



Three Big Do-It-Yourself Investor Mistakes

The media is not your friend.

It's quite common to come across people who think they know how to manage their investments. And, the fact is, some people do a very good job of it. But experience shows that competent do-it-yourself (DIY) investors are in a minority compared to the masses getting "hot tips" from friends, family, and the media. Ultimately, these tips often wind up costing novice investors dearly. In no particular order, here are three common mistakes DIY investors make that could wind up costing money:

1. "I was watching Suze Orman on Oprah and she said..."

Many DIY investors don't realize the media is not their friend. Journalists certainly aren't professional investment managers. Following the media's "free" advice could ultimately wind up being very expensive! Their objective is not to inform, educate, and provide ongoing prudent advice, but to sell print subscriptions, TV and radio ads, e-mail lists, etc. Discerning investors realize this and understand the value a professional advisor provides relative to "free" advice. Why else would Endowment Funds like Harvard, Yale, and Princeton spend millions every year for professional financial advice? If hiring financial pros didn't make sense these billion dollar funds would stop doing it. And, while hiring a seasoned pro doesn't necessarily guarantee outstanding results, it's nonetheless something for the DIY investor to seriously think about.

2. "I don't need a financial advisor because I subscribe to Money Magazine."

This is related to #1 above, but with a twist. High quality financial advisors seek long-term relationships with their clients and meet with them regularly to review and update accounts based on the unique needs of the client. Compare that approach to a DIY investor reading the following story in November 2007 on CNNMoney.com by editor Michael Spivey:

Tech stocks should lead the rebound

Leaders in the technology sector are growing fast and aren't hurt by subprime issues or soaring oil prices.

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Remember, this was November of 2007. Mr. Spivey went on to recommend a variety of investments including one which, according to CNNMoney.com, was selling for a little over \$28 per share at the time. Fast-forward about 16 months and the same investment was trading for a little over \$13 per share in March of 2009; again according to CNNMoney.com. What's the dear reader to do? You can be sure Mr. Spivey wasn't taking calls from subscribers asking for advice now that they'd lost over half of their money based on one of his suggestions.

3. "I can save money by doing it myself."

Remember the old saying, "Penny wise and pound foolish?" Do-it-yourself investors often have difficulty understanding the difference between price and value. The media has done a good job of convincing many consumers that they are foolish to pay for financial advice since it's easily obtained for free or very cheaply. In the late 1990s, during the dot.com bubble, a TV commercial was airing where a distinguished 60-something man was cooking dinner for his wife. In between stirring his gravy and checking on the pot roast he would dance over to his laptop for stock tips and quickly execute buy and sell orders for only \$7.95 per trade! Of course, hiring a professional financial advisor doesn't guarantee investment success. Financial advisors make mistakes, too. But, a disciplined, serious approach to investing with a seasoned professional may yield better results over time than focusing on how little it costs to make trades in the portfolio.

In short, investors need to recognize that there is a cost to any kind of advice. Free magazine advice that winds up losing the reader half of their investment may not be such a good deal. And, while it may be fun to pretend that media resources are practically free, the cold, hard fact is that the media's interests are not necessarily aligned with their readers/viewers. Engaging a professional financial advisor may not guarantee investment success, but professional fees could wind up being much less expensive in the long run compared to "free" advice from the media.

The above material was prepared by PEAK.

Source: http://money.cnn.com/2007/11/19/pf/tech_rebound.moneymag/index.htm

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