5 Tips to Help You Create Long-Term Wealth

Description

We all wish we could be rich, right?

But in order to get there, it's about more than just wanting it or crossing your fingers and hoping it will happen.

If your goal is to achieve your own financial freedom one day, you are going to need to need a strategy to help get you there.

The five tips below are proven approaches to help investors build wealth.

Try following them in your own portfolio, and hopefully one day you'll find yourself kicking back on a private beach, relaxing with an ice-cold margarita in hand, listening to the waves and enjoying the sunset.

Build a diversified portfolio

Building a balanced and diversified portfolio will not only help you manage recessions, but it will also help to mitigate the risk of making an error in judgment with one of your investments.

Ideally, you'll create a diversified portfolio of complementary companies, so on a day when, for example, your utility holdings, like **TransAlta Corporation** (TSX:TA)(NYSE:TAC), are falling because of rising interest rates, maybe your stock in commodity companies, like **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK), are rising and offsetting those losses because of inflationary pressures.

Use a dollar-cost averaging strategy

Employing a dollar-cost averaging strategy can help mitigate some of the risk of "timing the market" — an issue that seems to perplex even the greatest investors.

A dollar-cost average strategy means you are taking a set amount of your savings each month and using that money to add to the existing positions in your portfolio or to add to new positions.

The idea is that by "averaging" your purchases, you are spreading the risk across periods where the market is "high" and "low" — virtually eliminating the risk of "buying all your eggs" at precisely the wrong time.

Don't overtrade your account

This one can be particularly tough if you're one of those people that really enjoy investing and like to apply your views to individual companies.

But ask any veteran — someone who's been doing it for a long time — and you can bet they'll tell you that much more often than not, trading too much in your account will end up doing you more harm than good.

Put a stop-loss on it

One of the hallmark mistakes of someone just starting out as an investor is the problem of selling “winners” too quickly and holding on to “losers” for too long.

It’s so easy — and problematic – to create an emotional attachment to your investment.

Do yourself a favour — develop a sound trading strategy and use stop losses on your positions to avoid the chance of suffering a catastrophic loss in your portfolio.

Stay humble

Done right, investing should actually be a pretty boring endeavour (except for the part about making lots of money).

Don’t make the mistake of becoming overly confident after a string of successful trades and think you know all there is to know.

Take a cue from Warren Buffett, arguably the most successful investor of all time, and be willing to admit what you know but, more importantly, what you don’t know.

Conclusion

For most, investing is a life-long pursuit, and far be it to say that this list is far from exhaustive.

However, do your best to keep these five tips in mind next time you take action in your account, and with a little bit of luck, you might find that not only will it end up making your life easier, but it could help make that investment account become a little bigger as well.

Stay Foolish.

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