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The Traits of a Good Investor and How Women Can Make the Most of Them

One of the best things you can do for yourself and/or your family is to be prepared to manage your finances responsibly. Even if you see investing as overwhelming or complicated and boring, you need to know the basics behind a well-thought-out investment strategy--at least enough to protect yourself from fraud and/or communicate effectively with a financial advisor or spouse.

Women are increasingly taking responsibility for managing their own money. That includes those who in the past may have left investing to a spouse because they were busy raising a family or had no interest in the subject, but who have since found that divorce, a spouse's death, or the need to help a parent have forced them to learn some investment basics. However, many women, including high-level professionals who are experts in their field, may not feel confident about their investing abilities.

If you're one of them, you may have more going for you than you think. Traits such as patience, willingness to confront and deal with mistakes, and recognizing when help is needed can benefit portfolio returns, particularly for a long-term investor. Even risk aversion, sometimes a problem for women who are concerned about their investing abilities, can be an advantage if it's applied wisely.

Feel you aren't as knowledgeable as you should be about investing?

Chances are you're in good company. Plenty of people know less than they should but aren't willing to recognize or admit it; as a result, their portfolios suffer. Recognizing what you don't know can be an asset. Being willing to ask questions and understand some basics will serve you better than sticking your head in the sand.

Also, being a good investor doesn't mean you need to do all the work yourself. A financial professional can help you set a strategy, select specific investments, monitor their performance, and make adjustments as circumstances dictate.

If you make a mistake, can you admit and deal with it?

Many investors' portfolios have suffered because of a failure to recognize an investing mistake and deal with it; instead, their owners hang on, waiting for a turnaround that may never come. As the saying goes, "Good investors know how to take profits; great investors know how to take losses." There's never been an investor who hasn't experienced losses; smart ones follow a discipline that helps them know not only when to buy but also when to sell an investment or adjust a strategy that hasn't worked.

Are you risk averse in the right way?

When people feel unsure about their investing skills, they sometimes take the path of least resistance and invest very conservatively. In some cases, this can be helpful. For example, avoiding big risky bets that can single-handedly drag down a portfolio can sometimes lead to better risk-adjusted performance. However, this trait can also be a double-edged sword if you're investing far more conservatively than is appropriate for your goals and circumstances, either out of fear of making a mistake or from not being aware of how risks can be managed. Being unaware of how inflation can affect investment returns or how to balance various types of risks can leave you vulnerable to a shortfall in your retirement savings or other financial goals.

You don't have to become a financial wizard to understand principles that can help you manage risk. Having a child involves many risks, but it's the rare parent who knows everything that will be needed before taking the plunge. You prepare as best you can and improve as you go along; it's the same with investing.

All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investment strategy will be successful. But perhaps the biggest risk of all is not taking the steps needed to try to secure your financial future.

Can you be patient?

Excessive trading costs have historically been one of the reasons individual investors often underperform the stock market as a whole. One study found that because women are less likely to indulge in excessive trading, they outperform men.* A portfolio is--or should be--a means to an end, not a competitive

Being familiar with the following concepts can equip every woman to be a smarter investor:

- ***The three primary types of investments (also known as asset classes)***
- ***The roles of income, growth, and safety in a portfolio, and which investments focus on each one***
- ***The process of deciding how much to devote to each asset class (asset allocation)***
- ***The benefits of diversification***
- ***Risk tolerance and how your time horizon affects it***
- ***The differences between mutual funds and individual securities***
- ***How much you'll need to save for retirement***
- ***What returns you would need to reach your goals***
- ***How much income you want your assets to generate in retirement***
- ***The role of various financial vehicles, such as 401(k)s and IRAs***

sport. It's a way to pursue your financial goals, rather than a measure of self-worth or a vehicle for bragging about how you "beat the market."

Potential investments are all around

Odds are you make many purchasing decisions every day. That means you have a lot of opportunities to observe products and consumer behavior. Everyday life can be a rich source of information that can be applied to investments. For example, if all your friends seem to be flocking to a new retailer or buying a certain type of computer, you might be seeing an emerging trend or company whose value hasn't yet been recognized by Wall Street. That doesn't mean you should invest without additional research, of course, but your own daily experience can suggest ideas to explore. Conversely, if you notice that a trendy item that was so hot last year now seems to be showing up more often in clearance bins than shoppers' carts, you might want to see whether the stock is a candidate for sale.

Step up your game

If you're afraid to make decisions because you don't know a mutual fund from a muffin top:

- Get some basic information. Your retirement plan at work might provide educational materials or assistance, and there are plenty of books, magazines, and websites that can help. Don't be afraid to talk to friends who may have similar questions, but do your own research, too.
- Take baby steps and learn as you go. You don't have to do everything at once; even a small step is better than none.
- Don't postpone getting started; the longer you wait, the fewer options you may have. Even if you don't make your own financial decisions now, the odds are good that you may someday have to do so.
- Recognize that you're not alone. Others may have the same doubts as you about their investing abilities.

If you've already started working toward your goals but aren't sure you're on the right track:

- Clarify your investing goals, your time horizon, and your level of risk tolerance and make sure you're properly diversified. If you're not sure how your money is invested, get whatever help you need to develop an asset allocation strategy that's appropriate for your goals and risk tolerance.
- Make sure your expectations for a return on your money are both realistic and sufficient to give you the best chance of achieving your goals. Don't focus solely on risk, but also on potential reward and ways to try to manage risk. And remember that an investment's past performance is no guarantee of its future results.
- Some investments offer potential growth, some focus on protection of your initial investment, and some provide regular income payments. Understand what you own and what role each investment fills in your portfolio. Though diversification can't guarantee a profit or eliminate potential loss, it can help you manage the types and level of risk you take.
- An investment club can be a way to explore investing in a social setting. The National Association of Investors Corporation can help you start or find one.

If you're money savvy:

- To ensure that you're making the most of your money, benchmark the performance of your investments and your portfolio as a whole against a relevant index or model portfolio.
- Make sure your asset allocation adjusts to changes in your life circumstances.
- Don't underestimate the impact of taxes, fees, expenses, and trading costs on portfolio performance. If you've amassed substantial assets, you might benefit from expert help in dealing with issues such as taxes, estate planning, and asset protection.
- Have a game plan to keep yourself from panicking during volatile markets.

Equipping yourself to pursue your financial goals is time well invested.

Note: *Before investing in a mutual fund, carefully consider its investment objective, risks, fees, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.*

*"Behavioral Patterns and Pitfalls of U.S. Investors," August 2010 Library of Congress report for the SEC.
