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Seven things I've learned about investing

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I'm the first to admit that, when I started investing more than 20 years ago, I had no clue what I was doing. I was a sucker for "stories," I focused on the short term and I believed the trick to building wealth was to buy low, sell high and repeat. Since then, I've learned a lot about what works – and what doesn't – as an investor. Today, I'm going to share what I consider to be the most important lessons.

It starts with saving more …
To invest, you need money. Unless you plan to borrow it (not recommended, particularly for beginners), you'll need to save it. Problem is, most people have no idea where their money goes every month. Solution: Track every dime you spend for several months using a small notebook or – an easier method – by reviewing your bank and credit card records. Only then will you know what your biggest expenses are – and where you can cut back.

… and wanting less
Saving isn't just about spending less than you make. It's about controlling your material desires and appreciating the many joys in life that don't require a credit card (my personal favourites: hiking, cycling, swimming, spending time with friends and family). Two books I highly recommend in this regard are *How to Want What You Have* by Timothy Miller and *Your Money or Your Life* by Joe Dominguez and Vicki Robin.

Patience brings profits
The human desire for more can really mess up an investing plan. It's what causes people to trade too much, buy stocks with outsized (and unsustainable) yields and gravitate to risky investments of all kinds. The biggest lesson I have learned is that buying and holding a diversified portfolio of blue-chip dividend stocks – and resisting the urge to tinker with it – is the surest way to build wealth. If you aren't comfortable buying individual stocks, low-cost index exchange-traded funds or mutual funds are fine, too. Whatever method you choose, you must be patient and let time do its work.

Do it yourself
With the wealth of information available – in books, newspapers and websites – anyone can learn to invest. (For more on my dividend philosophy, check out my columns). Buying and holding a portfolio of conservative stocks or funds isn't hard. What's hard is tuning out all the distractions – market predictions, economic headlines and product pitches – that can throw an investor off course. If you can ignore the noise and stay invested through good times and bad, you will be amazed at the wealth you can build. I'm a big fan of do-it-yourself investing because it keeps costs low and eliminates potential conflicts of interest. But even if you work with an adviser, arming yourself with knowledge is essential: I've heard from too many readers who suffered because they received bad – often self-serving – advice from the person who was supposed to be looking out for them.

Boring equals beautiful
Contrary to what you may have heard, it's not necessary to take on a lot of risk in order to generate attractive returns. The companies I own typically sell an essential product or service that generates recurring cash flow: electric and gas utilities, telecom providers, real estate investment trusts, banks, pipelines and consumer products makers, for example. These stocks aren't going to double or triple overnight because of some breakthrough technology; rather, they'll likely plod higher as their

revenues, earnings and dividends rise. Their share prices may drop – sometimes sharply – but the odds of any of these companies blowing up are remote.

Less is more

In life, we're taught that success comes to those who work the hardest. With investing, it's the opposite: the laziest people often reap the biggest rewards. If you own a good company – if its earnings and dividends continue to rise year after year – there's probably no reason to sell it. If you feel the need to do something, I've found that reinvesting dividends – either in the same company or a different one – is a great way to scratch the itch.

Think like a business owner

Imagine you own a small business. Would you constantly wonder whether you should sell it and buy a different one? Probably not. Yet that's what people are essentially doing when they buy and sell stocks – which, after all, represent part ownership of a business. The solution to excessive trading is to behave like an owner. Read the company's quarterly and annual reports and listen to the conference calls. Above all, think long term. If you are confident that the company's revenue, earnings and dividends will be substantially higher 10 years from now, you won't be tempted to sell for short-term reasons. Incidentally, passive investors have two big advantages over small-business owners: 1) They don't have to show up for work and 2) They can diversify by buying a bunch of different companies.