2 Common Errors Preventing You From Financial Freedom

Description

The world of investing is a crowded place full of different views, opinions, and approaches. It can be difficult to ignore the market noise and maintain a long-term view. Therefore, to prevent giving in to popular opinion, investors must be aware of their potential pitfalls.

Here are two common errors that investors should avoid.

Trying to time the market

If you're going to invest in the stock market, you'll have to accept the reality that the stock market is unpredictable. Analysts can spend an enormous amount of time forecasting and projecting future market conditions, but it's a wasted effort. These analysts may be right from time to time, but nobody can consistently predict future market outcomes.

However, the one thing we do know is that the stock market grows, and investors can realize significant returns over long periods of time. If investors try to time the market to buy stocks at a discount, they could miss out on the largest periods of growth in the market.

A study by **JP Morgan Chase** indicated that if investors had been fully invested in the **S&P 500** from 1995 to 2014, they would have generated an annual return of 9.85%. However, if they missed out on the 10 largest days of growth, they'd only achieve 6.10%. If they missed out on the 20 largest days of growth, they'd only achieve a 3.29% annual return.

What makes it even crazier is that the six largest days of growth over this period were within two weeks of the 10 worst days. Therefore, instead of wasting time trying to predict the best time to enter the market, investors should be continually putting their hard-earned money in great companies with long-term prospects.

Chasing yields

It's quite common that investors will acquire shares in companies with high dividend yields to accelerate their returns. However, this is a risky investment approach that could result in significant losses.

Dividends should only be paid out if companies have sufficient cash flows to continue and grow its operations after paying out investors. If a company is paying out dividends that are not within the company's financial limits, the company may turn to debt to sustain its yield. This should be a major red flag for investors!

If a company gets caught up in trying to return money to investors that aren't organically generated, then that company could face serious financial struggles. In turn, poor company performance will cause the stock price to plummet and that once-juicy yield will no longer be available. Therefore, investors should acquire shares in companies like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) with sustainable and growing yields.

Foolish bottom line

It's human nature to succumb to others' opinions and pressures. However, it's critical that investors are aware of their potential pitfalls to achieve financial freedom. By avoiding these two common errors, investors will be well on their way to achieving their financial goals.

Keep on Fooling in the free world!

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