Six Common Pitfalls of Do-It-Yourself Portfolio Management

Our financial advisors weigh in on common management mistakes and oversights that are as easy to avoid as they are to make.

By Randall J. Richard

Whether you're a novice just beginning to build your portfolio or a veteran investor, successful asset management is a challenging endeavor. At Richard Brothers, our financial advisory team encounters a range of common mistakes DIY investors make.

Over the next few paragraphs, we'll highlight those unforced errors – and offer advice on how best to avoid them.

1. Overlooking Strategy

The Problem: Without clearly-defined objectives – and a plan to achieve them – it's impossible to know where you're going, or how best to get there. In many cases, DIY portfolio managers invest without a detailed investment plan. As a result, they often lose track of their money, make rash investments, sell stocks prematurely, and make key decisions with little consideration of how they'll impact long-term investing goals.

The Solution: Experienced financial planners take time to develop clear, actionable strategies before making investment decisions. With DIY portfolio management, the approach should be no different. So before you make your way into the market, ask yourself what you want to accomplish with your portfolio. Are you trying to supplement your retirement income? Would you like to leave your investment assets for future generations? When you identify what you're trying to achieve, you can use those objectives as a litmus test to evaluate every investment decision you make. Take the time up front to strategize, and carefully consider whether each investment you make is true to your portfolio management plan – before you make it.

2. Following Trends Without Research

The Problem: When you see someone else's success, it's tempting to follow in their footsteps. That's why many DIY money managers fall into the trap of buying or selling a stock because they've seen someone else make money with it. Once investors take that step, they often fall prey to market fluctuations – and make buying or selling decisions without the discipline of a sound strategy. Always remember: just because a stock worked for someone else doesn't mean it'll come through for you.

The Solution: It's conventional wisdom for world-class athletes to run their own race – and the same philosophy holds true for successful investors. Avoid the temptation to rely on someone else's money management experiences, and stay true to your plan. Everyone's financial planning goals, money situations, and investment strategies are different. Stay focused on your portfolio management plan, and use that as the basis for all your investment decisions.

3. Not Giving Investments Time to Pay Off

The Problem: It's all too common for DIY investors to fall into the trap of moving their investments too often. Few DIYers have enough time to be daily traders. Whether casual investors move investments around too often or sell too quickly, they compromise the proven benefit of giving investments time to work – and that lack of discipline nearly always yields disappointing results.

The Solution: View your investing strategy as a marathon, not a sprint. With most investments, it's better to leave them alone and let them perform for you. Market fluctuation comes with the territory – and a steady hand (and nerves of steel) almost always produce.

4. Letting Emotions Rule

The Problem: Many DIY investors view their investments as a ticket to getting rich quick. When you see a stock fall or rise abruptly, it's tempting to make a rash decision to buy or sell. Unfortunately, emotional trading is inherently unpredictable – and often leads to disappointing returns.
The Solution: It's easier to say than it is to do, but it's vitally important not to let your emotions rule your portfolio management decisions. This is another reason why it's so important to develop a plan before you invest. When you have a plan and can see the big picture, you're more likely to make rational decisions that are aligned with your long-term goals.

5. Saving on Costs – and Sacrificing Value

The Problem: While it's an attractive measure for investing decisions, it's important not to view cost as the primary driver for your investment planning. Instead, look for something beyond the lowest trading cost. If you're hesitant to invest in a financial advisor due to their fees, it's important to consider the value of experience. In many cases, an investment in skilled financial advice pays dividends that outpace any savings realized by going it alone.
The Solution: If you're afraid to partner with an advisor, you may miss out on higher levels of success. Consider the value of working with an advisor. The benefits often outweigh the nominal costs you may have to pay.

6. Not Getting Feedback

The Problem: When you elect to self-manage your portfolio, you miss out on receiving impartial feedback that considers a range of important factors – and helps you form a well-rounded perspective.
The Solution: Talk with a professional portfolio manager and get advice about your plan, goals, and investment strategy. Often, DIY portfolio managers don't have enough time to research their next move or monitor their investments. An advisor works with you to develop clear plans and goals for your investments. With the right portfolio manager, you can balance the risks and rewards of investing to build a strong foundation for your portfolio.

ABOUT RICHARD BROTHERS FINANCIAL ADVISORS
For over 20 years, Richard Brothers has provided clients with comprehensive financial planning solutions and tailoredinvestment advice with expertise in wealth management including retirement security, estate protection, business transition, education funding and corporate solutions. The company focuses on the "whole picture" approach when helping clients realize their lifetime goals. Headquartered in South Portland, Maine, Richard Brothers Financial Advisors provides goal-based solutions to individuals, families—as well as businesses, nationwide.

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