Simply Investing

Your Guide to Avoiding the Top 5 Investing Mistakes

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SimplyInvesting.com

Introduction

I've been an investor since 1988, first starting with term deposits (GICS), mutual funds, ETFs, and then individual stocks. Over the years I became more and more dissatisfied with the performance of my mutual funds and with the advice of a number of advisors and financial planners.

I decided that in order for me to become a successful investor I had to pick role models and learn from them, learn from their mistakes and successes. Why reinvent the wheel, when I could study the practices of successful investors and just apply their proven methods.

However, I had to find role models who did not win the lottery, inherit money, or had rich parents. They had to be role models who became successful (and remained successful over the long-term) based entirely on their own skills.

I picked the following role models:

- Warren Buffet
- Benjamin Graham
- Stephen Jarislowsky
- and many others like Geraldine Weiss, Peter Lynch, David Dodd, John Templeton, and Tom Connolly

I realized a common theme with all my role models, they all advocated value investing, and they all advocated investing on your own. I spent the next few years teaching myself about value investing, interviewing other value investors, and perfecting my own investment strategy.

Once I proved to myself that value investing did work, I began teaching others and showing them the benefits of investing by themselves for themselves.

Simply Investing allows me to combine my passion for teaching with my enthusiasm for investing, the best of both worlds! I love to see people succeed; I want my students to apply what they've learned and reap the rewards.

Wishing you financial success!

Kanwal Sarai

Mistake #1: Not paying attention to fees

If you own mutual funds, over your lifetime you may end up paying over $320,000 in fees alone!

All mutual funds carry fees. Most people aren't even aware that they are being charged a fee. The mutual fund fee is called an MER, the Management Expense Ratio. Even a 2.2% MER can add up to thousands of dollars.

$10,000 invested in the stock market 50 years ago would be worth $514,000. With an MER of 2.2% the same investment would be worth $193,000 today. $321,000 would be lost to fees!

Here are 3 more examples to illustrate the true cost of fees:

$10,000 with a return of 10% compounded annually, in 25 years will become:

$108,350 with a 0% management fee (MER), **$0 lost to fees!**

$74,250 with a 1.5% management fee (MER), **$34,100 lost to fees!**

$50,600 with a 3% management fee (MER), **$57,750 lost to fees!**

Solution:

Avoid paying fees by investing in quality stocks yourself. Mutual fund companies are doing the same thing; they take your money and buy stocks with it. When you buy stocks on your own there is no MER to pay. Invest by yourself and save thousands of dollars in fees. The key is to purchase quality stocks when they are undervalued.

Our Simply Investing online course can show you how easy it is to invest by yourself, we show you in plain English how to determine when a stock is undervalued and a quality stock.

Bonus: Click here to see the top 5 reasons why mutual funds fail.

Mistake #2: Buying High

Most people make the mistake of investing (whether in stocks, mutual funds, or real estate) when prices are high or rising. Buying high is the result of following the herd mentality, this happens when prices are rising and everyone around you is making money. When prices are rising people think they can make a quick profit, and without any investing knowledge people jump into the market at the wrong time.

Buying high is the wrong time to buy because it virtually guarantees little or no profit. When an investment is purchased high there is not much more room left for the price to go higher because it has already been purchased high. In order to maximize profits investments should be purchased low and sold high.

"*Buying low and selling high has been reduced to a mathematic certainty. When used with low-priced stocks the system can be even more beneficial to the end user.*"

-William McKinley

For most purchases in life, people wait for things to go on sale, and is some cases people buy more when items are on sale. However when it comes to the stock market people do the exact opposite, they buy more when prices are going up and start to sell when prices drop.....this brings us to Mistake #3 Selling Low.

Solution:

If you don't have time to read the solution below, I explain everything in a short video I put together, click here to watch.

Using dividend yield you can determine if a stock is undervalued or overvalued. But first let's define dividend yield:

Annual Dividend / Share Price = Dividend Yield

For example, Company XYZ is paying $1 dividend per share (annually), and the share price is $20. What's the dividend yield?

Annual Dividend / Share Price = Dividend Yield

$1 / $20 = 5%

The dividend yield of 5% represents the return on your investment (not counting the stock price going up) while you hold on to the stock.

For example if you purchased $5000 worth of stock in Company XYZ, regardless of the share price after you purchased; you would receive 5% of $5000 in dividends (cash) every year, for as long as you owned those shares, and as long as the company continued to pay the $1 annual dividend.

5% of $5000 = $250 in cash every year

Another way to calculate the dividend is to calculate the number of shares you could buy for $5000:

Total Invested / Share Price = Number of Shares purchased

$5000 / $20 = 250 shares

Since the dividend is $1 per share:

250 shares x $1 = $250 in cash every year

Now that you understand dividend yield, let’s determine if a stock is undervalued….

Suppose that the stock price drops from $20 to $15 or $8. What happens to the dividend yield?

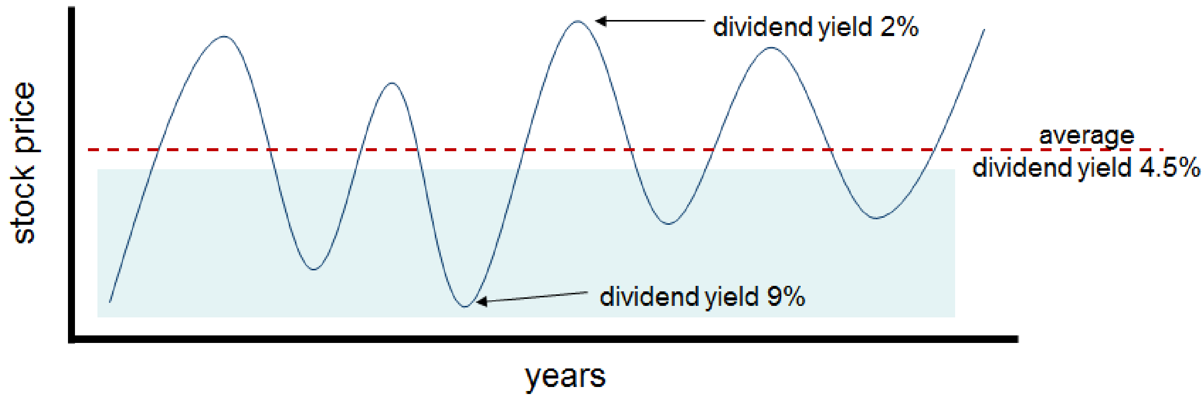
Dividend / Share Price = Dividend Yield

$1 / $20 = 5%

$1 / $15 = 6.7%

$1 / $8 = 12.5%

Notice as the share price decreases the dividend yield goes up. All things considered equal is it better to buy the shares at $20 or $15 or $8? In this example, $8 would be the best price to pay for the shares because you would be earning 12.5% on your investment! Remember as the share price goes down the dividend yield goes up, and as the share price goes up the dividend yield goes down. You want to buy shares when the stock price is historically low. Have a look at the diagram on the next page….



Suppose the average dividend yield for Company XYZ is 4.5%, the shares are then undervalued when the current dividend yield is higher than the average dividend yield. If the current yield is 9% you can be sure that the shares in company XYZ are undervalued and worth considering. If the current dividend yield is 2%, the shares are overvalued. This example demonstrates it is important to consider the average dividend yield for a particular stock before purchase.

There are other factors to consider before making a stock purchase decision, but checking the current yield against the average dividend yield is the most important factor to consider.

Remember:

A stock is undervalued when its current dividend yield is greater than its average dividend yield.

A stock is overvalued when its current dividend yield is less than its average dividend yield.

Mistake #3: Selling Low

Another mistake most people make is selling their investments (whether in stocks, mutual funds, or real estate) when prices are low or declining. Selling low again is the result of following the herd mentality, this happens when prices are declining and everyone around you is afraid and selling their investments. Most people follow the crowd and start selling, which just makes the problem worse by further making prices go down. The media also contributes to the decline by publishing stories of doom and gloom, thereby further perpetuating the negative investor sentiment.

The goal of every investor should be to sell high, this is how you are going to maximize your profits. When prices are low you should consider adding quality dividend paying companies to your portfolio. Remember the term: buy low and sell high.

"*Be fearful when others are greedy. Be greedy when others are fearful.*"

-Warren Buffett

Solution:

The key is to buy low and sell high. See the solution on the previous page; it explains how to determine when a stock is undervalued or overvalued.

Remember:

A stock is undervalued when its current dividend yield is greater than its average dividend yield.

A stock is overvalued when its current dividend yield is less than its average dividend yield.

Mistake #4: Believing that spending more time and taking on big risks will give you a higher return

People believe that in order to get high returns they must take on more risk and spend more time, this is simply not true. Time is wasted because most investors lack the education and knowledge on how to invest properly. Therefore they spend hours and hours reading information that will not contribute to higher returns or lower risk.

Most inexperienced investors falsely believe that spending more time will increase their investments. Value investing with a focus on dividends is a long-term strategy that consistently provides high returns with low risk, and minimal effort. Our course shows how you can begin investing with as little at 15-20 minutes a month.

Keep in mind you only need to put in some effort of time when you are ready to buy stocks. In most years I may purchase just 2-3 stocks, which mean just twice a year I spend some time to select the right stocks. Once a purchase is made there is no need to constantly watch the stock price. Sometimes I can go 6-8 months before I look at my portfolio again.

With the Simply Investing approach there is just no need to spend hours and hours a week on your investments. First educate yourself on how to invest properly, then make the right investments, then enjoy your free time with family, friends, and other awesome fulfilling pursuits.

Solution:

The key is to learn how to implement a value investing strategy with a focus on dividends.

In the course we cover 12 important rules for investing in quality stocks when they are undervalued, in this section we cover just one of the 12 Rules; the P/E Ratio:

The P/E ratio is one important factor that could save you from making bad investing decisions. Here is your quick guide to Price & Earnings and the P/E ratio. I'm going to keep this simple, let's begin with the only two definitions you will need in this section:

Price: this is the stock price

Earnings: this is earnings per share; earnings are the amount of profit that a company produces

Let's take a look at a fictional company XYZ:

Company XYZ's stock price is $50, therefore Price = $50

The company earned $5 per share, therefore Earnings = $5

Calculating the P/E ratio is easy; just divide the stock price by the earnings:

P/E = $50/$5 = 10

The P/E ratio for company XYZ is 10.

Basically this tells you that in order to buy one share of XYZ you are paying 10 times what the company earned:

10 x $5 = $50

If the stock price went to $200, the P/E ratio would be $200/$5 = 40

Remember the goal is to buy low and sell high. So in this example is it better to buy the stock at $50 or $200? $50 is a better deal, and you'll be able to buy more shares at that price.

Therefore the P/E ratio is a really simple way to determine if you are paying too much for a company. Ideally when considering a stock for purchase I like the P/E ratio to be below 25, less than 15 is even better!

Let's take a look at some real-life companies that currently should not be considered for purchase because their P/E ratio is too high:

- Facebook (FB): 570
- Zillow (Z): 7420
- Netflix (NFLX): 632
- LinkedIn (LNKD): 770

There you have it; this one simple check could save you from making poor investing decisions. There are 11 other factors to consider before buying stocks which I cover in the online Simply Investing Course, but at least you now understand how the P/E ratio can steer you away from losing thousands of dollars.

Mistake #5: Seeking investment advice from so called “experts”

Seeking, and implementing investing advice from inexperienced family, friends, or so called “experts” is a very bad idea. Everyone has a “hot” stock tip, or information about the next best investment, but that usually means the information is inaccurate or they too are following the herd mentality which results in losses of your hard-earned cash.

Typically during a rise in the markets, people see their friends or co –workers making money so they jump into investing without any knowledge. Investing without any knowledge virtually guarantees losses, which is the same as playing the lottery or visiting a casino.

There is a lot of noise in the media (internet, newspaper, radio, magazines, television), the media sensationalizes negative news because it increases ratings. The media’s primary goal is to make money by selling advertising space not by dispensing knowledgeable, clear, concise, investment advice.

Likewise most investment brokers, financial planners, and mutual funds sales people make money by earning commissions. They make money by getting you to buy and sell more investments and they make money whether or not you make money. Take charge of your own financial future because no one cares more about your money that you do.

“Twenty years in this business convinces me that any normal person using the customary three percent of the brain can pick stocks just as well, if not better, than the average Wall Street expert.”

-Peter Lynch

Solution:

No one cares more about your money than you do, so educate yourself and learn how to invest for yourself by yourself. Our online Simply Investing Course makes it easy for you to learn how to invest responsibly; we also teach you how to avoid the media noise and so called “experts”. Our unique learning approach will save you time and money.

Don’t have time to take an investing course? Then subscribe to the Simply Investing Report and obtain a list of quality undervalued stocks each month. My goal is to help you become a successful investor. My Report provides an even easier way to start investing.

BONUS #1

Everything You Always Wanted To Know About Simply Investing But Were Afraid To Ask (Top 13 Questions!)

1. What exactly is the Simply Investing course?

The Simply Investing course is an online video course created by me, to teach you how to invest successfully.

I teach the principles of value investing with a focus on dividends. The same techniques used by successful investors like Warren Buffett, Benjamin Graham, David Dodd, and John Templeton.

In the course I teach you in plain English:

- the basics (what is a stock, stock market, and dividends)
- how to find great stocks, and avoid the bad ones
- how to consistently make a positive stream of income year after year, regardless of which way the stock market goes
- when to buy and when to sell

The course is divided into five modules, and takes about 2.7 hours to complete. But you can take your time and repeat any of the modules as often as you like. I provide you with lifetime access to the online course, also included is the Simply Investing workbook, worksheet (in Excel), and bonus videos.

The course overview is located here.

2. Can I really learn how to invest successfully with just one course?

Yes, I teach you everything you need to know to invest successfully. The five modules in the online course cover all aspects of investing on your own. Included in the course are hands-on exercises and the Simply Investing Workbook.

The Simply Investing course has been bought in over 19 countries now, and our students are able to start investing immediately after completing the course.

3. What makes this course so different, than other investing seminars and books?

Books can cover the material but do not provide hands-on exercises like I do in the online Simply Investing course. My course is easier to follow since I use the best teaching methods available online by providing examples, using slides, animation, visual cues, and audio which you will not find in a book.

Also what happens if you have questions after reading a book? Nothing really, the author is not available to answer your questions. With the Simply Investing course you can post all your questions on our private member's only forum and receive a quick reply.

Most investing seminars are really sales presentations to get you to buy additional products and services.

The Simply Investing course is not a sales presentation you will not be sold additional courses, insurance, bonds, stocks, books, CDs, or DVDs.

After you leave a seminar you have no way of reviewing the material again. My course is always available to you online, and accessible anywhere in the world 24 hours a day, 7 days a week. You are able to repeat any of the 5 modules as often as you wish.
Any updates to the video or Simply Investing workbook are always available, again something you will not find with a book or seminar.

4. Do I need to be mathematical genius, or financial wizard to take this course?

No, you do not need a background in finance, accounting, or economics to complete my course. I've designed the course for the busy working professional, it is simple enough to understand yet powerful enough to give you positive results quickly. My students range from 16 years old to 65 years old from all walks of life. I teach the course is plain English and eliminate all the financial jargon and terms that only confuse people.

5. How much money can I make?

That all depends on how much money you invest, and the type of investments you make. For example if a typical dividend stock is yielding 4%, you can earn $200 every year on a $5000 investment. As the dividend increases, the amount you receive will also increase. You also have to consider the stock price appreciation, if the stocks goes up 10% in one year, then your total return will be 14% (10% + 4%).

My track record, and past returns are listed on my website [here](#).

6. I live outside of North America; does this course still apply to other countries?

Yes, the principles of value investing with a focus on dividends, which I teach in this course are applicable to stocks all over the world. In fact my course has already been purchased in over 19 countries worldwide.

In the Simply Investing Workbook I provide a section on where to obtain financial data for companies in the following 6 markets: Canada, USA, UK, India, Australia, Singapore.

7. I'm worried about wasting my money on yet another course?

I understand your concern which is why I offer a no hassle 60 day money back guarantee. If you do not find the course useful, send me an email, and I will happily refund your money. My goal is to ensure my course helps you earn more, if not I will refund your money.

8. How much time do I have to spend on my investments?

Not much. After completing the course you will be able to start right away. Applying the concepts of value investing, takes as little as 10-15 minutes a month. I understand everyone is busy in their lives, and people don't want to spend hours and hours reviewing company data, therefore my course teaches you how to focus on the important stuff and get on with the rest of your life.

9. I really can't manage my own investments; I'd prefer to leave it to the professionals.

No one cares more about your money than you do. Not your financial advisor, broker, financial planner, or mutual fund sales person. Taking control of your investments is the one thing in life that you should not outsource to anyone.

Over your lifetime you could lose over $300,000 to fees when you "leave it to the professionals". The Simply Investing course makes it easy for you to invest by yourself for yourself. I know the task may seem daunting but it isn't. Give it a try, take the course (I offer a full money back guarantee), the worst that can happen is you would lose 2.7 hours of your time, about the same as watching a game or movie. However I am confident that my course will save you thousands in fees, and allow you to earn much more than you would holding on to high-fee mutual funds.

10. Is this course just for making enough money for retirement?

Not at all, my course is designed to help you start earning more right away. Some people use that money right away, some people use it to reduce their day job to part-time, some people use it to retire early, and some people may wait till they reach 65. The income you earn is yours to keep and spend according to your desires.

11. When is the best time to start investing?

The best time to start investing is now. Do not wait till it's too late to start investing. Regardless of market conditions there are always quality dividend paying companies that are undervalued available for purchase.

12. How much does the course cost?

I offer 3 different packages; each package includes the complete Simply Investing online course.

More information on all three packages can be found here.

13. I have more questions that aren't on this list. Where can I go to get answers?

I am more than happy to answer any questions you may have, so feel free to contact me via email for any questions. I can be reached at: kanwal@simplyinvesting.com

BONUS #2

What's Wrong With Index Funds?

There are three issues that I have with index funds, and that's why I don't invest in them.

But first let's make sure you know what an index fund is.

What is an index fund?
An index fund is a mutual fund that pools money from lots of investors like yourself, and then invests that money on your behalf into stocks. A typical mutual fund has a fund manager who decides which stocks to buy and sell. However an index fund has no live fund manager, the fund manager is a computer that buys stocks from a list (an index). For example the S&P 500 Index is a list of 500 US companies, a S&P 500 Index Mutual Fund will only invest in those 500 companies. If a company is removed from the list, the index fund will immediately sell those shares and buy shares in a new company which has been added to the list.

Index funds buy stocks at high prices
Everyone has heard the phrase "buy low, and sell high". It makes sense that you should buy stocks at a low price (when they are undervalued). Why would you pay $89 for a stock when you could buy it at $23? Watch my short video which shows you how to figure out if a stock is undervalued or overvalued. You want to avoid buying stocks when they are priced high. But with an index fund you have no choice but to buy some stocks when they are priced high. A US Index Fund may contain 500 stocks in its list, on any given day (especially the day you buy the index fund) some stocks in that list will be undervalued and some will be overvalued. I only buy stocks when they are undervalued, anything else would be foolish.

Index funds buy lousy stocks
Take a look at both companies below, which one would you invest in?

Company A

- Stock is undervalued
- Debt is 12%
- 10 years of consecutively increasing earnings (profitable)
- 10 years of consecutively increasing dividends (money paid to shareholders)
- Credit rating of AAA

Company B

- Stock is overvalued
- Debt is 187%
- 4 years of consecutively decreasing earnings (not profitable)

- Company pays no dividends (money paid to shareholders)
- Credit rating of CCC

As you can clearly see all other things considered equal, Company A is a much better investment. In other words Company A is a quality company. You want to avoid buying non-quality stocks. But with an index fund you have no choice but to buy some stocks of inferior quality. A US Index Fund may contain 500 stocks in its list, on any given day some stocks in that list will be quality stocks and some will be lousy stocks. I only buy quality stocks, anything else would be foolish. I follow my 12 Rules of Simply Investing to help me determine if a stock is a quality stock.

You're still paying fees
Fees are much lower for index funds than managed mutual funds, but a fee is still a fee. Using an online calculator I compared the cost of owning an index fund versus owning individual stocks:

Index Fund

- Amount invested: $100,000
- Index Fund Fee: 0.83%
- Index Fund: TD US Index Fund-e
- **Total fees paid after 25 years: $28,095.90**

Individual Stocks

- Amount invested: $100,000
- Trading Fee: $9.99 per trade
- Number of stocks held: 20
- **Total fees paid after 25 years: $199.80**

Index investors will argue that they get better diversification than owning individual stocks, but the truth is they are over diversified. As we've seen from above the more stocks you own the higher the chances these stocks will be overvalued and of inferior quality.

Index investors will then argue that it takes too much time to research individual stocks, but the truth is using my Simply Investing Report is faster than researching the 1000's of index funds out there.

What if you have absolutely no interest in investing by yourself? Then the indexing strategy might be for you, but then you must also be content with lower returns and higher fees.....more than 28% of your investment will be lost to fees!

Save on fees, and buy quality stocks when they are undervalued. It's that simple, even easier than indexing.

www.SimplyInvesting.com

Legal Disclaimer

I am not an investment advisor, certified financial planner, or broker. I am a self-taught value investor and educator. The information provided here is for educational purposes only.

My opinions are based upon information that I consider reliable, but I do not warrant its completeness or accuracy, and it should not be relied upon as such. The statements and opinions in this report are subject to change without notice.

I may personally hold securities mentioned in this report. The final decision to buy or sell any stock is yours; please do your own due diligence. Stock buy or sell decisions are based on many factors including your own risk tolerance. When in doubt please consult a professional advisor. No advice on the buying and selling of specific securities is provided. Past performance is not a guarantee of future results