

# 10 INVESTMENT Mistakes to AVOID

Investing is one approach individuals may use to pursue long-term financial goals. Along the way, it is possible to encounter mistakes that could affect progress, and market fluctuations are a normal part of the process. While returns are not guaranteed, investing can offer an opportunity to outpace inflation and contribute to the growth of your assets over time. According to Business Insider, the average annual return of the S&P 500 is around 13.3%<sup>1</sup>.

After working with investors for over 30 years, we have observed common mistakes. Here, we'll talk through those mistakes as well as some steps you can take to help strategize your investments.



## 1. GOING TO CASH

People say cash is king, but that's not always true in terms of long-term growth. Going to cash can seem like a safe option when the market is volatile since savings accounts are FDIC-insured, but it's important to differentiate between "going all to cash" and "raising cash" when managing risk.

Moving entirely to cash can be a reaction to emotions and could potentially have a negative impact on portfolio outcomes. While it may seem logical to go all cash to avoid market crashes, mistiming the markets can lead to even greater downside. Remember, managing risk isn't about avoiding risk altogether but taking actions to mitigate its impact if things don't go as planned.

## 2. RECENCY BIAS

Recency bias can impact investors by causing them to overly fixate on current events rather than taking into account historical trends and other pertinent information. This bias may lead investors to mistakenly believe that a market decline will persist indefinitely, even when evidence suggests otherwise. Additionally, it can tempt individuals to invest in trendy stocks or options that may align with their goals for long-term growth.

To counteract recency bias, it is important to maintain a broader perspective. History has shown that markets often bounce back after a downturn, and some of the most prosperous market days have occurred following sudden declines. Embracing this wider view can empower you to steer clear of emotional decisions and to effectively strategize your savings over the long haul.

## 3. CONFIRMATION BIAS

Confirmation bias is a common tendency where we tend to seek out information that aligns with our current beliefs while disregarding anything that contradicts them. This can impact investment decisions, leading us to either hold onto or avoid certain investments based on our preconceived notions.

Unfortunately, this bias may compel us to invest excessively in a particular asset by solely focusing on positive news and overlooking potential warning signs. It's important for even seasoned investors to remain aware of this bias to prevent missing out on promising investment opportunities.

## 4. TRYING TO TIME THE MARKET

It's likely you've come across the popular advice to "buy low and sell high." Although it's a sound principle in theory, constantly trying to time the market is challenging even for industry veterans with years of experience trading and advanced credentials.

Our view is that time in the market is always a better strategy than timing the market. Rather than fixating on finding the perfect stock at the perfect time, we believe that embracing a long-term perspective toward investing is more likely to yield sustainable and fulfilling results.

## 5. FAILING TO DIVERSIFY

Different segments of the market are popular depending on the year. There are always new ideas, products, or recommendations to choose from, but generally speaking, investing too heavily in any one category or sector can be detrimental to long-term growth.

Diversifying your portfolio can potentially mitigate your risk and may lead to a higher return. That means your portfolio should contain different stocks across many industries. Even further, your portfolio could also contain other assets like bonds, ETFs, real estate, CDs and other options, depending on your risk tolerance and financial goals and needs.

## 6. TAKING ON TOO MUCH RISK AS YOU NEAR RETIREMENT

As retirement approaches, it's important to assess the level of risk in your investments and your tolerance for risk. If you find that you haven't invested enough as retirement nears, you might feel tempted to engage in high-risk investments. However, it's important to remember that you can't make up for lost time with high-risk investments.

As retirement approaches, it's important to begin to assess your overall portfolio, and to allocate it appropriately. If you don't feel financially prepared at that point, consider meeting with one of our experienced financial advisors. They can assess your situation and provide you with different strategies to consider.

## 7. TAKING SOCIAL SECURITY TOO EARLY

When you turn 62 you can elect to receive Social Security, but is that the best time to do it? It depends on your specific situation and life expectancy. However, if you can file later, you can potentially receive annual increases and enjoy a higher benefit for as long as you live.

## 8. IGNORING TAX PLANNING

Taxes can be one of the biggest expenses on investments. Many retirees simply don't consider the tax implications of their withdrawals, leading to unexpected tax burdens.

That's why you should understand the tax treatment of different retirement accounts and strategically plan your withdrawals to help strategize your tax liability.

## 9. PANIC SELLING

When people panic, they may sell all their shares of a particular stock at once. The sell-off may push the stock price down, which can often trigger additional sales, further suppressing the price. In short, by trying to avoid a loss, investors create the problem they feared.

During a market volatility, remember to stay calm and reach out to your financial advisor to see what they think about the situation. When it comes to long-term investing, holding your stocks, especially when there's a lot of volatility in the market, is often the right move.

## 10. NOT MEETING WITH A FINANCIAL ADVISOR

Choosing not to work with a financial advisor can potentially be a costly mistake, especially when navigating the complexities of wealth management. Without professional guidance, you may not be working with the right strategies that align with your specific situation.

At Flagship Financial Advisors, we offer a personalized approach to make sure we're aligning your financial goals with smart, informed decisions. Partnering with us means you won't have to face the financial landscape alone. We'll be there to provide insight and support as you strive to meet your financial goals.



## WHY US? BECAUSE WE'RE ABOUT YOU.

At Flagship Financial Advisors, our goal is to help you simplify your life so you can live your life the way you envision. As a Fiduciary, our fact-based personalized investing approach, planning and management experience, bringing control and accountability to the entire relationship to better prepare you to weather surprises and manage volatility when it occurs.

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1. Business Insider, July 2024 “Comprehensive guide to the average stock market return over the past 10 years

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