3 Mistakes That Could Prove Costly for Investors

### Description

There are many ways that investors could be harming their portfolios. From being too aggressive to not doing their due diligence when buying stocks, there's no shortage of ways that investors are being less than optimal when it comes to their investing strategies.



Below I'll look at three of the more common mistakes investors can make when buying stocks:

## Focusing on price

Evaluating ratios like price-to-earnings and price-to-book value is an important way for investors to gauge the value of a stock to see whether it's a good buy or not. What's not important, however, is the price of a stock itself.

If you're investing the same amount of money, regardless of stock, the number of shares you end up owning is irrelevant. While investors may think that they're getting more bang for their buck by owning more shares, it ultimately t makes no difference.

A $10,000 investment in one stock or another is still a $10,000 investment. If the share price rises 10%, you'll have earned a 10% profit regardless of the number of shares you own.

The price of a stock has minimal importance and unless you're buying a very expensive stock like **Berkshire Hathaway**, where even buying one share could be challenging, it shouldn't factor into your decision-making process.

## Making small trades

Investing less than a couple of thousand dollars is something that I always avoid doing for two reasons — the first is that commission costs will eat up a bigger chunk of your investment. Consider the scenario if you invested just $500 into a stock.

A commission fee of $10 to buy and sell would mean that your investment would have to rise more than 4% just to break even and cover the $20 in fees that you would incur from buying and selling the stock.

However, if you invest $2,000 instead, then you only need to see the stock rise by 1% before being able to net a profit.

Another reason I avoid doing it is that there's just not enough skin in the game at that low of a level. If that $500 investment rises 20% in value, that's a terrific return, and yet you've earned only $100 less commissions.

## Not investing in stocks that are liquid

**A and W Revenue Royalties Income Fund** (TSX:AW.UN) is a good dividend stock to own that provides its shareholders with monthly payouts. But if you're not planning to own the stock for the long term, its lack of trading volumes could prove to be problematic for investors.

With daily volumes of less than 50,000 and sometimes even less than 15,000, there aren't a lot of buy and sell orders that are being completed over the course of a trading day.



That means that it can be hard to sell shares of the stock at the price you want. Not having enough buyers and sellers can make the gap between the big and the ask significant, and if you hit a market order by mistake, you could be in for a big surprise.

For a stock with a daily volume of at least 100,000 that's normally not a problem, but for a stock that doesn't trade as often, it could make it easy for investors to incur losses.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)

**PARTNER-FEEDS**

1. Business Insider
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