



TFSA Investors: 3 Must-Avoid Mistakes Holding Back Your Performance

Description

Investing is not easy, and for most investors it will seem pretty difficult. Even professional money managers have their struggles in the market. The key is, every time something bad happens, the investor should take away at least one lesson.

Building on each of these lessons you learn and lessons from others will help you to avoid making the same mistakes over and over again.

Eventually, you will be able to eliminate most mistakes, which will improve your returns substantially.

So, without further ado, here are three must-avoid mistakes that are easy to remember and will save you tons of headaches down the road.

Not understanding the investment

Investing in companies you don't understand is one of the most common mistakes investors make. Even the best of the best, Warren Buffett has said many times he won't invest in a company he doesn't understand, and he's all right with the profits he may miss out on.

If you think about it logically, you would never own a small business in a field you knew nothing about; how could you monitor it? So, how are stocks any different?

If you don't understand how the company operates or how it makes money, how can you accurately decide whether it's worth an investment, and, for that matter, how can you value it?

Staying in your circle of competence is key and will help you to better understand your portfolio and what drives its growth.

A great analogy used by Buffett is that you don't have to swing at every pitch. Investors, like baseball players, are better off waiting for the perfect pitch (or stock) rather than just trying to swing at anything.

Lack of long-term commitment to stocks

For long-term investors, one of the major keys to investing is actually holding the companies long term. Many investors will get compulsive and tend to move in and out of stocks way too often.

Not only, is this expensive when you add up all the commission expenses you are paying, but it also makes returns harder to earn because you are consistently trying to time the market.

It's important to do all your research ahead of time and really commit to owning the stocks you buy long term.

A great piece of advice from Warren Buffett is to imagine for your whole life that you are only allowed to make 20 trades total — buying and selling. This will help you to decide if a trade is really worth it or if you should wait further to better evaluate a situation.

By only taking action when it's necessary, you will better commit to your long-term stocks by not buying ones you won't commit too, and only selling ones that no longer offer an exciting long-term outlook.

Investing funds you can't afford to lose

Although the goal is to never lose money, and if you follow many of the rules and do your due diligence, you can minimize your losses, at the end of the day, completely eliminating losses will be impossible

This is why it's paramount investors don't invest money they can't afford to lose. Further, you should know what liquidity you may need in the short run, so you aren't selling investments at a loss to pay for something down the line.

Investors who had owned shares of **CannTrust Holdings** in early summer and had done their homework could have never expected what came about. Since early summer, its stock is down more than 70%.

These random one-off events can happen at any time, though, which is why investors should [diversify](#) and never invest money they may need or can't afford to lose.

Bottom line

You may have noticed when reading these that you have made one or more of these mistakes before. That's okay, and recognizing it is actually a good sign, so in the future, when you may get impulsive, remember these mistakes and avoid them at all costs.

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