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FINANCIAL MANAGEMENT



## Become A Better Investor Now!

It's amazing and scary... the number of people I have come across who very actively plunge close to their entire savings into stock market portfolios and have the hubris of managing it on their own with little or no professional advice. I know folks with zero training in investment management, finance or accounting, who manage well over \$100,000 of their own wealth, including money they have in 401(k) and IRAs that they will depend on in retirement... It's completely crazy, putting so much of their hard earned money at risk without taking the proper precautions!

Anyone who plans to manage or be actively involved in managing his own investments should know how to read financial statements and accounting footnotes (which, by the way, is often where the real nuggets of *material* information lie).

In addition, here are a few handy tips to help you succeed with investments you plan to make on your own.

### [Risk Capital](#)

Only invest money you can afford to lose. This excludes your 401(k), IRA, and the bulk of your savings. If investing is a hobby, start with anywhere between \$500 and \$5,000 but no more (unless you have millions in the bank already). Indulge your passion, but only to the extent of winnings on this portfolio. And do not rush to *bet the bank* if you run across some beginner's luck. Give your initial investment at least 3 years before managing more of your own money.

### [Written Plan](#)

Think of your \$500 or \$5,000 as a business investment. Before you plow it into the market, develop a *written* investment plan – what are your goals, what are your benchmarks to measure success and failure, how long do you plan to keep at it before throwing in the towel, what would your expenses be (such as investing newsletter subscriptions, which really is not such a bad idea if you can find a good one), how much could you afford to lose without sinking the ship (remember, a business cannot lose all its working capital if it hopes to survive over the long run), and so on. Again, ask your friends and colleagues who manage their own money, and I'll bet you a dollar that not one of them has a written investment plan.

### [Track Your Investments](#)

Well, the IRS wants you to... unless you're playing with fire and managing your own IRA and 401(k). Develop a simple spreadsheet with the trade date, number of shares, purchase and selling prices, commissions, profit (loss), original investment thesis, and reason for selling. It's pretty easy once you start. Then review this weekly or monthly to see which of your ideas worked, which didn't, and how far off you were on some (as you inevitably will be). A tracker helps develop your investing *gut* over time.

### [Focus On What Works](#)

Too many people bounce from stock to stock, and especially abandon their losers. Your losers could turn into real winners because dips may well present excellent buying opportunities if your initial investment thesis was well developed. Additionally, your investment tracker will tell you what works best for you, so focus on what works... it's a pretty simple idea.

### [Sleep Well](#)

Don't let daily news bites upset you or your portfolio. Track your investments daily or weekly, but not minute to minute. Diversify your portfolio and include stop losses so the % loss on your entire portfolio is small enough that you don't lose your peace of mind. I am amazed at how many lose sleep and get stressed when they actively manage their own money. Losing sleep over investments is **JUST NOT WORTH IT!**

### [Accept Responsibility](#)

Good investors do not get influenced by strong personalities. Good investors also manage to keep their portfolios afloat in even the worst of times. They listen to investing ideas from everyone but do their own research before pulling the trigger. And take full responsibility for their investing actions, particularly their losses.

See... all I've said above is really just common sense, but we all know the saying...

Act on these ideas and you could enjoy a lifetime of investing as a hobby with just a small initial investment, with the added upside of generating good returns. Good luck!