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11 Rules for Investment Success

Investing may seem simple, yet somehow the average investor underperforms the market. Below are a few rules to keep in mind on the journey toward investment success.

1. Define success. Success is relative and not an absolute. It is best measured against a pre-defined goal. Once YOUR goal is defined, establish an appropriate investment strategy to help you achieve that goal. The outcome of that strategy can then be compared to your goal to determine success.

2. Stick with your game plan. Be disciplined. Investors are humans and are subject to inherent behavioral biases. Following a process for rebalancing investments regularly takes the emotion out of investing and will help avoid the behavioral pitfalls that could prevent you from achieving your investment goals.

3. Focus on the long-term. A primary advantage of successful investors is their long time horizon and willingness to stick with their investment strategy when it is uncomfortable to do so. Checking investment returns daily or even monthly is more likely to lead to heartburn than investment success.

4. Beware when offered a "free lunch". Risk and return are related. When it comes to investing, low-risk, high-return assets do not exist over the long-term. Taking on more risk can result in both greater returns and greater losses.

5. Don't put all your eggs in one basket. While a concentrated portfolio has the potential to create significant wealth, concentrated risk can also destroy wealth quickly. Construct a portfolio with components that perform well in varying market environments. Diversification is a key to wealth preservation.

6. Consider the costs. Pay attention to expenses and taxes. Investors have no control over what moves the markets. However, they have some control over how much they pay in fees and taxes to access these markets. A dollar saved (in fees and taxes) is a dollar earned.

7. Don't try to outsmart the market. Leadership among market segments changes unpredictably and rapidly. Rarely are inflection points obvious – until after the fact. Market timing is virtually impossible to do successfully.

8. Ignore the noise. Remember that the financial press can't address each specific investor's goals and risk tolerance when offering advice. And today's news isn't likely to impact the market over the long term, if at all. Avoiding the whims of the market or the flavor of the month is a key to compounding wealth.

9. Keep it simple. Simplicity often trumps complexity; a portfolio that is too complicated to understand and difficult to manage can present unnecessary hurdles to long-term success. Products and strategies that add complexity also typically have unknown risks, higher fees, less liquidity, and higher taxes.

10. Use active managers when they can truly differentiate themselves. The investment arena is full of well-educated, top-of-their-class individuals who believe they "have an edge," but those that consistently outperform their benchmarks are few and far between. Active management can be rewarded when there is a large dispersion between top and bottom performing investment management firms.

11. Be skeptical. "No" is one of the more profitable words in investing. The financial industry will continue to create unique products and strategies in the pursuit of investors' money. It's important to do homework on these opportunities and consider the 'unknowns' before making a commitment.

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