

Common investing mistakes have solutions

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As an investment manager and financial planner, I don't know how many investment portfolios I've reviewed in the past 20 years.

However, I consistently see the same missteps made by investors over and over again. These slip-ups can be avoided. Some of these are easy to fix, while others may take time, effort and due diligence to resolve.

Now that tax season is over, this is a good time to turn over a new leaf and get your finances organized and well-deployed. Here are some of the main missteps I see frequently.

Misstep No. 1: A trail of accounts: When I meet with clients to review their portfolio for the first time, I can expect to be handed a plethora of statements from different brokerage firms and 401(k)s from previous employers. There is no reason to have 10 different investment accounts.

By having your assets strewn around so many places, you've just made it impossible to monitor the performance of your investments and periodically rebalance.

Simplify your life by rolling your old 401(k)s and 403(b)s directly into an IRA at one brokerage firm. Open one brokerage account for your non-qualified (non-IRA) assets and consolidate.

Two to three accounts are easier to follow than eight or 10. In addition, there are definite advantages to having all of your accounts at one brokerage firm. Frequently, brokerage firms give investors a break in fees, higher money market rates and better service if all your accounts (IRAs, taxable brokerage accounts, etc.) are consolidated at one place.

Misstep No. 2: Not tracking portfolio performance: Most investors do not know how their investments are performing.

They do not know what their annualized rate of return is for each account, much less the consolidated portfolio. Most people just glance at their monthly statements to see if their accounts are up or down, but they really do not know how they are doing.

It is important to know your portfolio's performance and how it compares to the major indexes. Monitoring your portfolio's performance is equivalent to knowing your batting average and how it compares with everyone else's in your league.

You can download this information into Microsoft Money or Quicken, and the software will calculate your return. After you have your total portfolio's return, the next step is to compare it with the index returns. It is easy to find information on the major indexes in your newspaper or on the Internet.

Misstep No. 3: Not creating an asset allocation: Even if they have only a few accounts, most people do not know how their assets are allocated and approach each investment account separately.

This piecemeal approach results in a mishmash of investments that does not reflect their goals, retirement plans or risk tolerance. It is important to construct an asset allocation for your entire portfolio instead of just looking at your IRA and then three months later your 401(k).

The first step is to develop a coherent asset allocation plan for your entire portfolio and then decide how to implement the plan among your different accounts. A great place to start is the Securities and Exchange Commission Web site at <http://www.sec.gov/investor/pubs/assetallocation.htm>.

It explains the basics of asset allocation and has some good links to other resources.

Misstep No. 4: Most investors don't know anything about the investments they hold: For instance, most investors are clueless when it comes to the credit quality of their corporate bonds, the fees charged on their mutual funds, the outlook on a particular stock or other important details about their holdings.

By not understanding their holdings, investors are frequently invested in very risky ventures and paying exorbitant fees.

If you do not have time every day to devote to your portfolio, then do not invest in individual stocks or bonds. Be honest with yourself and admit that once you are invested, you are never going to look at your investments again. In this situation, I would recommend you research some of the new lifecycle funds. These funds rebalance to a more conservative asset allocation as the targeted portfolio date (specified in the fund name) approaches.

Unfortunately, most of these funds are too conservative (too heavily weighted toward cash and bonds), so don't select a fund with the same target date as your retirement. Instead, consider selecting a fund with a target date that is at least 10 years further off than your impending retirement. This will help you avoid asset allocations that are too conservative.

It is worth the time and effort to research your investments and not just opt out by using lifestyle funds. You lose control of your asset allocation, and the fees are higher for lifestyle funds.

I recommend using a combination of mutual funds and index funds to execute your asset allocation plan. This is a great way to diversify and manage risk. It won't require you to manage your investments daily; bimonthly to monthly monitoring should be enough once your portfolio is all invested.

It is important to research the cost of these investment vehicles before investing. Many investors are surprised to find out that they are paying a load or 1 fee on their

mutual fund investments.

Fees are usually buried in the back or middle of a prospectus, a legal document published by the fund company.

In addition, it is very important to understand what the fund is purported to be invested in and what it is really holding.

Misstep No. 5: Not doing anything because you are too busy or are intimidated is the biggest misstep of all: It is your money, and it may very well be your sole support in retirement. Take control or get help by hiring a professional financial planner. Get organized and design an investment plan that will help you meet your life goals and retirement plans. Good luck!

Updated Bio

Libby Mihalka, who wrote this installment, is the founder of Altamont Capital Management, a fee-only financial planning and investment management firm. A chartered financial analyst, Mihalka has two decades of experience managing investments. She received her MBA from Dartmouth College and her B.A. from Smith College. Additional articles by Mihalka can be read on her blog at financialpragmatist.blogspot.com <http://www.altamontwealth.com>. She can be reached at 925-606-8181.