970, official monthly numbers from 1971 to 1987 and official daily data from 1988 on.*
***Source: Global Financial Data, Inc.*

Mistake #5: Improperly Judging Risk

Many investors improperly judge risk. Generally, the longer the time horizon of your investments, the more risk that may be appropriate, depending on your cash flow needs and return objectives. However, many investors take too little risk. That's right—they incorrectly focus on short-term volatility rather than the probability of achieving their long-term objectives. Increased risk can allow for increased returns over the long term. But overly conservative portfolios can underperform.

While increased volatility, like that experienced in a correction or bear market, might make it tempting to switch to less volatile investments, you might actually be increasing the risk of not meeting your long-term investment goals.

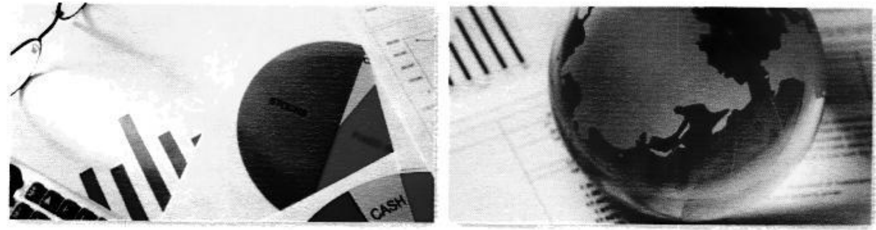
For example, some US investors may load their portfolios with low-yielding Treasury Bonds to avoid stock market volatility—even if their time horizons are greater than 20 or 30 years. This strategy typically offers meager returns, especially when you consider the impact of inflation.

The short-term volatility inherent in stocks can make them feel risky, but stocks are much more likely to help grow your portfolio if you have a long time horizon. The illustration below shows to what degree US stocks have outperformed bonds over 20-year rolling time horizons (e.g., 1926-1946, 1927-1947, etc.). Stocks have outperformed US bonds in 97% of the 20-year periods since 1926! When stocks outperform bonds over 20-year periods, it tends to be by a wide margin. When bonds outperform stocks, the performance tends to be far more modest.

Rolling 20-Year Stock vs. Bond Returns*

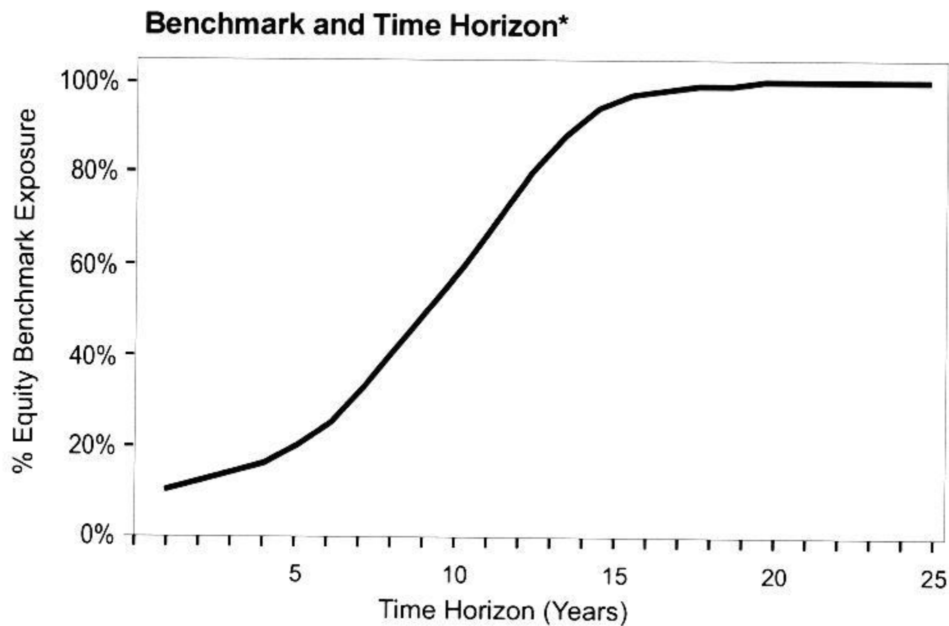
	When Stocks Outperformed	When Bonds Outperformed
US stocks average 20-year return	872%	239%
US bonds average 20-year return	248%	262%
Stocks' margin of outperformance	3.5	–
Bonds' margin of outperformance	–	1.1
Periods When Bonds Outperformed Stocks:	**US Stocks:**	**US Bonds:**
January 1, 1929 – December 31, 1948	74%	92%
January 1, 1989 – December 31, 2008	404%	433%

**Sources: Stocks as measured by the S&P 500 total return index; bonds as measured by 10 Year US Government Bond total returns. Global Financial Data, Inc. as of 01/15/2013. The S&P 500 Total Return Index is based upon GFD calculations of total returns before 1971. These are estimates by GFD to calculate the values of the S&P Composite before 1971 and are not official values. GFD used data from the Cowles Commission and from S&P itself to calculate total returns for the S&P Composite using the S&P Composite Price Index and dividend yields through 1970, official monthly numbers from 1971 to 1987 and official daily data from 1988 on.*



Conversely, investors with short time horizons are often exposed to too much risk, which increases the potential for loss during periods of short-term volatility.

The chart below shows potential equity allocations based on different time horizons. While every investor's situation is different, we generally believe the percentage of your portfolio allocated to stocks should increase as your time horizon increases.



Understanding your exposure to risk—as well as your time horizon and investment objectives—can help you make better asset allocation decisions.

**Hypothetical example for illustration only. Illustrated exposure is approximate and does not constitute a recommendation. Data points are not exact and only indicate a general range. Actual equity exposure will vary based on individual objectives.*

Mistake #6: Ignoring Global Securities Markets

As a result of globalization, there are a great number of innovative companies and investment opportunities to take advantage of. Don't make the mistake of limiting yourself to domestic markets!

It's a mistake to think a portfolio is properly diversified simply because you have chosen stocks across differing sectors. That is not enough. Return is, in part, related to the overall economic performance and political climate of the home country. A flagging 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. If, for example, you were to purchase stocks diversified across all sectors located within France, performance might depend more upon the country's economic performance than that of the chosen companies.

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

** International investments may include additional risks, including without limitation, currency fluctuation, political and economic instability and differences in financial reporting.*

Mistake #7: Making Investments Based Only on Widely Known Information

What information do you use when considering an investment? Many investors regularly read various newspapers and magazines, subscribe to newsletters and do additional Internet research.

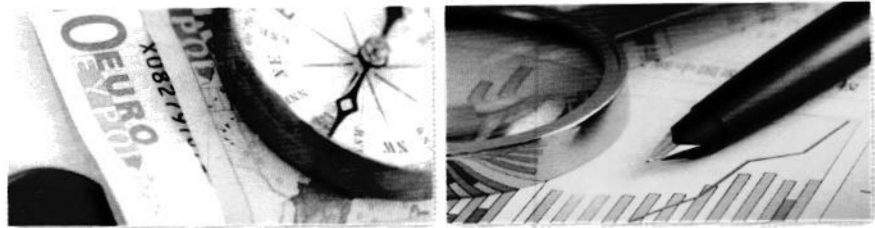
Unfortunately, countless hours spent reading and researching may not help you beat the market. The morning newspaper, research from a broker and commentary on the radio, television or the Internet are all widely available and can be counterproductive.

Why? Because capital markets efficiently price in all widely known information. As soon as news is available to the public, it becomes reflected in share prices. So looking at the same things as everyone else doesn't give you a leg-up on other investors.

Despite this fact, many investors still make trading decisions based upon widely known information. That's not to say news should be ignored. Rather, in order to beat the market over time, we believe investors must interpret widely known information differently and correctly. This unique knowledge and insight can enable you to take advantage of things others miss.

Gaining this knowledge is difficult but not impossible. It takes experience, research, strong analytical skills and a significant amount of time and dedication. We've found many individual investors simply do not have the time needed to research and uncover unique information to help generate excess returns—a key reason why they may fail to do better than the market.

Basing your investment decisions on widely known information is simply not the best way to beat the market.



Mistake #8: Forgetting the Importance of Supply and Demand

Investors open the newspaper each day to a near avalanche of information. Pundits, economists, analysts and journalists all have theories on what factors will move stocks. Yesterday, it was energy prices. Today, it's currency movements. Tomorrow, it'll be interest rates. The reasons they cite seem endless.

Despite all this conjecture, the most fundamental factors determining stock prices often go unnoticed: supply and demand. Basic economic theory states supply and demand for any asset traded in a free market will determine prices. Though this fundamental can be easy to overlook, it's vital for understanding stock movements.

The run-up and drop in US housing prices a few years ago is an example of supply and demand working in the marketplace. As US mortgage rates reached historic lows in 2002 and 2003 (and more "non-traditional" mortgages were introduced, many with low down-payment requirements), demand for homes increased as both down payments and monthly payments became more affordable. Initially, housing supply remained relatively steady, since new homes could not be built overnight. Therefore, housing prices rose. But soon developers and builders began to flood the market with new homes to meet this increased demand, significantly increasing supply, particularly in "high demand" areas like parts of Florida, California, Nevada and Arizona. A glut of new homes and sagging demand caused US home prices to tumble. While this is a greatly simplified explanation, it helps underscore the importance of supply and demand in the market.

Stock prices can behave similarly. The supply of equities is relatively fixed in the short run because it takes time for companies to issue new shares. Therefore, shifts in demand are the primary cause of short-term price movements. However, in the long run, supply has an almost infinite ability to change. IPOs, stock buybacks, mergers and acquisitions combine to make supply the dominant factor in stock prices over longer time periods.

Consider the US bull market in the late 1990s. At that time, demand surged as investors clamored to purchase stocks. Initially, stock supply remained relatively steady, and stock prices rose. But in late 1999 and early 2000, a huge influx of stocks came to market through initial public offerings (IPOs). The new supply overwhelmed demand, stock prices fell and a bear market ensued. After the bear market, the supply trend reversed as a high rate of cash mergers and acquisitions reduced stock supply and boosted prices.

The ability to screen out unimportant noise and accurately track, analyze and evaluate basic supply and demand is important in making successful market forecasts.

We Believe Fisher Investments Can Help You Avoid Mistakes and Build a More Secure Financial Future.

Avoiding these mistakes takes discipline and time. Even the most savvy investors find it difficult to avoid all investing pitfalls. Many investors simply don't have time to process the vast amount of information available today and apply it to their individual, sometimes complex, investment needs.

Fisher Investments has been helping investors avoid these mistakes for over 30 years. We take time to educate you regarding our investment decisions through proactive contact from a dedicated Investment Counsellor, written correspondences such as Quarterly Reviews, periodic email updates and our MarketMinder.com website.

To get the benefit of Fisher Investments' expertise or to learn more about how we can help you avoid serious investing mistakes, please call 888-291-0675.

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Facts About Fisher Investments to Compare With Your Current Adviser

Fisher Investments	Your Investment Adviser
☑ Your portfolio is constructed according to your specific needs, taking into account your investment objectives, time horizon for the assets, cash flow needs and other factors specific to you.	?
☑ You get proactive service from your own Investment Counselor, who will keep you up-to-date on your portfolio.	?
☑ Your portfolio is managed by a team with over 100 years of combined industry experience.	?
☑ Your firm's CEO has written for *Forbes* magazine for over 28 years and has written ten books on investing and wealth creation, including four *New York Times* bestsellers.	?
☑ You get a disciplined approach to your investment strategy that goes beyond just stock picking.	?
☑ You can take advantage of global investing opportunities with our significant experience globally.	?
☑ You won't be limited to a single style of investing (like "growth" or "value") as we can shift our strategy based on our forward-looking view of market conditions. If we forecast an upcoming bear market, we might adjust your portfolio allocation to be more market neutral with fewer stocks and more bonds, cash or other securities.	?
☑ You'll have competitive, transparent fees that align our interests with yours. If your portfolio does better, we both do better.	?

Investing in securities involves the risk of loss.
Past performance is no guarantee of future returns.

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