9 INVESTMENT PITFALLS
TIMELESS TIPS WHEN MANAGING MONEY

9 INVESTMENT PITFALLS

TIMELESS TIPS WHEN MANAGING MONEY

Cotton Wealth Management Associates

Experience has taught us that successful investing requires discipline and patience. When emotions run high, it can be easy to lose focus on your investment strategy. To help you overcome these challenges, we've compiled a list of common mistakes and guidelines.

While reading this report, it's important to remember that investing involves risks and that investment decisions should be based on your own goals, time horizon, and risk tolerance. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original costs.

MISTAKE #1: BELIEVING THAT INVESTING IS A SMOOTH RIDE

Investors need to remember that markets can be turbulent. Between February 12, 2020, and March 23, 2020, the Dow Jones Industrial Average lost 37 percent of its value due to the onset of the COVID-19 pandemic. Fortunately, recovery was swift, and by November 2020, U.S. markets had returned to their pre-pandemic highs.[1,2]

Preparing for declines is essential. There can be a strong temptation to pull out of the markets when they tumble. Instead of retreating, you may need to adjust your investment approach. By remaining flexible, you could take advantage of opportunities while managing risks.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Individuals cannot invest directly in an index. It's important to note out that past performance is no guarantee of future results.

MISTAKE #2: TRYING TO TIME THE MARKET

When markets rally or pull back, seeking out the top to sell or the bottom to buy can be tempting. The problem, however, is that investors usually guess wrong, potentially missing out on the best market plays.

For example, one recent report showed that a $10,000 investment in the Standard & Poor's 500 Composite Index on January 1, 2003, would have grown to $64,844 by December 30, 2022. However, if an investor missed just 10 of the best days of trading during that time, that investment would have grown to only $29,708.[3]

The S&P 500 Composite Index is an unmanaged index that is considered to be representative of the overall U.S. stock market. Individuals cannot invest directly in an index. Here, too, it is important to note that past performance is no guarantee of future results.

WHY?

One reason why trying to time the market is a mistake is that when people invest on the high end and pull out on the low end, they may miss opportunities by not remaining patient. The problem is that equity gains can often be made in a very short amount of time. If you are not in a stock when it moves, you may miss out on the entire play.

What's the bottom line? Accurately chasing the market's top and bottom is virtually impossible. A better approach may involve making small adjustments to help you stay the course.

MISTAKE #3: RISK & ASSET ALLOCATION

3

Trying to time the market is one thing. Another mistake is creating a portfolio that doesn't reflect your overall risk tolerance.

When building a portfolio, the objective is to take on an amount of risk that aligns with your goals and time horizon. Ask yourself the following questions:

- Do you feel that you are too heavily invested in one asset?
- Do you not understand why you own certain investments?
- Do you hold many of the same investments in different accounts?

It's important to remember that asset allocation is an approach to help manage investment risk. It offers no guarantee against investment loss.

4

MISTAKE #4: TAKING TOO LITTLE RISK

A variety of factors may cause investors to act more cautiously, including ongoing global uncertainties and fears about the overall economy. These factors can cause investors to flock to low-risk investments, but these investments may not align with your overall goals. While minimal risk can feel like a safe move, it could mean missing out on opportunities.

To determine whether you should take on more risk, start by asking yourself these questions:

- Do I have enough growth-oriented investments in my portfolio?
- Can I accept short-term losses for potential long-term gains?
- How comfortable do I feel about taking on more risk to pursue higher investment returns?

MISTAKE #5: MAKING EMOTIONAL INVESTMENT DECISIONS

5

When markets swing, emotional decision-making can wreak havoc on even the most carefully designed investment strategies.

Fear can cause us to abandon investment strategies when the outcomes are not what we want, while greed can cause us to chase investment fads and take on too much risk. As you invest, you can support your strategy by attempting to manage these emotion-based decisions.[4]

As investment representatives, we may be able to help when emotions enter the decision-making process. When markets decline, remember that we can help answer questions, provide reassurance, and show you the opportunities that volatile markets may provide.

MISTAKE #6: FAILING TO DIVERSIFY

6

It has been said that early merchants developed an innovative way to manage their risk: they divided their shipments among several different vessels. That way, if one ship sank or was attacked, the rest still stood a good chance of surviving, and the majority of the shipment could be saved.

Your investment portfolio may benefit from the same logic. Diversification is an investment principle designed to manage risk. However, diversification offers no guarantee against loss. The key to diversification is to identify investments that may perform differently under various market conditions.

On one level, a portfolio should be diversified between asset classes, such as stocks, bonds, and cash alternatives. On another level, a diversified portfolio should also be diversified within asset classes, for example, by including a diverse basket of stocks.

Let's say a stock portfolio includes a computer company, a software developer, and an internet service provider. Although the portfolio has spread its risk among three companies, it is still not properly diversified, as all three firms are connected to the technology industry. By contrast, a portfolio that includes a computer company, a drug manufacturer, and an oil service firm would be more diversified.

MISTAKE #7: FOCUSING MORE ON RETURNS THAN ON MANAGING RISK

Many investors chase performance, but buying an investment based on its past performance may not be a reliable way of finding future winners. Investments that outperformed last year may or may not enjoy the same success this year.

In short, if a particular asset class continually outperforms the broader market for three or four years, you can know one thing with certainty: you should have invested three or four years ago. Often, by the time some investors decide to invest, their experienced counterparts have already moved on. Meanwhile, the not-so-savvy money continues to pour in past the investment's prime. Don't make this mistake. Stick to your strategy and focus on your goals, time horizon, and risk tolerance.

8

MISTAKE #8: IGNORING THE IMPACT OF TAXES

When reviewing investments, one factor to consider is the after-tax return of an investment. At first glance, a 5 percent return beats a 3 percent return any day of the week. However, if those returns have different tax treatments, then the situation might change.

You might want to consider the impact of taxes whenever you...

- Buy or sell investments.
- Develop a financial strategy.
- Discuss your estate or philanthropic approaches.

This article is for informational purposes only and is not a replacement for professional advice. Be sure to have your investment professional speak with your tax, legal, and accounting professionals before modifying your investment strategy based on tax considerations.

MISTAKE #9: AVOIDING PROFESSIONAL ADVICE

9

Over one-third of all workers and retirees work with financial professionals, and half of all workers who don't currently work with financial professionals intend to do so in the future.[5]

Professional guidance can help, and financial professionals are among the most common sources of information when it comes to preparing for retirement.[6]

Successful investing requires the ability to position your portfolio to reflect your time horizon, goals, and risk tolerance. This level of complexity can make working with an investment representative critical to your ability to pursue your goals.

CONCLUSION

Investors who recognize and avoid these nine common pitfalls may give themselves an advantage in pursuing their investment goals.

An investment outlook requires a personalized strategy that accounts for your current and future needs, investment time horizon, and appetite for risk. These factors help ensure that, no matter how the markets perform in the short term, your investments can be positioned to work toward your goals. Along the way, sticking to your strategies and not letting emotions get the best of you may be essential.

With discipline and focus, you may be able to strategically turn your dreams into financial realities. Above all, investment representatives can apply their expertise to help you pursue your goals.

If you have any questions about the information included in this report or would like more information about our services and experience, please contact us. We are happy to meet with you to help you build the financial life you desire.

Sincerely,

Steve J. Cotton
(214) 420-4440

DISCLOSURES, AND SOURCES:

Securities offered through LPL Financial, member FINRA/SIPC. Investment advice offered through Private Advisor Group, a registered investment advisor. Private Advisor Group and Cotton Wealth Management Associates, LLC are separate entities from LPL Financial.

The LPL Financial representative associated with this website may discuss and/or transact securities business only with residents of the following states: California, Colorado, Tennessee, Texas, Virginia, Wisconsin.

* Award based on 10 objective criteria associated with providing quality services to clients such as credentials, experience, and assets under management among other factors. Wealth managers do not pay a fee to be considered or placed on the final list of 2012-2023 Five Star Wealth Managers.

These are the views of FMG Suite LLC, and not necessarily those of the named representative, Broker dealer or Investment Advisor, and should not be construed as investment advice. Neither the named representative nor the named Broker dealer or Investment Advisor gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial professional for further information.

1. Investopedia.com, April 24, 2023
2. The Dow Jones Industrial Average (DJIA) is an unmanaged index that is generally considered to be representative of large capitalization companies on the U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index
3. JPMorgan, 2023
4. Investopedia.com, May 2, 2023
5. EBRI.org, 2023
6. EBRI.org, 2023

Cotton Wealth Management Associates
15301 Spectrum Drive, Suite 390
Addison, Texas, 75001
(214) 420-4440
www.cottonwealthmanagementassociates.com