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## **EIGHT GREAT MISTAKES INVESTORS MAKE**

- 1. Underdiversification - Overweighted in any one stock or industry**
- 2. Overdiversification – Too many holdings to follow closely**
- 3. Euphoria – Most dangerous words in Wall St. “It’s different now!”**
- 4. Panic - Using their rear view mirror to predict immediate future**
- 5. Leverage - Borrowed money must be paid back no matter what market does**
- 6. Speculating while thinking they are investing; no clear idea of risks**
- 7. Investing for yield instead of total returns – junk bonds, premium bonds, callable bonds, etc.**
- 8. Letting cost basis dictate investment decisions. “I can’t afford to pay the capital gains tax!” Think in dollars, not percentage. No one says; “I can’t afford to go to work today and pay the income tax!”**

**Mistakes are often made serially; i.e. panic follows euphoria. Some are made repeatedly in different asset classes; i.e. from tech stocks in 2000 to residential real estate in 2004.**

### **Lessons:**

- 1. NOTHING STAYS A BLUE CHIP FOREVER, EVEN BLUE CHIPS CAN, AND OFTEN DO, STUMBLE HORRIBLY. Examples of the former recently include Sears, Johns Manville, Woolworth, Eastman Kodak, Burroughs, K-Mart, all members of the Dow Jones Average. Examples of the latter include GM, Ford, Chrysler, GE, IBM, LILLY, MERCK, PFIZER, GILLETTE.**
- 2. ONE CAN BECOME WEALTHY BY UNDERDIVERSIFYING. BUT ONE CANNOT STAY WEALTHY BY UNDERDIVERSIFYING!**