Mayflower Capital
Independent Financial Advice

Don Martin, CFP®
940 Stewart Dr., Ste. 319
Sunnyvale, CA 94085
phone: (650) 949-0775
www.mayflowercapital.com
don@mayflowercapital.com

16 Investing Mistakes to Avoid

A Quick Topical Checklist

- **Avoid Herd Mentality**
- **Avoid Panic Buying**
- **Fundamentals are best**
- **Credibility of the investment product**
- **Liquidity of the security**
- **Active Management Versus Passive**
- **Avoid Complicated ETP's or ETN's**
- **Fee Only is Best**
- **Avoid Leverage**

16 Mistakes for Investors to Avoid

1. **Don't follow the herd. Usually the masses of people are wrong and their opinions may end up being "noise" in the signal. Learn to think independently.**

2. Don't rely on past trends to continue. Circumstances can change.
3. When something has gone up a lot it may be time for it to reverse course.
4. Avoid being fooled by bubbles. So use the income method to evaluate an investment. This means looking at 10 year inflation adjusted Price-Earnings ratio.
5. Don't buy an investment just because it has big dividends or a high interest rate, that could be a dangerous "junk bond" ready to blow up.
6. If something sounds too good to be true then it is probably bad.
7. Judge an investment by the amount of reward in offers in proportion to its risk (use the Sharpe ratio and Information ratio), instead of looking only at the reward.
8. Avoid buying investments to obtain tax shelter benefits
9. Avoid small, illiquid securities with large bid-ask spreads.
10. Avoid ETF's or other passive index funds; get an actively managed Open-end mutual funds that will attempt to avoid excessive risk.
11. Avoid ETP's that are structured as a note payable by a counterparty such as a bank. The bank could fail and you could lose your investment. Also ETP's often have significant tracking error.
12. Avoid commodity futures based ETF's. They usually have significant tracking error so that they don't perform as well as the spot market commodity. They also suffer from "Contango" (negative yield roll) which also may hurt commodity futures investors compared to spot market physical commodity investors.
13. Avoid products that are "sold" to you by commissioned salespeople; instead get a fee-only advisor who certifies that he gets no referral fee or commission and is paid by you only.
14. Avoid "inverse" ETF's. These are supposed to go up in value when the market is going down because they hold a "short sale" position in investments, but they do very poorly in tracking the results of an actual short sale.
15. Avoid leverage, including margin buying, options, commodity futures, etc. By contrast if you own an investment with no leverage and no threat of expiring options, etc. then you have the "staying power" to wait confidently until the investment reaches the hoped for target.
16. Avoid chasing after short term trends as they are impossible to predict. Usually any one or two month short term speculative trade is very risky and are almost impossible to forecast.

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For a personalized consultation about investments contact
Don Martin, CFP® (650) 949-0775
Don@mayflowercapital.com Twitter @DonMartinCFP