Discover Five Personas of Amateur Investors

Do any apply to you? Inside, learn how to make smart choices with your money.

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FINANCIAL NEWS YOU CAN USE

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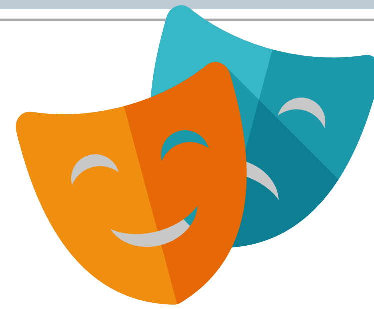

The most time-honored approach to investing is to buy and hold a diversified portfolio of investments and control what you can. However, even with this basic understanding of a proven system, emotions may cause you to stray from the wise path and take on one or more of the following "personas," a term derived from the Latin word for theatrical mask. Each persona describes an investor who has let emotion play too big a part in financial decisions. Do you see yourself here?

1. THE BLIND LOYALIST

If you tend to over-allocate in company stock, and so miss out on potential gains and the benefits of diversification, which can reduce risk in a portfolio, you may be a Blind Loyalist. According to the Employee Benefits Research Institute and the Investment Company Institute, company stock is the single largest holding for the average 401(k) investor.[1] While company stock is not a bad investment to make, too much of anything is not good for long-term portfolio stability. Diversify, diversify, diversify.

2. THE PANICKER

You hate to lose money – who doesn't? But this fear may cause you to hold on to losing investments too long and sell winners too early. If you're a Panicker, you hope that the losers will rally, so you keep them rather than take advantage of tax breaks for selling at a loss. When you're scared of a downturn and want to lock in profits, you'll sell stocks or funds too early and miss out on future gains. This seat-of-your-pants mentality wreaks havoc on a portfolio.

3. THE EGOTIST

You think you're Warren Buffet. You overestimate your investing prowess, which causes you to overtrade and pay the resulting higher fees and taxes. Instead, you should ignore your ego and not overextend your reach.

4. THE COMPARTMENTALIZER

You tend to view each investment and account (401(k), IRA, etc.) separately rather than collectively, which can have a negative effect on asset allocation. This can also lead you to chase hot stocks, trade excessively and sell at the wrong time. You should be alarmed if all of your accounts and individual investments are up at the same time, because this may be a sign that your portfolio is under-diversified and taking on too much risk. The moral of this persona is, investments work together to create a balanced portfolio, and if you isolate investments, you might encourage instability.

5. THE BIG SPENDER

The recession that ended in 2009 highlighted the average American's need to rein in spending, yet you are still spending more than you earn. You have plenty of company – the Bureau of Economic Analysis reports that real disposable income increased 0.4 percent in May 2015, but spending increased 0.9 percent.[2] It goes without saying that these spending habits reduce the amount of money available to invest – in turn, your portfolio strength suffers.

INVEST WISELY AND STAY THE COURSE.

If you've recognized yourself in any of these personas, take heart – recognizing a bad habit is the first step to changing it. The next time you feel the urge to act like a Panicker, Big Spender or any other emotion-driven persona, stop and think instead – you'll subtract emotion from the equation. Diversify your investments and stick to your plan. Don't overestimate your investing abilities. Manage your investments as a whole portfolio. And remember, although giving up your persona/faulty investing habits may be uncomfortable now, it's your best bet for a comfortable retirement later.

1 Employee Benefits Research Institute and the Investment Company Institute, 2009
2 U.S. Bureau of Economic Analysis, "Personal Income and Outlays, August 2015," news release (September 28, 2015), http://bea.gov/newsreleases/national/pi/pinewsrelease.htm

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