6 Common Financial Mistakes Investors Make

Are you investing cautiously or avoiding debt? Certain approaches to investments and debt could be impacting your strategic financial management.

Sometimes even the savviest investors make mistakes – but if you know the common pitfalls, you may be able to dodge them and invest confidently.

1. Investing too conservatively

You may already know that investing in too many risky assets can potentially leave you exposed to major losses. It may not be as obvious that investing too conservatively can also carry risks. Many investors have memories of the late-2000s recession that left them holding too much cash and not enough stocks in their portfolios.

If retirement isn't on the horizon, consider having a comparatively larger percentage of your retirement savings in equities. The potential returns may be higher, and you'll have more time to potentially make up any losses when markets are volatile.

As you get closer to retirement, consider shifting your portfolio toward more conservative assets. A financial professional can help you determine the best investment mix for your situation.

2. Not using debt advantageously

For many, the default strategy is to avoid debt, or pay it off as quickly as possible. This is a good approach for certain kinds of debt, such as credit card debt. In other cases, strategically managing debt may be to your benefit.

Taking out a student loan for an advanced degree, for example, might help you complete the education and training needed for a higher-paying job in the future. If you're a business owner, a small business loan may help you expand your organization. If you have life insurance to help offset estate tax liability, financing to cover the premium may help keep your current cash flow intact and keep you from having to liquidate assets.

The key is to understand when you can use debt strategically and responsibly to work towards your overall goals and objectives.

3. Failing to capitalize on tax breaks

Investors commonly fail to claim tax breaks that may save them a substantial amount of money.

For example, contributions to traditional IRA accounts can be tax-deductible depending on income levels, and this may be a simple way to reduce your taxable income. You also may consider selling assets that have declined in value and deduct your investment losses, potentially offsetting capital gains realized in other areas.

With the Tax Cuts and Jobs Act, many types of expenses that had been deductible no longer qualify, while the standard deduction for households has increased. You should speak with your tax advisor to help ensure you're taking advantage of all of the tax breaks and tax strategies you're entitled to.

4. Overpaying for mutual fund fees

While it's fundamental to understand the returns on your investments, it’s also important to keep track of your fees. Mutual funds and exchange-traded funds (ETFs) have an expense ratio, or percentage charged in management fees and operating costs, that will reduce the value of those investments. If the expense ratio on certain funds appears out of line with competitors’ expenses, it may make sense to research alternatives with lower fees. Some mutual funds also have a load, which is a sales charge or commission.

These fees and charges have the potential to take a bite out of your overall returns, so keep track of them, look for the difference between net and gross returns or losses and know when to seek alternatives.

5. Forgetting to rebalance an investment portfolio

Within a diversified and risk managed portfolio, some investments will outperform over the course of a year, while others will underperform.

As part of a disciplined investment strategy, consider periodically rebalancing to bring your portfolio back into line with your target allocations and risk tolerance. Not doing so may result in taking on more risk than you had intended. For example, if you don’t rebalance after large market gains, you may be overbalanced in stocks, which may not be the right fit for your circumstances.

Some investors rebalance their portfolios at the same time once or twice a year. Others prefer to set a limit on how far an asset class can diverge from its target percentage of their portfolio. Whatever your approach, there are many things to consider when rebalancing your portfolio so work closely with a financial professional.

6. Owning too much of your employer's stock

If your company fulfills its 401(k) match with shares of its publicly traded stock instead of with cash, or if much of your compensation comes from company stock options or awards, a lack of diversification may expose your investment to too much risk. Considering that your salary, health insurance and possibly a pension may be tied to the fortunes of your company, if it fails or your industry suffers a major setback, your financial wellbeing could be in jeopardy.

If you exercise stock options or receive stock awards that vest, a financial professional can help you develop a plan that reflects your level of risk. If your [portfolio is over balanced in this area](), you may establish a plan to regularly sell shares so you don't become overly invested in yours or any single company. A general guideline is that no more than 10 percent of your net worth should be in one company's stock.[1] Keep in mind that selling company shares may have tax implications, unless the shares are inside your 401(k) or other qualified plan. Consider consulting an accountant as you develop your strategy.

Another option if you are 59½ or older, leave your job, or become disabled, and have highly appreciated company stock in your 401(k), is to take advantage of Net Unrealized Appreciation (NUA) tax treatment. NUA allows you to take a lump-sum distribution of company stock from a 401(k) and move it directly to a non-qualified account (without selling the stock) to minimize taxes. The fair market value of the shares at the time of purchase (cost basis) is taxed as ordinary income when distributed this way, but taxes on the net unrealized appreciation (all gains above the cost basis) of the distributed shares are deferred until the shares are sold. At that time, the gain is taxed at the typically more favorable capital gains tax rate. Any loss will be considered a capital loss.

Even experienced investors can benefit from professional guidance. Learn how U.S. Bank can help with your wealth planning needs.