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## **From too-active trading to not enough diversification, investors have bad habits**

From too-active trading to not enough diversification, investors have bad habits

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Ever wonder how other investors do in the stock market?

Well here's the study by Terrance Odean of the University of California at Davis to give you the answer.

He analyzed the daily trading records and monthly positions of 88,000 investors at a large discount brokerage. The data span 10 years and more than 2 million common stock trades.

Conclusions: The investors in the studies traded too actively, were underdiversified, clung to their losers and bought the stocks that happened to grab their attention. They were motivated by overconfidence, the desire to avoid regret and the difficulty of evaluating thousands of investment alternatives.

Remember that this was a study of people with discount brokerage accounts -- people who thought they could do it on their own. But it seems that the surer they are, the worse they do.

The study found that the 20 percent of the investors who traded most earned an average net annual return 5.5 percent lower than that of the least active 20 percent traders in the study.

In a smaller study of 1,600 investors who opened online brokerage accounts, it was found that these investors traded more and their speculative trading nearly doubled. And here's the salt on the wound: These investors earned exceptional returns before going online, and after going online, they underperformed the market.

Here's the hallmark of a truly experienced, sophisticated investor: He realizes he cannot consider all investment possibilities, that he is influenced by the news and his emotional reactions, that he is overconfident (a common American trait proved in several studies) and that he won't take a loss when he should.

As a result of knowing himself, the wise investor hires professionals to manage his finances, realizing that any fees paid can be far offset by avoiding the errors he will make on his own. (Note that use of a professional does not guarantee superior investment performance).

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