15 Value-Added Individual Investor Activities

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15 Value-Added Individual Investor ActivitiesBefore estimating the investment value that you might add or take away from your portfolio, you first need to determine whether your strategies are or are not likely to lead to optimal risk-adjusted investment returns. This value estimation is separate from any hourly opportunity cost related to spending time on your investments versus an alternative use of your valuable time. When you combine an estimate of your value-added or value-diminishing investment contribution with the opportunity cost of your time commitment, you derive an estimate of your total investment wage or opportunity cost. For more on this topic, click here >> Calculating your investment wage and the opportunity cost of your time Even if an individual investor feels a substantial amount of confusion about investing, he or she usually holds on to the hope that spending more time will increase investment returns. This is only true if the strategies implemented actually add investment value rather than diminish portfolio value. Value generating strategies can positively offset the opportunity cost of the time you spend. If not, more time spent on poor strategies will just increase your shortfall. To be value generating, individual investor activities must increase returns, lower costs, reduce taxes, and/or reduce risk. The 15 activities below are more likely to do this for you. These 15 guidelines summarize personal financial planning and investment management practices that are more likely to benefit you and your family in the long run.   ->**Spend much more of your time on managing your career and controlling your living expenses**. These are the two most powerful levers that any individual controls related to the success of an investment program. The most successful investment programs always involve continuing additions from savings. (Click here >> Step 2 - Set your personal savings, earned income, and other financial goals) ->**Become fully diversified (yes, FULLY diversified ALWAYS)** by owning the very broad market in your portfolio (Click here >> Why is diversification valuable to individual investors?) ->**Drive out all forms of investment activity designed to beat the market.** Target a market return and be very happy if you get close to it. Most individual investors fall well short of earning a market return, because they chase past performance that does not repeat, and they pay much higher investment costs as they chase the mirage of superior investment performance. (Click here >> Can you really beat the securities markets?) ->**Learn about and adopt optimal risk-adjusted investment strategies.** Understand the risks that financial markets tend to reward and those risks that you can take without any likely reward. (Click here >> Investment securities markets do not pay you for the risks of holding individual common stocks and bonds) -> **Use rational investment selection criteria that have been validated by the scientific investment literature.** Use only these criteria to pick your investments (Click here >> Rational selection of bond mutual funds and equity mutual funds -- overview) ->**Look for efficient, long-term investment vehicles, buy them, and hold them.** Save your time and money. Stop all this short-term flopping around. ->**Track your investment progress periodically, but do not chase performance.** Superior past performance is overwhelmingly due to luck rather than skill, and in practice, it is impossible to detect before the fact the tiny minority of professional managers with true skill from among the vast majority who will just be lucky and not so lucky. (Click here >> The illusion of superior professional investment manager performance) ->**Understand the incredibly high price to you of excessive investment costs** and buy the lowest cost investments through the lowest cost

channel consistent with your strategy (Click here >> Step 7 - Reduce investment expenses and control investment taxation) ->**Be conscious, rational, and pro-active about taxes related to your investments.** Taxes should never be ignored, but at the same time, they should NEVER be the dominant consideration in any investment decision. ->**Understand your tolerance for risk in comparison to other investors** and make sure that your portfolio asset allocation properly reflects your relative risk tolerance. Avoid being overly conservative or overly aggressive relative to your risk comfort zone. Errors either way are potentially very costly. (Click here >> Step 3 - Assess your personal investment return and risk tolerance preferences) ->**Stop twiddling with things, and adhere to your passive strategy. Let it run.** Go do something else that is more rewarding financially and/or more emotionally and spiritually fulfilling. Do not listen to people who tell you to twiddle, especially if they are industry professionals who will make money from you, when they do the twiddling for you. (Click here >> Does it matter how financial planners and investment advisors are paid?) ->**Develop an understanding of the things that investors tend to do wrong**, and monitor yourself so that you do not do the same things. ->**Find advisers who will truly put your interests first and who will give you full attention and comprehensive and reasoned advice.** Advisers should more than pay for themselves, but many times they are actually a net cost to you. Managing your advisers is the ONLY place in investing where you really should be active rather than passive. (Click here >> Fee-only compensation aligns the interests of clients and their financial advisors) ->**Shop around for advisors and be a critical, cost-conscious consumer.** If you do not do some independent checking and critical thinking and just follow a friend’s advice about whom to use as an adviser, then you may simply be just as wrong as your friend is. Just because you like and advisor's personality and feel that you can trust an advisor, this does not mean that you are getting enough value to justify his or her cost. Advisers are expensive. Pay attention to their "value to cost" ratio. (Click here >> Step10 - Choose objective and competent investment advisers) ->**Understand insurable risks and economical ways to reduce them.** Being focused only on investment risk can leave you unnecessarily exposed in other risk areas that could wreck your financial plans. (Click here >> Step 8 - Insure against financial risks economically)

This list of value-added investment factors is not exhaustive. It also does not attempt to list the myriad of things that investors should not do. For more ideas from *The Skilled Investor* about what to do and not do, you may wish to Click Here to consult our Financial Articles Index and read more. In summary, if you have a reasonable sense that you truly understand investing and have kept accurate performance records to verify your prowess versus the appropriate market benchmarks, then you may actually be adding value by spending time on investing. If not or if your practices are contrary to the strategies listed above, then the more time you spend with your investments, the more likely you are to come up short -- very short. CLICK THE LINKS BELOW FOR MORE INVESTMENT AND PERSONAL FINANCE ARTICLES: