NAVIGATING THE INVESTMENT MINEFIELD
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INVESTMENT MINEFIELD

The practical aspects of investments are still a void in our academic literature. Professors Baker and Puttonen have written this excellent and brilliant book to help introduce and elaborate the practical dimensions of investments. This book is a must read for any investor, finance practitioner, and business student. Frequent and common mistakes in investments and understanding risky products, among other topics, are well explored. Enjoy reading this book for developing better insights into the world of investment and wiser strategies. I strongly recommend this important book.

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NAVIGATING THE INVESTMENT MINEFIELD

A Practical Guide to Avoiding Mistakes, Biases, and Traps

BY

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Either write something worth reading or do something worth writing.

Benjamin Franklin

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**INTRODUCTION**

*Investing is not nearly as difficult as it looks.*

*Successful investing involves doing a few things right and avoiding serious mistakes.*

John C. Bogle (Founder of the Vanguard Group, Inc)

People often lack the knowledge of how to successfully invest their hard-earned money. Given that high schools and universities typically don’t teach basic investing principles, the fact that many people find investing so difficult isn’t surprising. Investing can be complicated, it doesn’t have to be. Although investing requires some specialized knowledge and skills, this fact doesn’t mean that nonprofessional investors can’t earn satisfactory investment returns. Sometimes the best advice is easy to digest. Successful investors must avoid making common investing mistakes, succumbing to behavioral biases, and falling into investment traps that litter the investment landscape. They must also understand and follow some basic investing principles. Unfortunately, as Benjamin Graham, a noted investor, economist, and writer once wrote, “Wall Street has a few prudent principles; the trouble is that they are always forgotten when they are most needed.”

In his 2013 “Shareholder Letter,” Warren Buffett, Chairman and CEO of Berkshire Hathaway and one of the most successful investors in the world, offers some basic advice.
You don’t need to be an expert in order to achieve satisfactory investment returns. But if you aren’t, you must recognize your limitations and follow a course certain to work reasonably well. Keep things simple and don’t swing for the fences. When promised quick profits, respond with a quick ‘no’.

Buffett continues by noting that the:

“Know-nothing” investor who both diversifies and keeps his costs minimal is virtually certain to get satisfactory results. Indeed, the unsophisticated investor who is realistic about his shortcomings is likely to obtain better long term results than the knowledgeable professional who is blind to even a single weakness.

You should be aware that Buffett started with less than $10,000 and turned it into $86.6 billion by early 2018. This example indicates that the knowledge you have can be more valuable than the initial amount of money you have. You can overcome barriers to getting rich if you’re willing to work hard and learn.

Buffett’s long-time business partner, Charlie Munger, remarks: “You don’t have to be smart if you avoid the standard stupidities.” To help make better financial decisions, you need to be aware of two enemies: one is external and the other is internal. External enemies involve those who try to deceive unsuspecting investors by setting investment traps. The other, and possibly more dangerous enemy, lies within you. Realizing that you’re the problem can be frustrating. As Benjamin Graham, the legendary investor, scholar, and teacher, once wrote, “The investor’s chief problem — and even his worst enemy — is likely to be himself.” Successful investors avoid self-victimization. All investors make mistakes
and suffer, often unknowingly, from behavioral biases that affect their good judgment. They often expend considerable energy focusing on market returns and media reports as well as the gyrations of the Standard & Poor’s (S&P) 500, 10-year bonds, and Nikkei prices. Although you can’t control market prices, you can control your costs, risk level, and your own behavior. Therefore, you should focus on those elements when investing to avoid the standard stupidities that investors make.

Financial products are sometimes sold aggressively and persuasively. Unfortunately, the goal of many seemingly legitimate people is to separate you from your hard-earned money, not to help you achieve your financial goals. Investment frauds and scams are ubiquitous and lurk just around the corner. Although some investments may appear too enticing to pass up, you need to be constantly vigilant. Your task is to find out which financial products fit your investment plan and which don’t.

The purpose of this book is to help you recognize and avoid common investing mistakes, behavioral biases, and investment traps that can ensnare investors, affect sound judgment, and reduce wealth. In other words, this book can enable you to manage the investment aspects of your financial life in order to reach your goals. As Warren Buffett notes “You only have to do a very few things right in your life so long as you don’t do too many things wrong.”

Navigating the Investment Minefield begins by discussing the importance of becoming financially literate about the investment world. Chapter 2 highlights common investing mistakes that many investors make including financial professionals. Making mistakes is part of the learning process, but repeating those mistakes disregards what you’ve learned. Chapter 3 discusses behavioral biases that can be detrimental to wealth. Both chapters also provide practical advice on
how to lessen making mistakes and succumbing to behavioral biases. The remaining chapters examine eight investment traps, illustrated with real-life examples from all around the globe, and provide insights and guidance on how to mitigate them. Successful investors recognize and avoid these costly traps. Thus, the investment world doesn’t have to be a scary place if you’re well-prepared to face it.

As Warren Buffett notes, “Investing is simple, but not easy.” Following the investing principles and advice provided in this book can help you rein in the emotional saboteur within you and enable you to become a more money-savvy and successful investor. Learning how to invest wisely can help you manage your money with greater confidence and to reach your financial goals. Heeding good financial advice is critical when making any investment decision and this book offers such advice. As Lao Tzu, an ancient Chinese philosopher, once wrote, “The journey of a thousand miles begins with one step.” Much ground needs to be covered, so let’s get started.