

# NAVIGATING THE INVESTMENT MINEFIELD

# ENDORSEMENT FOR NAVIGATING THE 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.*

Dr. Ehsan Nikbakht, CFA, FRM  
C. V. Starr Distinguished Professor of Finance,  
Zarb School, Hofstra University, USA

# NAVIGATING THE INVESTMENT MINEFIELD

A Practical Guide to  
Avoiding Mistakes, Biases,  
and Traps

BY

**H. KENT BAKER**

*American University, Kogod School of  
Business, USA*

**VESA PUTTONEN**

*Aalto University, School of Business, Finland*



United Kingdom – North America – Japan  
India – Malaysia – China

Emerald Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2019

Copyright © 2019 Emerald Publishing Limited

**Reprints and permissions service**

Contact: [permissions@emeraldinsight.com](mailto:permissions@emeraldinsight.com)

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-78769-056-1 (Print)

ISBN: 978-1-78769-053-0 (Online)

ISBN: 978-1-78769-055-4 (Epub)



**ISOQAR**  
REGISTERED

Certificate Number 1985  
ISO 14001

ISOQAR certified  
Management System,  
awarded to Emerald  
for adherence to  
Environmental  
standard  
ISO 14001:2004.



INVESTOR IN PEOPLE

# CONTENTS

<i>About the Authors</i>	vii
<i>Acknowledgments</i>	ix
<i>Introduction</i>	xi
Chapter 1 Navigating the Investment Minefield: Don't Be Intimidated by the World of Investing	1
Chapter 2 Avoiding Common Investing Mistakes: Don't Make the Same Mistake Twice	21
Chapter 3 Overcoming Your Behavioral Biases: Don't Be Your Own Worst Enemy	43
Chapter 4 Trap 1: Overpaying for Products and Services	67
Chapter 5 Trap 2: Becoming a Victim of Investment Frauds and Scams	79
Chapter 6 Trap 3: Misrepresenting Risky Products as Safe	105
Chapter 7 Trap 4: Investing in Complex Products	117
Chapter 8 Trap 5: Relying on Unsupported Evidence	133
Chapter 9 Trap 6: Having Unrealistic Return Expectations	147
Chapter 10 Trap 7: Engaging in Gambling Disguised as Investing	159
Chapter 11 Trap 8: Falling for Mutual Fund Traps	177
<i>Index</i>	189



## ABOUT THE AUTHORS

**H. Kent Baker**, CFA, CMA, is an award-winning author/ editor of 33 books including *Investment Traps Exposed* and *Investor Behavior – The Psychology of Financial Planning and Investing*. With more than 40 years of investment experience, he offers a practical approach to helping investors achieve their financial goals. He has consulting and training experience with more than 100 organizations. He has helped train thousands of individuals to enter the investment profession. He is University Professor of Finance in the Kogod School of Business at American University and has eight earned degrees including three doctorates.

**Vesa Puttonen** has extensive investment experience and has worked as Senior Vice President at the Helsinki Stock Exchange and as Managing Director at Conventum Asset Management (Helsinki). He has been a member of various boards of directors and investment committees and served as the Chairman of the Board, Finnish Hockey League. He is a Professor of Finance at Aalto University's School of Business and a faculty member of MBA Programs in Helsinki, Hong Kong, Singapore, Poland, China, Iran, Taiwan, and South Korea. He has published numerous books and articles in the areas of finance and investments.





# ACKNOWLEDGMENTS

*Either write something worth reading or do  
something worth writing.*

Benjamin Franklin

Benjamin Franklin provides some sage advice that we have tried to follow in writing *Navigating the Investment Minefield*. However, many others contributed meaningfully to this book project in numerous ways. We also thank our partners at Emerald Publishing for their professionalism, creativity, and insights, especially Charlotte Maiorana (Senior Commissioning Editor), Charlie Wilson (Editorial Assistant), and Mohana Sundari (Project Manager). We also appreciate the research support provided by our respective institutions – the Kogod School of Business at American University and School of Business at Aalto University – and assistance provided by Hemmo Karja. Finally, to our families who offered encouragement, we dedicate this book to them: Linda and Rory Baker as well as Marika and Sandy Puttonen.



# 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.