8 Investment Pitfalls To Avoid In 2013

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Few words better characterize today's financial markets than UNCERTAINTY.

We believe investors need to adjust their expectations in order to adapt to the road ahead. It seems to be the nature of today's markets to subject investors to sharp price fluctuations and confusing global events that test emotional fortitude at every turn. Experience has taught us that successful investing requires discipline and the patient execution of a long-term strategy, most especially when it is emotionally difficult. In fact, that is usually the time when opportunities are greatest.

In order to help our clients chart a course in uncertain waters, we've compiled a list of critical mistakes to avoid.

Mistake #1: Expecting a Smooth Ride

You probably remember the heydays of the 90's - many investors felt like they were on an elevator heading to the top floor. Today's markets are not like that, and it is a MISTAKE to think that those conditions will return any time soon. In this "new normal" economy, big swings in the market have many people scared stiff. However, even in a choppy market, with the right mix of investments, there is money that could be made.

This means that during periods of market turbulence, you may need to adjust your mix of investments. It is also important to remain flexible in your investment selection, so as to take advantage of mispriced assets in a way that can both help to reduce risk and increase returns.

However, both of these techniques require active, professional management. You simply cannot count on achieving these results in a basic retirement account. Regardless of your investor profile, making the most of today's markets and holding onto your investment returns will require conviction in your investment strategy. Retreating and starting over each time is almost a sure path to ruin.

Mistake #2: Trying to Time the Market

When markets are rallying or pulling back, it's often very tempting to try to seek out the top to sell, or the bottom to buy. The problem is that investors usually guess wrong, missing out on the best market plays. Does the cost of trying to time the market make a big difference in your returns? You bet it can.

For example, between 1986 and 2005, the S&P 500 compounded at an annual rate of 11.9%-even while weathering Black Monday, 9/11, and various booms and busts. However, according to a recent Dalbar report, the average investor's return during that period was just 3.9%. Why? Trying to time the market.

Mistake #3: Taking Too Much Risk

Not only do investors pay the timing penalty, they also pay a penalty for having too much risk. Portfolio risk can be insidious. You might think that by holding a diverse mix of stocks, bonds, and alternatives that you are adequately managing your risk, but it's very possible that your investments are correlated and may react to a market decline in the same way. One of the best services an investment professional can provide is a clear-eyed evaluation of risk and an asset allocation structure to mitigate it while still helping you reach your goals.

Mistake #4: Taking Too Little Risk

A portfolio containing too little risk can leave you feeling safe but sorry as your portfolio misses out on the important market rallies. Many investors are flocking to so-called safe haven investments like U.S. Treasuries and cash. This aversion to risk can have serious adverse effects on long-term investments, as too many fixed-rate investments put a cap on your portfolio's upside. Too little growth can leave you with a shortfall in your retirement years. With inflation eating away at cash every year, most investors need at least some growth-oriented investments.

Mistake #5: Making Emotional Investment Decisions

There are two emotions that you need to confront whenever you make financial or investment decisions: FEAR and GREED. Fear can cause us to abandon a strategy when the outcome is not what we want. Greed can cause us to chase investment fads and take on too much investment risk. It's impossible to avoid feeling these emotions when making important financial decisions; however, you can recognize them, and engage your rational mind to overcome them.

Mistake #6: Focusing More on Returns than Managing Risk

Chasing performance is one of the biggest mistakes made by investors. That feeling of "I don't want to miss out" has probably led to more investment mistakes than any other factor. If you take the time to study past performance, you will discover that it is not a reliable way to predict future winners. Often by the time the average investor gets in, the "smart money" has already gotten out while the not-so-savvy money continues to pour in. Don't make this mistake.

Mistake #7: Ignoring the Impact of Taxes

Capital gains taxes and dividend income taxes will grow significantly in 2013.

Earning investment gains and income is important. Keeping as much as you can from what you earn is even more important. It's critical to evaluate the tax impact on your portfolio.

Mistake #8: Not Seeking Professional Advice

Quite simply, the old days of achieving steady returns through cookie-cutter approaches are over. Successfully navigating the turbulent investing world of today requires professional training, active management, and loyalty to a long-term, active investing strategy.

While it is impossible to predict what the markets will do in 2013, generally, each downside contains an upside somewhere else. We specialize in seeking out these opportunities. Our goal is to smooth out the highs and the lows, and avoid the worst-case scenarios with active professional management. Above all, we want to help our clients relax and enjoy the lifestyle that they have worked to build, knowing there is an experienced, vigilant hand at the tiller.

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