



## 7 Investing Mistakes That Can Be Costly (Even for Experienced Investors) [Ep. 23]

### *Transcript*

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The number one mistake is not having a plan. At least have a plan so it's measurable and you have a place, a target that you're trying to achieve, a goal. If not, how do you know if you get there in three years if you're making progress towards that plan?

(...)

(Music)

(...)

Alright Robert, you ready for this? I think so. (...) Okay, well let's talk about today, top mistakes that people make in wealth management in terms of investing and whatnot. Yeah,

I think it's going to be interesting because for many people it's going to be, and I think you'll love it, because it's part education which I know you lack in and intervention. (...) So, but I want other people to know if this is a mistake they're making, they're not alone. It's very common and that's why I love that we're going to talk about it today. Let's do it. You want to kick us off with questions that you've been thinking about, honest? Yeah, so I want to start at a different spot of why is estate planning a low priority when it comes to most people? I think it should be a huge priority, honestly, but I think it's a low priority because it's something that people don't want to, they want to avoid. They don't want to talk about; nobody wants to talk about death. When I die or my spouse passes away, how this state should be set up. But the reality is that's huge, right? You work your whole life to accumulate some assets, you pass away, you don't have your estate in order, a will or a trust set up properly. A court is going to watch over that process of distributing your assets. So, your assets may not go where you want them to go. You could have family drama, right? Why? If you have a business, maybe one child wants that business to stay in the lineage, they want to keep it. The other one wants to get rid of the business, to have the cash today. From businesses to investments, to think of this family heirlooms. It could be a piece of furniture in the house that somebody wants, that had you put it in your estate planning to begin with, you could have avoided that. (...) So, there's a lot of reasons that you can make your loved one's life a whole lot easier when you decide if you have an estate plan in order. I know you and I over the years, we've watched a lot of clients pass away unfortunately.

(...)

And there is a difference in watching someone grieve and allowing them to grieve properly. Because we had the tough conversations and we talked about estate planning to make sure that their estate was wrapped up properly and it's tightened up so that they could grieve properly. Nobody wants, when you lose a loved one, to be dealing with that anxiety and that confusion of the finances. 100%. There's never a good time to have a loved one pass away. But there's also never a good time to really...

(...)

Well, I guess there is a good time to think about that, what you want. And that's when your sound mind and you're not under this heavy burden of dealing with the death of a loved

one. So, you can process it when you're thinking rational, maybe with the input of that loved one. What do you think should happen to these assets? Who should get them? Should we put restrictions on them?

(...)

So, we can determine how much or how little they can get with the hems provision, health, education, maintenance support. But the point is to have at least a dialogue while your sound mind with that loved one and determine what you want to happen to make sure it does happen. You don't have the court doing it. By the way, not only will the court determine who gets the assets and how, that's also a lot more expensive. (...) Fortunately in Texas, to be honest, probate is not as bad as a lot of states, but it's not ideal. You don't want your information out there public of what you left behind and who's getting what.

(...)

I remember we had... (...) I was going to say a few years ago, might be six, seven years ago, we had a client pass away.

(...)

The husband passed away. The information was public and somebody came to this lovely lady's house, the survivor, and wanted to fix their driveway up, (...) their garage. And pitched them some crazy dollar amount. She went for it. And I think she just wasn't thinking sound of mine, right? It was like 150 grand to do a driveway. And so, we kind of got wind of it, but it was after checks have been cleared and everything.

(...)

Now, could she still have been scammed? Maybe. But had it not gone through probate, I think that person at scam maybe not would have found out that this had been going on. So, going down kind of that same vein of just planning in general, is there a hidden cost in ignoring tax planning strategies? Yeah, there's a lot of low hanging fruit, right? (...) It could be from short-term and long-term capital gains. (...) All the time, we're talking to people who they make a trade, which I may have recommended the same one of potentially liquidating a stock, but they did it on the 340th day. And they could have waited another month and had a long-term capital gain instead of short-term capital gain.

(...)

So, that's a low hanging fruit, tax loss harvesting. I see all the time people creating wash sales and wash sales, right? They'll own an investment. (...) It goes down and they want to buy more of it. They purchase more of it. And as it's recovering within 30 days, they sell the initial basis to get a tax write off. Well, guess what? Now you don't get to have that tax write off because you did it within 30 days. This happens more often than not. People just aren't they're not really paying attention, right?

(...)

Roth conversions have been a big one we've spoken about. That's why I love software. A lot of times we're able to tell people, hey, if you do a Roth conversion, approximately this dollar amount, it's going to save you. Maybe it could even lower your estate tax, right? Because we're under that threshold. And now you or your beneficiaries are getting a lot more tax-free money.

(...)

And sometimes we can convince people verbally, kind of give them an idea of what that might look like. But that's why I love having technology and showing them, whether it be ink on paper or on a screen, being like, look, if we do a Roth conversion, X amount over the next six years, this is how much we can save you. And it's a living breathing thing. There's been

times where some clients will do a portion of the account Roth conversion this year. And we intend to do it next year. But for whatever reason, maybe their income shoots up. We put on the brakes for a year, the following year, their income comes back down, we start the Roth conversion. So, you want to have a plan. But the key is I think you want that plan to be flexible.

(...)

You know, does that make sense? No, you covered a lot. And I think many people don't know about wash show rules or how a Roth conversion can affect them until they actually do the math or truly understand it. We could probably do a podcast on just simply that topic of tax strategies. (...) But let's switch gears a little bit. When you first engage with a client or potential client, the very beginning of the relationship, what is the number one mistake that you find that they want to make or tend to make? The biggest mistake is not having a plan, right? They don't know their goals. They don't know their risk tolerance. They don't know what they're trying to accomplish. You have to have a financial plan. If you fail the plan, you plan to fail it. So, you have to you have to know what we're trying to achieve. And we see at all times, because that's going to be your your North Star, your guiding light. If you know what you're trying to accomplish, then everything's going to fall in line. When we see a portfolio of somebody who doesn't have a plan, I'll say, well, why did you do this? Well, I don't know. I read it on CNBC or an influencer said it. OK, well, why did you do this? There's no why behind it. And I think people get in trouble. They they have good intentions. But there's not there's not a reason for the actions that they've made. So, the number one mistake is not having a plan, at least have a plan. So, it's measurable. And you have a you have a place, a target that you're trying to achieve a goal. If not, how do you know if you get there in three years, if you're if you're making progress towards that plan? It seems like they tend to have some false sense of security or some overconfidence. So, how do you avoid overconfidence? So, we see that a lot. And that's just in human nature. Some people call that winner's bias. Right. Somebody maybe they're a business owner and they have a massive success in a business. They liquidate it. And now they think they have the Midas touch, and they start another business, which, by the way, number one business that go under a restaurant. And that seems to be one of those one of those businesses that people are attracted to when they sell a business, have had some success. They want to do a restaurant because that sounds sexy. But on a side note, that's like the riskiest businesses out there. They might be a foodie like you. You know, honestly, I would love to own a restaurant for a lot of reasons for you probably to make the menu. Yeah. But I, going back to

what we learned from clients, one of one of the things I learned is vicariously people's successes and failures. And, you know, actually, that means that we do have some clients that own super successful restaurants. Yeah. But that's more of the exception than a rule. But I would say winner's bias is a real thing. You want to make sure that if you've had success in the past and something that it is repeatable. I give an example of a business, but it could be in a stock. Sometimes I'll see people with their portfolio, and they legitimately had some investments that were stellar.

(...)

But honestly, I would attribute it 80 90 percent to luck for various reasons. That's that's a stock that there's no reason it should be up that much. I'll even ask them why they bought it. They can't tell me, you know, they can't dive into the P.E. ratio or any any research they did other than, you know, maybe it was a meme stock or something like that shop there. Yeah. Yeah. I mean, you have to make sure that when you're investing in something, you're not being biased or an influence pitched to you that it's legitimately based on research. So, what's the risk? You know, we talked about people having biases, but what's the risk in somebody investing in just one particular stock? (...) You know, one of the easiest ways to make a ton of money is to be concentrated. (...) You know, if I had if I were playing a game and somebody said, here's a million dollars. The game is in three years. I want you to grow to 10. (...) What I would do is I'd probably put it all in one or two stocks. That's that's gonna be the way to do it. But on a flip side. Yeah, if you do that, that's a quick way to make the million go to 100 K. But I think you're just adding a ton of risk. (...) Yes, you have the upside potential if you if you're concentrated, but you have the downside. You know, if you're young, maybe it makes sense if you if you're going to gamble saying me young not not 55. Okay, I thought you said you're young. So, that's what I heard. Robert's young. My bad. I mumble. It's all right. It's all right. I appreciate the company. Yeah. So, it will think 55 you don't have to worry about. Okay, thank you. So, if if you're not 55, you know, if you're perhaps 30, you might be able to be more concentrated if you want. But just be full aware that that's a good way you could potentially make a lot of money, but you could get wiped out. You know, as advisors, that's why we're never going to recommend that we're always going to recommend to be diversified. That's a double edged short. So, yeah, I'm not going to be able to convert somebody's million dollars into 10 million over three to five years, that's not going to happen. But if you're diversified and have around 1% ish in different stocks, the million also is not going to go to 100 grand, right? I think I think people get caught up in all the good stories they hear. Like you always hear about the winners in Vegas,

you don't hear about the losers. Well, you always hear about all the people that made money in this particular stock or that particular stock. But you don't hear about the thousands of losers. And I know that you and I over time, we've met people that have made a significant amount of wealth because they work for a company and put it all in. But then we've also seen that same stock go to zero. Right. And then some that just stay in it, but they do have that bias. But that's the that's the like you said earlier, that's the that's not the norm. That's the one offs that everybody else is trying to chase and it just doesn't happen. The good stories are fun to talk about. You know, I find sometimes if my son's asking about stocks, I find myself talking about my winners more, too. That's more fun than talking about something that's down 30%. You know, from time to time, we have stocks that are that are down significantly. But if it's a fraction of your portfolio, you know, if you have 1% of your assets, even if it gets hit and it's down 20 or 30%, that's a fraction of your overall portfolio. And well, and depending on why it's down, it's also a buying opportunity to increase the holding. So, on the rebound, you lower your dollar, your cost basis could be so that rebounds. So, how can or how much does behavior impact returns? (...) Yeah, so, doll bar, I think that's how you pronounce it. Dalbar did a study. And if you're not familiar with them, they're a research company in our industry, been around for a very long time. They did an analysis.

(...)

Over 25 years of what the market did, and what the average investor did that that they did research on right during that time, the S&P was up 10 ish percent. And the investors that they followed or did research, I'm not sure if they followed or did it after the fact, their average portfolio return was four to 5%. (...) And after looking at that analysis, what Dalbar found, what wasn't that they didn't have access to same investments, it had to do with emotional behavior, investor behavior, that they were trying to time the market, for example, right?

(...)

And that's one common mistake we see. The, you know, you can see people do it in an up market and in down market, meaning the market goes up and people think, man, surely, it can't go up again, we just hit an all time high. I'm going to put half my money in cash at this

point are very safe and the market continues to rise. Well, now you missed out on that. And the more common thing is those two out of 10 years, which tend to be bad. Two out of 10 years are typically negative. When that happens and somebody lost 10, 20, 30%, depending on how the portfolio set up, then they, again, cash out a portion and they never recover. Yeah, so, the emotional part, (...) I think the old, I don't know if it's the older, I get or the more experience I get. But when I first started, you know, I was really focused on the numbers, you know, trying to tell clients, this is how we can make you more money by investing in this manner. (...) And I've come to have a great appreciation for the investor behavior behind it, the psychology behind it, of, of making sure that the the investor can go along for the ride, right, that we're not, we're not making rash decisions and, and having those conversations with clients. Yeah, the markets up, but that doesn't necessarily mean we want to make it more conservative. If you don't have a cash flow need. Now, every client's unique. Maybe if that client does have a cash flow need. Yeah, that makes sense to scale it, scale the risk down or raise some cash. But if your retirements offer another decade or two, just to make the account more conservative because it's rallied. I think that's foolish. So, to close this out, because I think it's been a great topic. Sure. What is one mistake that people keep making that you wish they would stop today?

(...)

Try to try to learn from others. And when I say from others, I'm not saying you necessarily have to find a financial advisor, but read books, you know, there's a ton of YouTube content, there's, you know, I love to read readings, the way I've learned most of what I've learned in life, I feel like.

(...)

But I would learn before making the mistakes, try to avoid them. Like I like to tell my kids, fools never learn average people learn from their mistakes. And wise people learn from other people's mistakes. So, if I'm an investor out there, try to learn before you make every mistake and following that pothole yourself. Does that make sense? It does. I'm so glad you brought up kids. Because the moment you said that I kept thinking, well, (...) most people that have kids, I have kids and they never, you're telling them things to protect them. Right. Because you've been through it, you've experienced it like we have with clients, we've

experienced 20 years of just, you know, market turmoil, market volatility. And navigating good and bad times. And we're trying to help them just like you try to help your kids. But what do they not do? Listen, they don't listen. Yeah. And I think with kids, I think it's part of its human nature. I mean, some when you're a kid, you have to make your own mistakes. But I think as you mature and get older, as you wisen up, hopefully you see kind of what's around a corner and you quit stepping in the same, in the same pothole, you know, it's there. And the same thing with investing, investing, there's massive repercussions, you're working probably 40 plus hours a week to save this pile of money. And in your spending less time deciding how to invest and what to do than you're planning your next trip to Cancun. Yeah, that's crazy. Okay, so, thank you, Glen. It's an enlightening topic. I hope the intervention for you worked well and the educational part worked well. I know it did a little bit for me being from Louisiana. But any final thoughts before we close out today?

(...)

If you don't have an estate plan, get it set up, right. (...) There's thousands of really, really good attorneys out there that can help you. (...) So, get your estate plan in order. (...) Make sure you don't have winners biased. Make sure if be honest with yourself, if you had some success investing, whether it's in stocks or something else, realize if that's repeatable, or if it was luck. And lastly, try to try to learn before you invest in something, learn about what you're doing. And try not to learn just by making mistakes, learn, learn by doing research by potentially talking to advisors prior to making those decisions that potentially are irrecoverable. All right, perfect, Glen. Thank you. (...) Now we're up to the mailbag question. So, you're ready? Yeah, let's see. You're the mailman there you got I'm the mailman today. This is from Josh. I don't know where Josh is from, but I'm sure he's a cool guy. (...) I am new to investing. Where do I start?

(...)

Wow. (...) The first thing is Well, it's simple, but hard. I mean, it's first, what are the goals? What are you trying to accomplish? (...) Make a plan for those goals. (...) Look at your how much risk you want to take. (...) That's what be the first things. So, let me start that around. Say you'd want to figure out what the goals are. (...) The plan to achieve them, your risk tolerance. (...) Depending on, you know, if they have debt, you want to pay down debt

starting with the highest interest rate, you know, especially if you have any credit card debt, you need to get rid of that. Typically mortgages and student loans are on the other extreme. They're typically very, very low. So, go in order of interest rates, (...) higher the interest rate paid off sooner. And lastly, you need to have money reserved for emergencies, right? Typically what we say is if you're married or have a partner, the goal is two incomes. Exactly. If there's dual incomes, you need three months of money reserved. If there's one income, then you need six months in reserve. So, those are kind of rule of thumbs. That's why I said it's kind of a hard question because somebody may say I'm a new investor and I talked to them and they're not really new. They think they are and others are literally new. They're, you know, age. They're 18, 22, never bought a stock. It's a different conversation. But at the end of the day, figure out what your goals are, figure out how much risk you want to take. Make sure you're paying off any debt and go in order of priority of higher interest rates. And then have that emergency saved up three months if you're have two incomes, six months if you're on one income. Perfect. All right, brother. Thank you. I appreciate it. I appreciate the talk today. My pleasure. (...) And I want to thank everybody else for tuning in. Don't forget to like and share. If you think this is valuable information, share it to a friend and keep watching. Until next time, we'll see you here.

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