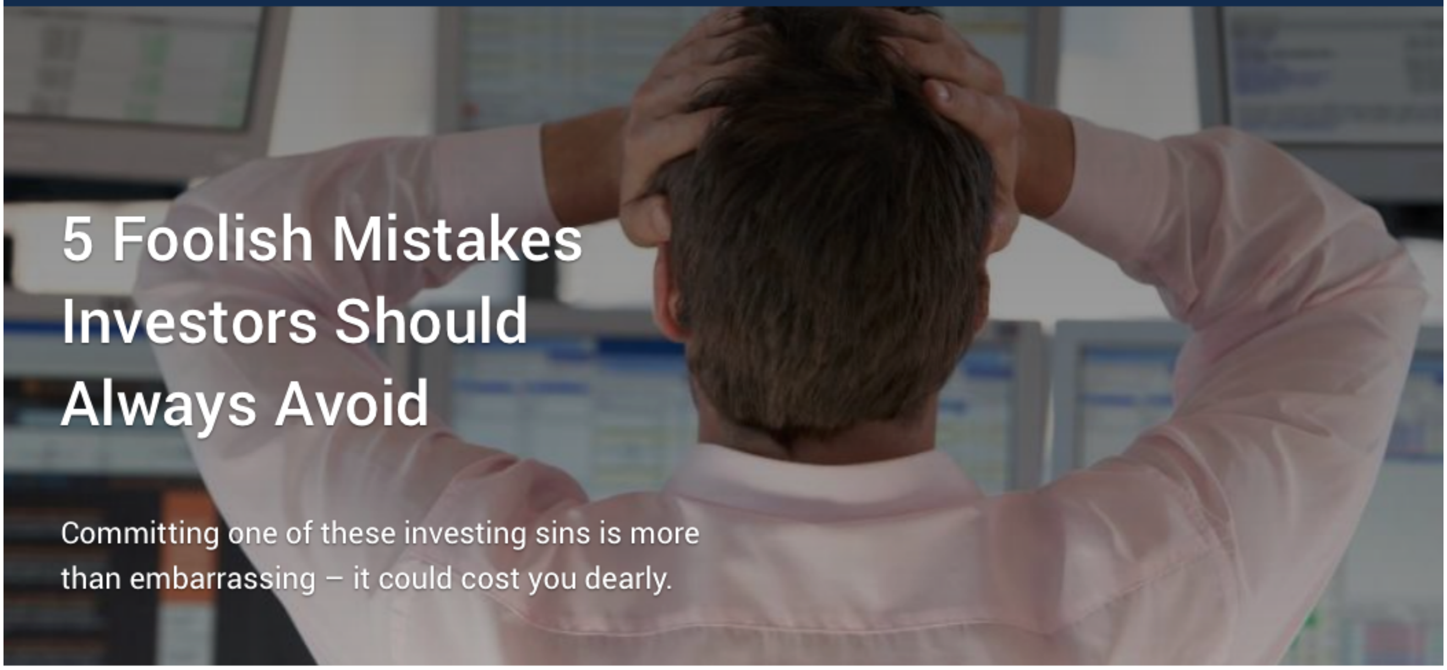

5 Foolish Mistakes Investors Should Always Avoid

Committing one of these investing sins is more than embarrassing – it could cost you dearly.

By Patrick Sanders | Staff Writer

March 31, 2016, at 6:00 a.m.

April Fools' Day is a nightmare for the gullible. From silly jokes to elaborate pranks and hoaxes, the April 1 observance can be a long 24 hours – particularly if you're the straight man in your group of friends and co-workers.

Aside from momentary embarrassment (and the risk of being the latest viral video on YouTube), April Fools' Day pranks are generally harmless.

The same can't be said for foolish investing decisions. A shortsighted decision with your 401(k), IRA or stock portfolio can have horrendous consequences. Through the magic of compounding interest, a panicked decision to sell a stock or exit a position too quickly could cost a foolish investor tens of thousands of dollars, and could mean the difference between retiring at 65 or working into your 70s.

[See: 10 Long-Term Investing Strategies That Work.]

One example of a foolish decision is buying stocks when they're high and selling them when they're low, says Alex Navarro, a financial advisor with SunTrust Investment Services in Florida.

"Aggressive investors often get scared and want to be more conservative when the market goes down," Navarro says. "Conversely, conservative investors want to be more aggressive when the market is going up. Following this course will result in selling asset classes when they're at a low point and headed up, and then buying them when they're about to start dropping. That's not a sound investing strategy."

Here are some other foolish financial decisions that investors should avoid – unless they want to be an April Fool, of course.

Don't try to time the market. Sure, you may guess right once in a blue moon and catch a stock just before it surprises Wall Street with a move up or down. But don't count on it – by the time a stock jumps, company insiders, full-time financial advisors and investing algorithms have already made their moves. There's no way you're going to beat them consistently, because the market is rigged to reward long-term investors and punish those who try to dip and dab their way to riches.

Holding some cash and waiting for the "perfect" time to invest? Don't do that, says Rebecca Pavese, a financial planner and portfolio manager with Palisades Hudson Financial Group's Atlanta office.

"The 'right' time is when you thoughtfully decide on your long-term strategy," she says. "When investing for the long term, the time is always right."

Robert R. Johnson, president and CEO of The American College of Financial Services in Bryn Mawr, Pennsylvania, says time in market – and taking advantage of that compounding interest – is more important than timing the market.

[Read: 5 Reasons to Avoid Penny Stocks at All Costs.]

"Winning in the stock market is about investing for the long term and not speculating in the short term," he says. "Warren Buffett says that 'a market forecast tells you nothing about where the market is going but a lot about the person doing the forecast.'"

Seriously, are you going to argue with the Oracle of Omaha? Don't time the market.

Be cool when the dips hit. The stock market is arguably the best avenue to grow your portfolio in the long-term, but the road will have its bumps. The Standard and Poor's 500 index rose more than 57 percent in the last 10 years, but even then there were more than a dozen dips that caused investors to dip briefly into the red.

Part of that is knowing the difference between short-term market volatility – such as January's dip – or a long-term trend, says J.J. Burns, CEO of J.J. Burns & Co. in Melville, New York.

"Our job is to be rational when others are fearful, and remind our clients that they have a financial and investment plan in place," he says. "Reacting to something so short-term – and frequent – in nature puts their long-term success at serious risk."

That said, when the market is settling into a long-term down cycle, smart investors should move their money from stocks into safer bonds and mutual funds.

"The market doesn't always go up," says Stephen Kalayjian, chief market technician at KnowVera, a market research firm in New York. "Many advisors will tell their clients to keep their long-term plans clearly in focus and weather the periodic storms, but the truth is the market does not always rebound. Even in a down market there are opportunities to enter and exit the markets throughout the year to increase your portfolio."

Stay true to yourself. Long-term investing is done to serve specific needs – early retirement, a house or a vacation home, putting a child through college or simply paying the bills in your advanced years. Investors can avoid making foolish decisions if they keep their long-term goals in mind when deciding how to allocate their portfolio.

"I think the greatest mistake I see clients make in their investing decisions is to lack an investment policy – to not have a set of investment principles that they have their wealth managed by," says Joel Redmond, a certified financial planner in Syracuse, New York. "Institutions have investment policies – they don't react to market conditions with the classical emotions of fear and greed. They have a reasoned process that is thought out in advance, and they follow it."

[See: 10 Best ETFs for Large-Cap Stock Growth.]

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Diversify, diversify. Putting all your financial eggs into one basket is foolish, indeed. Investors should have their money spread throughout the market – large capitalization stocks, small caps and in different sectors. Exchange-traded funds, which hold a basket of stocks, are easy ways to diversify a portfolio and broaden an investors' exposure.

Investors should also have their money in commodities, real estate investment trusts, bonds, mutual funds and other investment vehicles, so that a dip in one sector doesn't impact the entire portfolio. "Look to build a low-cost, globally diversified portfolio focusing on your overall asset allocation – and leave the stock picking to the pros," says Charles Bennett Sachs, senior wealth manager for Gupta Wealth Management in Coral Gables, Florida.

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