



# Investing Pitfalls

## Every Investor Should Avoid



*The Way to Your Future*

**CIPF**

Canadian Investor Protection Fund

MEMBER

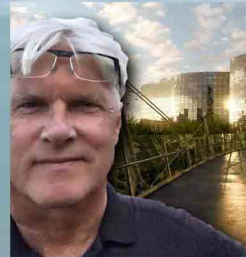
## *Dear Investor*

Typical investors are seeking financial security. For most people this means being able to stop worrying about their finances and start enjoying their lifestyle. The reality is that some investors will fall prey to many investing pitfalls that can reduce or eliminate their wealth. Even if you have achieved financial security, your investments may still be susceptible to some of these investing pitfalls, and learning how to avoid them is of the utmost importance.

This booklet has been written to help provide you with crucial information about investing by drawing on my experience, gleaned from helping clients for more than a quarter of a century. I've described some of the common pitfalls that have captured investors. Although these pitfalls may seem easy to avoid, investors continue to be trapped by them time and time again. As an investment professional I can help you avoid these pitfalls. I look forward to working with you to develop a simple plan that will assist you in achieving your financial security.

**Although these pitfalls may seem easy to avoid, investors continue to be trapped by them time and time again.**

Respectfully,



*Dave Nicholson*

Legend has it that one of the greatest investors of all time, Bernard Baruch, said **“The man that tells you he always buys at the bottom and sells at the top is a liar.”** The great Warren Buffett has been quoted as saying **“Better to be approximately right rather than precisely wrong or, in other words, ... do your best to buy at lower levels and then sell at higher ones. So the age old axiom of ... Buy low, sell high”** just isn't that easy!

There have been multiple studies performed over twenty year periods confirming that investments do far better than the investors who purchase them. What conclusion can be drawn? **Investors' emotions detract from the potential performance of their accounts.**

Investing in financial markets in periods of high volatility will cause your account balance to fluctuate a significant amount. This is where emotions can restrict the performance of your account by driving you to make poor decisions in extreme situations. A classic example of this can happen during a bull or rising market — you buy a stock and the gains from your investment serve as positive reinforcement for your decision. In this elated state you buy more, at elevated prices. Then when the market turns from a bull market to a bear or falling market you sell. You panic as your investments plummet. The unfortunate fact is that you, like many other investors, end up getting out at or near the market low. Then you wait until things “settle down” to start buying into the market one more time. Unfortunately, now that you're comfortable getting back in the market, you find that you're in the middle of the next bull market and have started buying too high again. This unfortunate cycle is doomed to repeat itself. To quote Warren Buffett again, **“Always buy greedily when others are selling fearfully and sell fearfully when others are buying greedily”**

If you are properly invested and have a solid plan designed with your risk tolerance, objectives and cashflow needs in mind you should be able to resist making investment decisions based on emotions. One of the world's greatest investors, Benjamin Graham, said that the **stock market is simply a transfer of wealth from the impatient to the patient.**

While all bear markets may not look exactly the same they all have one characteristic in common, they are ended by the beginning of the next great bull market.

**Having a financial professional assisting you will help to formalize an appropriate plan of action which you can use to be invested at the correct times.**

Certainty is what every investor seeks but, unfortunately, it's certain that there'll always be investors trying to buy low and sell high, yet doing the exact opposite.

Compare the 20-year average annual rate of return (1988-2007) for the average investor to that of the S&P 500 Index.

The investors' average annual return was 4.48%, while the S&P 500 Index average annual return was 11.81%.

\*Source: Quantitative Analysis of Investor Behavior by Dalbar, Inc. 2008.\*



Throughout history many investors have witnessed mania and excitement when stocks or other investments achieved extraordinary gains. At one time tulip bulbs were the hot ticket; in 1997-2000 tech stocks grew 10-20 fold, and some even more. If you were holding an investment that had experienced such exorbitant gains, you might think that this stock or company has done such a great service to you that it is impossible to sell, even when the price has collapsed. In the past markets have always recovered, but many individual stocks or investment products never do. **Even after an investment loses 90% of its value, you keep holding, holding and hoping that one day it will bounce back.**

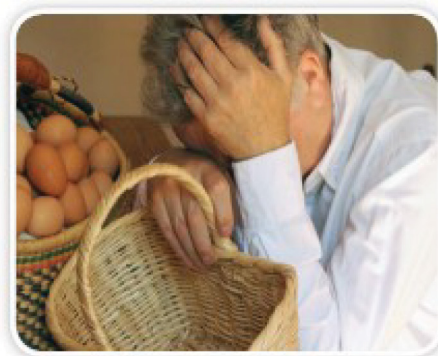
**How can you tell if it's time to get rid of an investment in your portfolio?**

If you are still holding a poor investment, looking for that miraculous recovery to get you back at least to flat, a rise in price that would mimic that of a phoenix, it's time to get rid of that investment. A financial professional can provide you with guidance and a logical strategy to help you systematically acquire and dispose of investments at the appropriate time.



Throughout your life you may have collected investments such as stocks, bonds, GICs, mutual funds, real estate, artwork and so on. The idea was to **spread risk across multiple investments**, but you've ended up with a mismanaged portfolio, or what some investment professionals call **"a mess."**

This situation usually leads to poor decisions, micromanaging your portfolio, and increasing risk by not properly matching multiple assets. This can result in poor performance. When you reach retirement the portfolio looks like a smorgasbord with no cohesive investment strategy. As Warren Buffett says, **"Put all of your eggs in one basket and watch that basket."**



### Insufficiently diversified

This error occurs from over concentrating capital in one industry wherein many investors suffer losses so heavy they never recover. Your confidence in investing this way may come from "knowing" the industry. Unfortunately, "knowing" an industry does not eliminate the risk of loss. Many investors "knew" Lehman Brothers, AIG and Enron...

**Multiple stocks** can also lead to a problem. Investors at the turn of the century suffered huge losses because, though they owned multiple stocks, they were over concentrated in the technology sector. History repeated itself in 2008 with financial stocks. Even though you own multiple stocks, without a proper understanding of their relationships, you may have be concentrated in one area and insufficiently diversified.

**Seeking professional advice** can help to ensure that you have a proper balance in your asset mix. It is important to understand that a proper balance will not ensure immunity to market risk, nor does it ensure the highest possible returns. The purpose of having a suitable investment mix is to reduce the risk of sustaining unacceptable losses. Professional advice is crucial to determining the number and style of asset classes to include in your portfolio. It is important to maintain a suitable balance, acceptable risk, and proper diversification.

Wouldn't it be fantastic if you could find an investment system that produced high returns consistently, with no risk? Many investment trading gimmicks promise immeasurable success, but only if you buy the product or system.

Following these gimmicks **not only costs money initially but but also risks wiping out your investment capital.**

Tell tale signs of a gimmick:

1. Someone claims the knowledge of trading “**secrets**” that if they were in your possession would lead to unbridled investment success. You should be highly suspicious of secrets you can buy for a fee. If someone was actually in possession of a valuable secret that could give its possessor an edge on the market, why would they possibly waste the time to package and sell it? Why not keep it all to themselves and acquire trading riches beyond belief?



2. **The gimmick is advertised and designed to sound credible**, but usually blends fact with fiction. For example, you might hear how great it is to use your mortgage to invest.

Borrowing to invest can be great, but but it can also go horribly wrong — the sellers never mention this.

3. **Unrealistically high returns without the appropriate risk.** If investors are convinced there is no risk, then they just don't understand where the risk is.

4. **Schemes stroke your ego and aim at your innermost desires.** They install a sense of confidence in you: “**Nobody cares about your money as much as you do. With **\*\*insert system here\*\*** you can control your money and make all of the investment decisions yourself.**” If this reasoning were true, you should be your own surgeon as well since no one cares about your health as much as you do. Remember the old adage ... “**The lawyer who counsels herself has a fool for a client.**”

Maintain your objectivity when assessing potentially high returns and realize that they always comes with **higher risk**. When you try to beat the odds and buy some secret system, the question is **not if you will lose money, but how much will you lose.**

Human nature can cause the desire for success to cloud good judgment, so it's important to remember: **If this system or secret is so good, why is it being sold to you?** Think about how likely it is that the vendors have found an indisputable method of beating the markets, consistently. After they proved this discovery to be successful and able to make millions, did they pass on the Nobel prize in economics and decide their discovery was not worth selling to giant investment firms and massive hedge funds for billions of dollars? Did they give up all of the fame, riches and prestige so they could sell it to you for \$29.99? Wait... if you call now it's only \$19.99, and they'll include a box set of all your soft rock favourites!

You may not realize that your **“safe investments”** have an inherent risk to them that could be eroding your wealth.

This mistake is so insidious as a financial illusion because of the discrepancy between nominal and real returns. A five dollar bill is a five dollar bill no matter when it was printed, and this means it has consistent nominal value. But I'm sure you have observed the difference between the purchasing power that five dollars had when you were growing up and the purchasing power of five dollars today. Even though the nominal value is still five dollars its real purchasing power has been eroded over time.

**You are probably like 99.99% of people who view the money in their bank and in their wallet as currency.** You see it as a standard instrument of exchange for goods and services. This illusion is so powerful because this is how we use money all the time. Money is actually a representation of purchasing power, and unfortunately, we participate in a monetary system that has established a ground rule that purchasing power must continually be eroded. The Bank of Canada data shows that a basket of goods that would cost \$100.00 in 1970 cost \$591.09 in 2011. That's an average compounded rate of erosion of 4.43% per year.

The Bank of Canada data shows that a basket of goods that cost \$100 in 1970 cost \$591.09 in 2011. That's an average compounded rate of erosion of 4.43% per year.

The erosion that is built into the system is what eats away at your **“safe investments.”** For example, you put \$1,000,000 into a 5 year GIC paying you 3.5%, so you have \$35,000 a year in interest to live off of. Everything works out great, and at the end of the 5 years you get \$1,000,000.00 back. Now please remember that this is a nominal \$1,000,000.00, and using Bank of Canada historical data, the real purchasing power you get back on maturity would only be \$797,274.60.

Normally if you bought a \$1,000,000.00 principal guaranteed investment and 5 years later you were only given \$797,274.60 you would be on the phone to your lawyer. The sad thing in this example is that when a GIC matures you normally just roll it over, buy another one and magnify the problem.



**Seeking professional investment advice will help you determine how your money should be invested to ensure that there is not only capital preservation but also the preservation or growth of your purchasing power.**

Research has proven over multiple time frames that a diversified portfolio is an effective strategy for overcoming the devastating effects of wealth erosion. The previous example demonstrates just how powerful inflation erosion can be on a **“safe investment.”**

Even the investor who has a perfectly designed portfolio can lose out on achieving true financial freedom by letting the government step in and over-tax money that is returned to the investor. A tax efficient distribution strategy is absolutely essential to creating lasting wealth, and it's also the easiest way to maximize real portfolio returns when comparing identical portfolios.

**At Queensbury Securities Inc. our focus is true wealth management.** Wealth management involves getting at the money in your portfolio so you can enjoy your life. Each income tax situation is unique, which is why we consult with tax professionals to create a customized portfolio that's built around your personal income tax situation.

Having a tax efficient portfolio can help compound your growth by deferring taxes if, as or when it's possible. If you can defer your tax bill for 15 or 20 years, that's 15 or 20 years you can use Canada Revenue Agency's money to your advantage. It's like an interest free loan. Can you think of a time CRA gave you a cheque for the interest they earned on your tax dollars?

Structures like trusts and class shares are powerful tools in ensuring distribution strategies are as efficient as possible. Creating a proper structure is like building a freeway: it creates the many avenues that cash can flow in and out of the structure. **When your investments are planned with this care and attention to the tax efficiency of the structures involved, your after tax net returns increase dramatically ... even if your portfolio stays exactly the same.**



## Avoiding Investing Pitfalls

Are you participating in any of the investment pitfalls mentioned in this booklet?

Would you like to take steps now to rectify or avoid them?

Call or text me right away:

**+1 250.380.7505**

*Get Your Money Working for You Again!*

### Dave Nicholson



Dave has held positions with the Royal Bank of Canada; R.L. Crain; Touche Ross; Motors Insurance Corporation (General Motors/GMAC); Majendie Securities Ltd.; CIBC World Markets Inc. (Merrill Lynch Canada/Wood Gundy); and HSBC Securities (Canada) Inc. He is an Investment Advisor Estate and Retirement Planning Specialist.

Dave has served on the Board of the Greater Victoria Chamber of Commerce, has Chaired the Greater Victoria Development Agency and has served on the Financial Advisory Board to His Worship the Mayor of Victoria Dean Fortin. In addition, his community involvement over the years has included serving as an Alderman (Councillor) in Oak Bay, Provincial Capital Commission Commissioner, a member of the Executive Committee of the Provincial Capital Commission as well as sponsoring several Little League and Women's Volleyball Teams. Dave is married to Leslie, and they have three sons Greg, Tom and Grant.

# The Uniqueness of the Queensbury Group

**Communication** is the essential cornerstone in building your investment strategy. I'll take the time that's necessary to listen to your needs, investment goals and objectives. I'll also take the time to fully comprehend your strategy. I'll ensure that your strategy will be structured and as best suited to you as possible. **Queensbury is available and willing to help.**

## **Investment Strategy from a holistic perspective:**

Whether you are retired or are still building your wealth, my focus is to streamline your strategy in order to achieve your goals as efficiently as possible, and in the shortest amount of time. This procedure is more than just sound investing. My services include income tax efficient distribution strategies, cash flow analysis, estate planning, risk management and more. The strategy that we will build for you together is customized and dynamic, which means it will change to accommodate your changing goals, risk tolerances and cash-flow needs.

## **Flexibility is power in portfolio management:**

There is no investment product or investment which is always best for everybody. At Queensbury your portfolio is created specifically for you, using multiple investments, by leveraging the skills of the finest money managers in the world. We'll maintain a strong relationship with you as we monitor your portfolio to ensure your investment strategy stays on course.

## **Investment Options:**

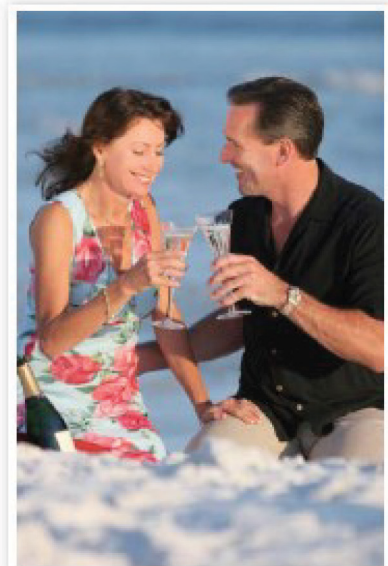
We can build your custom portfolio from a broad array of investment products including — but not limited to — international stocks, government securities, global bonds, natural resources, precious metals, alternative investment strategies, hedge funds and more. Your portfolio can be assembled with the appropriate mix of investments that are tailored to your goals, investment needs, and risk tolerance, as well as designed to minimize income taxes.

## **Competitive Compensation:**

Through a fully transparent fee structure I am able to ensure my goals are aligned with yours and to create the synergy necessary for long term success. I sometimes offer fee based accounts, so my fees are sometimes income tax deductible.

## **Independence:**

Queensbury Securities Inc. is an independent firm a member of The Canadian Investor Protection Fund CIPF and regulated by The Canadian Investment Regulatory Organization CIRO which means that your securities are safe when held within your Queensbury Securities Inc. Account within dollar value limits and your advisor's advice is overseen so as to be in your best interest to pave The Way to Your Future.



A photograph of a man and a woman standing on a sandy beach, looking out at the ocean. The woman is on the left, wearing a white long-sleeved shirt and white pants. The man is on the right, wearing a blue polo shirt and white shorts. They are both barefoot. The ocean is in the background with white waves breaking on the shore. The sky is blue with some light clouds.

**Dave Nicholson**  
**Investment Advisor**  
Queensbury Securites Inc.  
+1 250.380.7505  
[www.davidnicholsontoday.com](http://www.davidnicholsontoday.com)  
[david@queensbury.com](mailto:david@queensbury.com)  
The Block Building:  
Suite # 208 - 2695  
Granville Street,  
Vancouver, BC  
V6H 3H4

*The information contained herein was obtained from sources believed to be reliable. However, its accuracy or completeness is not guaranteed and Queensbury Securities Inc. assumes no responsibility or liability. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities or commodities. These comments and opinions are not necessarily the opinions of Queensbury Securities Inc.*