What's Most Important in Investing?

When it comes to success in investing, the most important determiner may not be what you think.

Noted behavioral finance expert Daniel Crosby recently spoke about The 10 Commandments of Investor Behavior. Although each "commandment" could merit its own story, I'm choosing seven of the ones I think matter the most and am abbreviating them here for you.

1. YOUR BEHAVIOR: YOU control what matters. In all kinds of markets and economic conditions, the most important thing is managing your behavior. In study after study of average long term market returns versus average investor returns, the investor comes out on the bottom. That's because most investors allow fear, greed, or confusion to cause them to do (or not do) something at exactly the wrong time. Learning instead to control your behavior is of paramount importance when it comes to long-term investing success.

2. UNIQUENESS: This time is never different. A belief in uniqueness and specialness almost always correlates with bad things happening. Whether it pertains to negative global events and their impact on markets or to the next great idea, believing that anything will cause things to be fundamentally different is folly for the long term investor.

3. FORECASTING is for weatherman. Rather than trying to predict outcomes by watching the steady stream of media hype, it is better to educate oneself on investing principles -- on how markets have behaved historically, for example, or to spend an hour talking with your financial advisor about reaching your own unique goals. I tell my clients, "Don't Predict. Rather, Prepare" by having your portfolio positioned for certain possible future trends.

4. DO LESS than you think you should. Instead of reacting to upsetting events, step back and do nothing or even consider doing the opposite of what you had originally thought you would do.

5. TROUBLE IS OPPORTUNITY. John Marks Templeton's famous quote, "The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell" tells us that we should have the courage to do the opposite of what the herd is doing.

6. The value of HABITS: Start now, start again tomorrow, start again the next day. Forming good investor habits is crucial. If you haven't started aggressively saving for a goal, the time to do it is now… and again the next month… and again the next month. Better yet, make one decision to invest automatically and periodically. Then your "habit" will be ingrained.

7. Don't BENCHMARK to an index. Instead, BE the benchmark. Your measurement of performance shouldn't be an index but whether you are on track to reach a particular goal. For example, if your assets are sufficient to meet your goals, then it may make no sense to take on additional risk to aggressively grow your portfolio. But if you need more money to reach your goals, ramping up the portfolio for more growth may make sense. Measuring your portfolio against your goals is the best plan.

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