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EMOTION, EGO CAUSE INVESTING MISTAKES

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All-too-common investing mistakes can be traced back to all-too-common human tendencies: emotion and ego, an expert says.

"I think most investors invest emotionally, and I think that's your worst enemy," says Murray Belzberg, president of Perennial Asset Management.

When the market's good, it's easy for greed to sweep investors away amid the euphoria. Stocks are heading higher, so they extrapolate that will always be the case – and get burned in the process. On the flipside, panic tends to cloud judgement when the market is heading down.

"When an investor watches their investment go down in value, at first they're actually quite philosophical and say 'I know things go down,"' Belzberg says. "Then all of a sudden when it starts to go down a lot, you get panic."

Investors should also do away with the notion that what they paid for a stock actually matters one iota.

For instance, if someone buys shares of a company for $10 each, and they fall a couple of dollars, the tendency is to stick it out until it bounces back to that initial level before selling.

"What you need to be looking at every day is, 'Do I still see the positive aspects of that company that I saw when I first purchased it, or did something change, or was I initially wrong, or should I just sell it now?' What you paid doesn't really matter. The fact that you want to sell it back when you got even, that's irrelevant," says Belzberg.

"Losing money is part of investing. You don't expect everything to go up. And taking your loss when you made a mistake is a good idea, not trying to get even before you get out."

For Rosanna De Jong, manager at financial planning for Royal Bank of Canada, a lack of foresight is what causes problems. Only 20 per cent of Canadians have set out a formal financial plan, she says. Of that group, 70 per cent say they're better off for it.

At RBC, De Jong says financial advisers don't dig into the nitty gritty numbers with their clients right away. Rather, they first discuss what sort of end goal the client has in mind, whether it's retiring in a tropical climate or saving for a child's education.

"It's about getting an opportunity sit down and plan for what's important to you, plan for your life," she says.

Whatever financial goals people are working toward, it's tough to pull them off without paying themselves first _ putting money into a Registered Retirement Savings Plan or Tax-Free Savings Account on a regular basis.

De Jong says some 61 per cent of Canadians have an RRSP, but only 36 per cent have a TFSA, which offers a tax shelter while providing the flexibility of a regular savings account.

Sorting out debt is also an issue.

"They don't reduce their most expensive debt first, as much and as quickly as they can," De Jong says.

"So it's about sitting back and having a plan, and determining what's important and then aligning financial importance to that, paying down debt, high-interest cost debt first is a very simple solution."

Cleo Hamel, a senior tax adviser with H&R Block, doesn't like to use the word "mistake" when it comes to tax planning, but frames it instead as missed opportunities to put some extra dough in your pocket.

It's tempting to wait until the very last minute to sort out one's tax return in the spring, Hamel says a bit of year-end housekeeping can make a big difference.

"At this time of year, people may not be thinking about taxes, but we actually encourage people to sit down and look at their tax situation now," she says.

It's worth it to take the time to hunt down receipts for charitable donations – even if it's just $20 here and there.

Taxpayers get a 15 per cent credit for the first $200 donation, and a 29 per cent credit on anything on top of that. So that school fundraiser receipt or bike-a-thon receipt, however small, may make a big difference.

Even though Canadians have until the end of February to top up their RRSPs, it's good to sketch out how much they want to contribute well in advance of the holiday season spend-a-thon.

"What happens is no one really looks at what's going on, and you get to the February deadline and people start to panic, or they've over spent over the holidays and didn't consider that they need to put money away," Hamel says.

The same goes for figuring out well ahead of time if you're going to be in a tax-owing position, and setting aside money accordingly.

"We get very complacent. Every year I'm used to getting a tax refund. I'm always going to get a tax refund."

Filed by Canadian Press, editor@Advisor.ca