

The Eight Biggest Mistakes Investors Make

And How to Avoid Them



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Are you completely satisfied with the current performance of your investments, or have you struggled to consistently meet your investment goals over time? If you're like most investors, chances are you'd like to see some level of improvement.

Fisher Investments created this guide to help investors improve their results. We've been managing money for financially successful individuals for over 20 years, and we've helped many *thousands* of investors. As a result, we know the types of investing mistakes they've made over and over again.

In this guide, we explain eight important lessons on what we believe brings investment success and what can lead to failure. We're confident the guide can help you increase your chances of reaching your investment goals.

Mistake #1: Underestimating the Time Horizon for Your Assets

Mistake #2: Not Having Clear Investment Objectives

Mistake #3: Improperly Judging Risk

Mistake #4: Confusing “Income” Needs with “Cash Flow” Needs

Mistake #5: Avoiding Foreign Securities

Mistake #6: Forgetting the Fundamental Importance of Supply and Demand

Mistake #7: Making Investment Bets Based Only on Widely Known Information

Mistake #8: Being Overconfident in Your Investing Skills

Mistake #1: Underestimating the Time Horizon for Your Assets

Perhaps the most unpleasant risk an investor faces is running out of money during retirement.

People work their entire lives to accumulate enough wealth to make sure this doesn't happen. Unfortunately, they often underestimate the length of time they will need their portfolio to provide for them.

FACT: The National Institutes of Health have shown that someone born in 1952 had a life expectancy of 68.6 years at birth. By 2006 that figure had risen to 77.9 years.

Given the rapid advances in healthcare and nutrition, we believe this trend will continue. This presents a challenge to today's investors not faced by previous generations. You simply *must* plan for a longer time horizon than your parents or grandparents did.

For many investors, having an accurate sense of their life expectancy can mean the difference between success and failure with their investment strategy. One of the primary drivers of a successful portfolio strategy is the ability to accurately identify the time horizon for the assets.

Time horizon should be thought of as the amount of time investors need their assets to be working for them. A common example of time horizon is the life expectancy of the investor. For example, investors may need their assets to provide cash flow for as long as they (and their spouses) live, without regard for what is left over. Their time horizon can also extend further if they plan to grow their portfolio for the benefit of heirs. Lastly, it could be something different altogether depending on the investor's own unique situation, like a vacation home purchase in ten years.

The life expectancy information in the table below is from the US Total Population Life Table 2003 (revised as of March 28, 2007) National Vital Statistics Reports, Volume 54, Number 14.

| Average Life Expectancy | | | | | |
|-------------------------|-----------------|------------------------------|-----|-----------------|------------------------------|
| Age | Life expectancy | Remainder of life expectancy | Age | Life expectancy | Remainder of life expectancy |
| 51 | 80.6 | 29.6 | 71 | 85.2 | 14.2 |
| 52 | 80.8 | 28.8 | 72 | 85.5 | 13.5 |
| 53 | 80.9 | 27.9 | 73 | 85.9 | 12.9 |
| 54 | 81.1 | 27.1 | 74 | 86.3 | 12.3 |
| 55 | 81.2 | 26.2 | 75 | 86.7 | 11.7 |
| 56 | 81.4 | 25.4 | 76 | 87.1 | 11.1 |
| 57 | 81.6 | 24.6 | 77 | 87.5 | 10.5 |
| 58 | 81.8 | 23.8 | 78 | 88.0 | 10.0 |
| 59 | 82.0 | 23.0 | 79 | 88.4 | 9.4 |
| 60 | 82.2 | 22.2 | 80 | 88.9 | 8.9 |
| 61 | 82.4 | 21.4 | 81 | 89.4 | 8.4 |
| 62 | 82.6 | 20.6 | 82 | 89.9 | 7.9 |
| 63 | 82.8 | 19.8 | 83 | 90.5 | 7.5 |
| 64 | 83.1 | 19.1 | 84 | 91.0 | 7.0 |
| 65 | 83.4 | 18.4 | 85 | 91.6 | 6.6 |
| 66 | 83.6 | 17.6 | 86 | 92.2 | 6.2 |
| 67 | 83.9 | 16.9 | 87 | 92.8 | 5.8 |
| 68 | 84.2 | 16.2 | 88 | 93.5 | 5.5 |
| 69 | 84.5 | 15.5 | 89 | 94.1 | 5.1 |
| 70 | 84.8 | 14.8 | 90 | 94.8 | 4.8 |

We believe these projections are likely to underestimate how long people will actually live given recent medical advancements. And don't forget these are projections of **average** life expectancy — *meaning half of the people in each age bracket are expected to live longer.*

Don't put your lifestyle at risk by planning for too short a time horizon.



Mistake #2: Not Having Clear Investment Objectives

Sadly, all too often people invest their money with no clear investment objectives.

Without clearly defined goals, you need luck on your side to come up with a strategy that will get you where you want to go with a high probability of success.

The simple guide below can help you identify your personal portfolio objectives to come closer to reaching your financial goals.

Specific strategies can be tailored to meet a single objective or a combination of several objectives simultaneously. Of course, every investor is different, but here are some goals and objectives you might identify as your own:

| Personal Investment Objectives | |
|--|---|
| Goal | Objective |
| <input type="checkbox"/> Grow my assets | Have \$ _____ at the end of my time horizon |
| <input type="checkbox"/> Maintain my purchasing power | Ending value will be at least as much as initial investment, adjusted for inflation |
| <input type="checkbox"/> Provide cash flow for my lifestyle | Provide \$_____ per year |
| <input type="checkbox"/> Provide cash flow for my lifestyle and grow my assets | Provide \$_____ per year and have \$_____ at the end of my time horizon |
| <input type="checkbox"/> Have trusted advisor who can manage portfolio for my spouse | Work with advisor for____ years |

Don't skip this critical step — you can significantly increase your chances of investment success by starting with clear investment objectives.

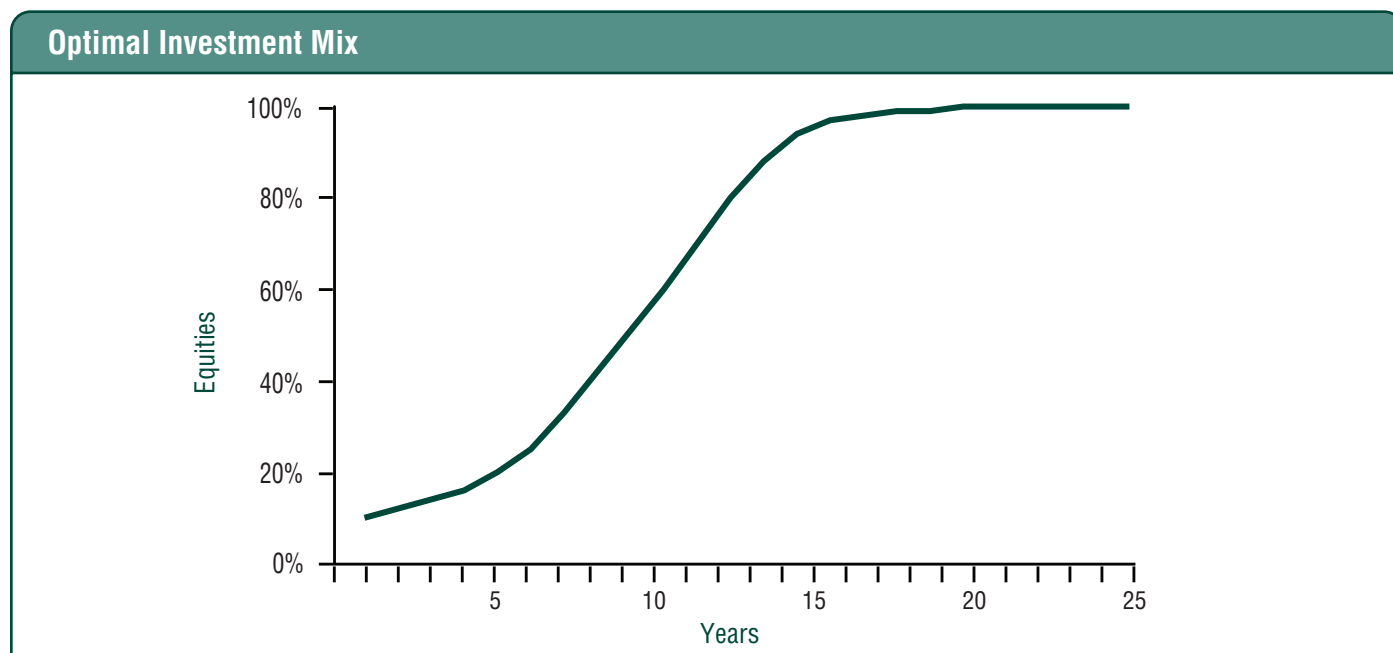
Mistake #3: Improperly Judging Risk

Many investors improperly judge risk. Generally, the longer the time horizon of your investments, the more risk you are able to take on. However, a typical mistake many investors make is to take on too little risk. That's right — they focus on short-term volatility rather than, more properly, the long-term probabilities of achieving their objectives. The result tends to be portfolios that underperform their goals.

For example, some investors consistently load their portfolios with low-coupon Treasury bonds because they fear stocks will drop in the short term — even if their time horizon is greater than 20 or 30 years. This strategy barely generates a return over the rate of inflation — significantly reducing any chance of growing a portfolio or even maintaining a satisfactory lifestyle, especially if withdrawals are also anticipated.

Conversely, investors with short time horizons for their assets are often overly exposed to risk, which creates a danger of asset loss during a short-term period of volatility. This can put their entire financial future in jeopardy.

The chart below shows potential equity allocations based on different time horizons. While every investor's situation is different, in general, we believe the percentage of your portfolio allocated to equities should increase as your time horizon increases.



Hypothetical example for illustration only. Suggested exposure is approximate. Data points may not be exact but indicate a general range.

Understanding your exposure to risk — as well as your time horizon and investment objectives — will help you better protect your portfolio and make better allocation decisions.



Mistake #4: Confusing “Income” Needs with “Cash Flow” Needs

Income and cash flow are not the same thing — even though many investors think they are. Understanding the two concepts — and the distinctions between them — is extremely important for investment success.

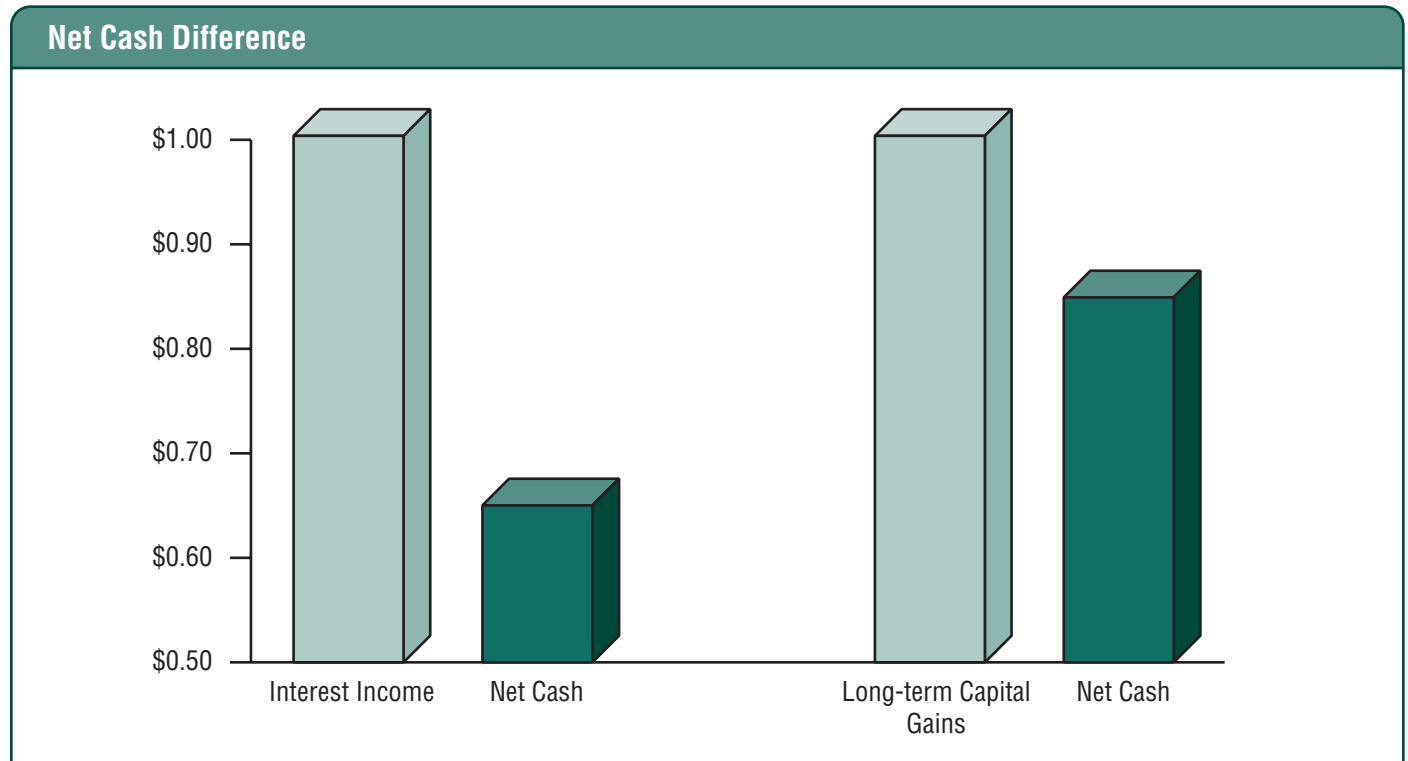
Many investors ask this question: “*How much income can I safely take from my portfolio for general living expenses?*” That’s the wrong question to ask. The more important question is: “*How much can I safely spend from my portfolio for general living expenses?*”

Put simply, **cash flow** refers to how much money you need for living expenses and other personal needs. **Income** is the amount of dividends and interest earned by a portfolio that, in the case of a taxable account, you will pay current income taxes on. Why is this distinction important?

The way in which you generate income can have a tangible effect on the growth of your assets as well as on the taxes you pay. Both of these factors will impact your ability to generate cash flow.

It’s a mistake to think you should get the cash flow you need solely from portfolio income without ever touching principal. This is an emotional bias that for many can be difficult to overcome. Instead, your focus should be on total *after-tax* return. For example, selling stock to meet cash flow needs can be a better alternative than taking income from your portfolio. Selling stock may offer tax advantages over taking interest from fixed income or dividends, because the transaction might be taxed at the capital gains rate rather than your marginal tax rate. Harvesting losses from equity investments can also be tax advantageous.

The chart below shows how large the after-tax difference could be when cash is generated from interest income compared to selling stock with long-term capital gains.



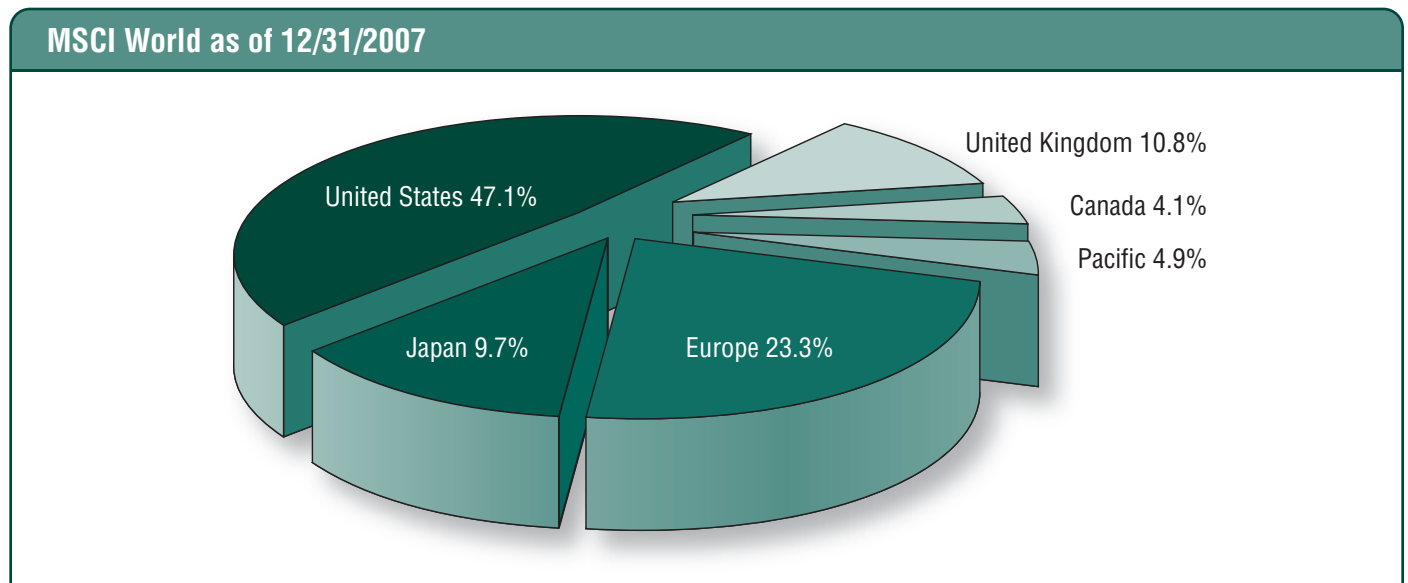
How you generate your cash flow can have a profound implication on just how much money you'll have in the long run.



Mistake #5: Avoiding Foreign Securities

Most investors know that it's smart to diversify. Yet, most American investors aren't nearly as diversified as they think. American investors tend to focus overwhelmingly on US securities. That leaves out more than 50% of the world — potentially a lot of missed opportunities.

The US represents less than 50% of the developed global equity market.



The Morgan Stanley Capital International (MSCI) World Index is an unmanaged, capitalization-weighted stock index measuring the performance of selected stocks in 23 developed countries. Sources: Thomson Financial Datastream, Morgan Stanley Capital International

In fact, if you look at the countries with the best equity returns each year, the US was only a top-five performer two times in the last 15 years.

| Annual Equity Returns by Country | | | | | | |
|----------------------------------|----------------------------|--------------------|------------------|--------------------|--------------------|-------------|
| | Top 5 Performing Countries | | | | | USA |
| | #1 | #2 | #3 | #4 | #5 | |
| 1993 | Hong Kong 117% | Finland 83% | Singapore 68% | New Zealand 68% | Switzerland 46% | USA 9% |
| 1994 | Finland 52% | Norway 24% | Japan 21% | Sweden 18% | Ireland 14% | USA 1% |
| 1995 | Switzerland 44% | USA 37% | Sweden 33% | Spain 30% | Netherlands 28% | USA 37% |
| 1996 | Spain 40% | Sweden 37% | Portugal 36% | Finland 34% | Hong Kong 33% | USA 23% |
| 1997 | Portugal 47% | Switzerland 44% | Italy 35% | Denmark 35% | USA 33% | USA 33% |
| 1998 | Finland 122% | Belgium 68% | Italy 53% | Spain 50% | France 42% | USA 30% |
| 1999 | Finland 153% | Singapore 99% | Sweden 80% | Japan 62% | Hong Kong 60% | USA 22% |
| 2000 | Switzerland 6% | Canada 5% | Denmark 3% | Norway -1% | Italy -1% | USA -13% |
| 2001 | New Zealand 8% | Australia 2% | Ireland -3% | Austria -6% | Belgium -11% | USA -12% |
| 2002 | New Zealand 24% | Austria 17% | Australia -1% | Norway -7% | Italy -7% | USA -23% |
| 2003 | Greece 70% | Sweden 65% | Germany 64% | Spain 58% | Austria 57% | USA 28% |
| 2004 | Austria 72% | Norway 53% | Greece 46% | Belgium 44% | Ireland 43% | USA 10% |
| 2005 | Canada 28% | Japan 26% | Austria 25% | Denmark 24% | Norway 24% | USA 5% |
| 2006 | Spain 49% | Portugal 47% | Ireland 47% | Singapore 47% | Norway 45% | USA 15% |
| 2007 | Finland 49% | Hong Kong 41% | Germany 35% | Greece 33% | Norway 31% | USA 5% |

The above returns reflect the performance of the 23 developed countries that compose the Morgan Stanley Capital International (MSCI) World Index. Sources: Morgan Stanley Capital International, Thomson Financial Datastream

Investing in only US stocks may cause investors to miss out when foreign stocks outperform.

Don't make the mistake of focusing solely on US securities — we believe there's a lot of portfolio performance to be found overseas.



Mistake #6: Forgetting the Fundamental Importance of Supply and Demand

Investors open the newspaper each day to a near avalanche of data. Pundits, economists, and journalists all have theories on what determines the direction of stock prices. Yesterday it was energy prices. Today it's the movement of currencies. Tomorrow it'll be interest rates. The reasons they cite can seem limitless.

Despite all this, we believe investors often fail to consider the basics of supply and demand when determining the movement of stock prices. Basic economic theory states that relative supply and demand for any asset traded in an open market will always determine prices. Though this fundamental can be easy to overlook, it is vital for understanding stock movements.

For example, holding supply equal, the demand for ski equipment increases around the winter months, so prices for skis increase. In the other months of the year, when people ski less, demand decreases and prices fall.

But what if next year, ski manufacturers anticipate the heightened wintertime demand for skis and supply more skis to the market? If there are more skis available to skiers, holding demand steady, prices will go down because skis will be less scarce and buyers will have more options.

Stock prices can behave similarly. The supply of equities is relatively fixed in the short run because it takes time for companies to create new issues of stock. Therefore, shifts in demand are the primary cause of short-term price movement. However, in the long run, supply has an almost infinite ability to change. IPOs, stock splits, stock buybacks, mergers, and acquisitions combine to make supply the dominant factor in stock prices over longer time periods.

Consider the bull market of the late 1990s. At that time, demand surged as investors clamored to purchase stocks, but supply remained relatively steady. Thus, stock prices rose. But in 1999 and 2000, a huge influx of stock supply came to market in the form of initial public offerings. With all that new supply brought to market, stock prices fell — a significant cause of the bear market lasting through the beginning of 2003. After the bear market, the supply trend reversed as a high rate of cash mergers and acquisitions reduced stock supply and boosted prices.

The ability to screen out unimportant noise and accurately track, analyze, and evaluate basic supply and demand is vital to making successful forecasts in the markets.

Mistake #7: Making Investment Bets Based Only on Widely Known Information

What sources of information do you use when considering an investment? If you're like most interested investors, you actively read a variety of newspapers and magazines, subscribe to a few newsletters or proprietary research sources, and do additional searches on the Internet.

Unfortunately, even hours spent reading and researching news may not help you beat the market. The morning newspaper, research from your broker, and commentary on the radio, television, or the Internet are all widely available sources of information and can be counter-productive.

Why? Because capital markets are efficient discounters of all widely known information. *As soon as a piece of information is widely available to the public, it gets reflected in share prices.*

Despite this fact, many investors still make the mistake of trading on widely known information.

That's not to say news should be ignored. Rather, in order to consistently generate excess returns, investors must either know something everyone else doesn't or interpret widely known information differently and correctly. The goal is to know something not already reflected in today's stock prices. The ability to generate this knowledge is difficult, but not impossible. It takes experience, research, and discipline.

Basing your investment decisions on widely known information is simply not the best way to generate excess returns.



Mistake #8: Being Overconfident in Your Investing Skills

Our brains have evolved throughout human history to deal effectively with the problems our Stone Age ancestors faced — basic survival needs. But investing is an activity relatively new to human beings and is often very counterintuitive to the way our brain naturally works.

For example, our ancestors needed to be overconfident to survive because life was short and food was scarce: think about the overconfidence required to hunt giant animals with crude tools. Yet *one* major win (such as killing a giant woolly mammoth) could sustain our ancestors and their communities for months.

Though overconfidence served our ancestors well, today it can cause costly investing mistakes. Overconfident investors tend to forget past mistakes yet remember past successes.

Overconfident investors may also invest heavily or exclusively in a single stock or sector believing they know it well. For example, many investors make excessively large allocations to their employers' stock, believing their intimate knowledge of their firm allows them to better predict the stock price. This is not always true — many former employees of now-infamous Enron had to learn this the hard way.

To avoid overconfidence, investors must detach investing decisions from emotion and rely on data and impartial analysis to make the right decisions. An easy way to accomplish this is to ask, “What if I’m wrong?” with each investing decision.

A little humility goes a long way in combating the “overconfidence” investing error.

We believe Fisher Investments can help you avoid mistakes and build a more secure financial future.

It's difficult to avoid all investment pitfalls — even for the savviest investors. Many investors simply don't have the time to process the vast amount of information available today and apply it to their individual, complex investment needs.

To get the benefit of Fisher Investments' expertise or to learn more about avoiding these serious investing mistakes, please call 1-800-568-5082.

Investments in securities involve the risk of loss. Past performance is no guarantee of future results. Investments in foreign securities can involve additional risks such as losses related to other currencies and securities markets.



The Fisher Investments Difference

In a nutshell, it's what we bring to the table.

Flexible Investment Strategy

We're not "growth" investors or "value" investors — we're "total return" investors. We can shift our investment strategy as appropriate depending on our view of market conditions. Our goal is simply to help you achieve your financial goals consistently, regardless of market conditions.

Dynamic Asset Allocation

We strive to protect your assets in a bear market. If we predict a bull market, we emphasize stocks. However, if we see a bear market unfolding, we take a defensive approach. For example, we might move you into bonds or cash, or use other tools in an effort to reduce risk. We have a long history of forecasting bear markets, and reacting quickly and decisively.

Global Investing

We seek to maximize opportunity and manage risk by investing globally. Many American investors tend to focus solely on US stocks. However, the US makes up less than 50% of the world stock market. We invest globally to take advantage of worldwide opportunities many money managers miss.

Direct, Proactive Customer Service

With us, you're not simply another account number. You get proactive service from your own Investment Counselor who knows you by name and keeps you up-to-date on any important changes in your account. You'll hear from us regularly, on an ongoing basis, and not because we have some new product to sell. Our goal is to help you understand exactly what is going on in your account and why, so you feel comfortable with your portfolio. This proactive approach to customer service is a key reason why more than 9 out of 10 Fisher Investments clients choose to stay with us.*

Established Performance History

Our Investment Policy Committee has over 60 years of combined experience, and our founder and CEO, Ken Fisher, has a 20+ year public history of market calls through his columns in *Forbes* magazine. Ken was also recently ranked as a top market forecaster by the CXO Advisory Group.**

Competitive, Transparent Fee Structure

Unlike many brokers, we make no profit on trades and have no incentive to "churn" your account. We simply charge a fee based on assets under management, which aligns our incentives with our clients' best interests. Our fees are often lower than what our clients were previously paying and may even be tax deductible. Bottom line — we strive to keep more of your money working for you in your portfolio.

* Average annual private client retention, 1997 – 2007

** Fisher Investments has no affiliation with CXO Advisory Group. <http://www.cxoadvisory.com/gurus>

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