What are the common investing mistakes?

This is a guest post from Pinyo, author of Moolanomy , a personal finance blog about money, wealth, investing, and more on Get Rich Slowly . The post has been done in a simple manner and they can help you learn from them.

I’ve been investing since 1996. In the process, I have learned a lot, mainly from trial and error. I’d like to share my experience with you. Here are some of the mistakes I’ve made:

1. Not investing soon enough — I have been working part-time since my first year at college in 1991. If I had known what I know today, I would have invested my money in an IRA from day one. But like many other young adults, I was thrilled to have money and to spend it all on things that I enjoyed — movies, games, electronics, etc. If I had invested just $2,000 per year while I was in college, that $8,000 invested in an S&P 500 index fund would be worth about $36,000 today.
2. Not knowing the basics— When I finally began investing, my first move was to give my money to a full brokerage firm to invest for me. I didn’t know anything about stocks or mutual funds. I just knew I should invest money to make more money. This was a big mistake since each trade executed by my broker cost a lot of money. Also, the mutual funds they picked weren’t good, and were very expensive.
3. Chasing past performance — Once I got smart enough to switch to a discount broker, I committed another mistake. I chose mutual funds based on their past performance and Morningstar rating. I picked several loaded / high expense-ratio funds that lagged the general market in the subsequent years.
4. Not paying attention to expense ratios — Not until recently did I realize how badly expense ratios can affect investment performance. I always thought “it’s only 1%, what’s the difference,” and went for the investment with better performance. I finally ran some numbers and I was shocked to learn that a difference of 1% can lower my investment performance by 25% over the course of 30 years. Instead of ending up with $1 million, for example, I might only have $750,000.
5. Not paying attention to distributions — This is another number that I did not pay attention to back then. I held some funds in my IRA and some in my regular account. For a couple years, I thought high distribution was really cool because I was making more money. How silly was that? Now I realize that I am paying other people’s taxes when I get mutual fund distributions. Now with my regular account, I invest either in low distribution funds or in ETFs.
6. Not paying attention to asset allocation — Way back when, my investment was mainly in large-capitalization U.S. stocks and funds. I did not know about asset allocation as a risk management and performance enhancement tool. It wasn’t until 1999 — when I became eligible for a 401k — that I started giving asset allocation serious thought.
7. Ignoring diversification — Again, with little experience and little money to invest, I was going after high-flying stocks (at least I thought they were) and did not pay any attention to diversification. Like asset allocation, it took me a long time to realize how diversification helps to reduce risk and enhance performance. The value of diversification became apparent to me at about the same time that asset allocation did.
8. Selling winners and keeping losers — This was my all time weakness. I knew the concept of “buy low and sell high.” So with little experience, I ended up selling a lot of my winners like Staples (SPLS), Ameritrade (AMTD), and Microsoft (MSFT) to lock in the gain; but held on to my losers like Flemings (FLMIQ) and eToys (ETYS).
9. Cost averaging down — This was another “buy low and sell high” mistake. Not only did I hold on to my losers, I bought more shares in hope of lowering my cost basis and reducing my losses. I did this blindly without additional research to find out why these losing stocks went south.
10. Investing without a goal — Not until recently did I define a real goal for my investment — among other things, one of my investment goals today is to build a $1 million investment portfolio by 2017. This is my main retirement portfolio. Other goals, which I am still defining, are investing to subsidize my kids’ college expenses and my parent’s retirement expenses. Without a clear goal, I was chasing short-term performance and was prone to act on market swings.
11. Selling on corrections & buying at the top of the market — These are symptoms of not having a clear goal. Since I was chasing short-term performance with the objective of making more money. I occasionally gave in to my emotion and sold my investments during corrections to protect my gains. Occasionally, I did come out ahead, but most of the time I ended up rushing to reinvest my money as the market invariably rose after these corrections.

As you can see, I was not a very good investor, and it took me a long time and too much money to learn from my mistakes. I hope that by sharing these common pitfalls, you can avoid some of them on your journey. Good luck with your investing!