BUILDING BLOCKS FOR RETIREMENT

Diversification

Your Personality — How it Impacts Your Investment Strategy

What words come to mind when you think about your personality traits? Impulsive? Confident? Organized? Now think about how you make investing decisions. Would the same words apply?

Research suggests that certain psychological traits may influence a person's investment decisions -- often at the expense of logic. When personality overrides rationality, the result could be investment returns that don't match your expectations.

Consider the characteristics described below. Could any of these be sabotaging your investment success?

Fear of Losses

Falling stock prices can send many investors into "sell" mode. Fearful investors tend to be more upset over investment losses than they are happy about gains. As soon as they experience a small loss, fearful investors temporarily move their money out of the market to wait for a rebound before reinvesting. But selling investments with every market fluctuation may result in lower returns than staying invested and waiting out the downturn.

Minimize the temptation to move money out of stocks after a relatively minor loss by making sure your portfolio has a diversified asset mix based on your time horizon and risk tolerance. Any changes you do make should come only after a thorough review of your investments and should complement your overall strategy.[1]

Procrastination

Most people save money toward a variety of goals -- some that are short term and others that are far in the future, such as retirement. But some investors are so focused on their present needs that they put off saving for long-term goals. And that procrastination can keep them from accumulating a large enough nest egg to fund a comfortable retirement.

You can help prevent a shortfall at retirement by having a specific amount of money automatically deducted from each paycheck and invested in an employer's retirement plan or other investment account. Having a regular savings plan can keep you on track to reach long-term goals. After all, you won't be able to spend money you don't have in your hands.

Overconfidence

Overestimating one's investing knowledge and abilities can lead to mistakes that may sabotage long-term investment performance. Trading investments frequently in an attempt to increase returns can result in higher transaction costs and significant tax liabilities when investments are held in taxable accounts. Keeping track of costs can shed some light on just how costly frequent trading can be. Having a well-designed investing strategy that you stick with through market ups and downs can deter you from frequent trading that may lower returns.

Impulsiveness

Buying and selling investments haphazardly can wreak havoc on a portfolio. For example, a stock whose price has dropped may or may not be a good value, depending on the reasons for the price decline.

Before making purchase decisions, it's important to identify how you anticipate the investment will function in your portfolio. Keeping good notes can help you determine if replacing an investment you currently own makes sense. By reviewing your original reasons for purchasing the investment, you'll be able to see if its performance has lived up to your expectations. If it hasn't, you can look for a replacement that's a better fit with your investing strategy and doesn't duplicate anything that's already in your portfolio.

Source/Disclaimer:

[1]Diversification does not ensure a profit or protect against loss in any market.

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