Investing Lessons Learned The Hard Way

The following are investing lessons that would have been better learning sooner rather than later. Better late than never as one would say, and it also might be the case that some of these you have to learn yourself even if someone told them to you. In any case these are presented in the hope that you might benefit from them in your own investing situation whatever stage you are at.

Fundamentals Over Glitz

There are time tested investing strategies that you can use to make lots of money in stocks over time. But, these are typically boring and not as exciting as buying the hot stocks of the day and riding the momentum. That hot technology company you bought may be exciting as it goes up, but it can just as easily go the other way over night. Experiencing a good bear market fixes this impulse.

Investments Should Show You The Money

Investors might believe that earning income through dividends makes the company boring, mature, and unlikely to generate good returns over time. This is not true at all, the best performing company over the last 50 years is Altria, a dividend paying company that makes tobacco products. You need to know a lot about a company to make it a good investment, and when the company pays you money out of its profits, it makes it so much easier to determine if its a good one.

Find Your Goto Investments

Valuation is a complicated topic in investing that you never really master because there are things to be learned all the time. However, you should have investments on your list that you will goto if you can't find anything else because they are easy to value and give you a fairly reliable rate of return. These type of investments also serve a useful purpose: anything else you might want to invest in has to beat these by a good enough margin to choose them over your goto investments. Goto investments will force you to make a clear case why you need to invest in other things.

Sell Your Losers

This one is very hard to implement even though you know logically it's the right choice. During the financial crisis I owned two REITs that were both invested in conservative quality real estate. However, as time went on it became clear who the better property manager was and the stock prices started to reflect that. Keep your money invested in the best companies because they will make you money going forward, whereas losers will...languish. If it helps, sell your losers against the profits you need to take on your overvalued winners.
Role Of Uncorrelated Asset Classes

Seasoned professionals learn this after living through some bad investment cycles. If stocks look bad, hid in so-called safe havens such as Gold, Treasuries or Cash. But even safe havens have their own risks, since any asset has risks, even Cash. But for short term turmoil they can save you.