3 Gurus' Timeless Wisdom

Follow investment gurus to avoid investment mistakes. When things seem unsettled, a trio of these savants offer timeless advice you should heed.

Such words of wisdom are especially appropriate amid current turbulent circumstances: a rocky bond market that perhaps signals the end of a 30-year bull run, U.S. stocks recently hitting new highs, troubling overseas developments such as Syria's civil war and the ongoing fight in Congress.

On the other hand, the variables change, but crises and problems always occur and always (at least temporarily) affect markets.

Here's some food for thought from three great investors to help avoid investment mistakes:

Avoid market timing: Peter Lynch. He rose to fame by successfully managing the Fidelity Magellan fund from 1977 to 1990, racking up an eye-popping 29% annual rate of return. Sadly, the average investor in his fund during those 13 years earned a small fraction of 29% by jumping in and out of Magellan to try to enhance returns.

Lynch once summed up his dim view of market timing this way: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.

Another example of market timing's weakness: The Standard & Poor's 500 from 1992 to 2012 registered a nice 8.2% annual return. What kind of return did investors earn if they missed the best 10, 30, 60 or 90 trading days during those two decades, which is about 2,500 trading days?

Investors who missed the best 10 S&P 500 days earned half as much, 4.5% annually those who missed the best 30 days realized zero the best 60 days, negative 5.3% the best 90 days, a whopping minus 9.4%. In other words, stay at a party from start to finish - don't dart in and out if you don't like the music or find the conversation boring.

Don't let your gut emotions steer investment decisions: Benjamin Graham. Graham is considered the father of value investing - he wrote a number of classic books on security analysis in the 1930s and 1940s. Graham said: "Individuals who cannot master their emotions are ill-suited to profit from the investment process."

The enemies of calm investing include greed, fear, the tendency to chase the most recent hot thing and the to crowd the exit door when something turns sour. Some investors bail out when the market dips, and lose a good chance to buy good stocks cheaply for the inevitable recovery. And they buy expensive stocks when the market rises, only to be crushed once it drops. If you're wondering how to avoid the having

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emotions govern you, hire an investment advisor with a solid non-market-timing driven approach.

Crises in markets come and go: Shelby M.C. Davis. Human history is the history of crises and relative periods of calm. That's the observation of Davis, a legendary mutual fund manager.

It's no surprise that markets exhibit the same patterns of exuberance, fear and everything in between. Every crisis seems to have different origins, whether stagflation or inflation, collapsing or soaring energy prices, falling or climbing home prices. A wise investor acknowledges that crises ebb and flow, and that the best investment strategy adjusts to changes but avoids drastic over-reactions.

As Davis puts it: "Crises are painful and difficult, but they are also an inevitable part of any long-term investor's journey. Investors who bear this in mind may be less likely to react emotionally, more likely to stay the course, and be better positioned to benefit from the long-term growth potential of stocks."

Projected investment rates of return inevitably are based upon past decades of data (although we always say "the past is no guarantee of future performance"). Here's something to think about: By one estimate, the S&P 500 from its 1926 inception through last month, with reinvested dividends and adjusted for inflation, had an annual return of 6.9%. Included in this span are the 1929 crash, the Great Depression, the 2002 tech wreck and the 2008 financial crisis, along with other busts.

The lessons provided by these three investment sages is that your own mistakes may be a bigger source of your own poor return than economic and political factors that move markets and are beyond your individual control.

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