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Your brain may be killing your investment results

Unfortunately, when it comes to investing, many investors tend to be their own worst enemy.

Numerous studies have shown that investors on average earn returns well below the popular benchmarks, mainly because of the emotional investing mistakes they make. Emotional investors tend to make impulsive decisions, often buying at market tops based on hype and selling at the bottom based on fear.

According to the most recent Dalbar Quantitative Analysis of Investor Behavior study, the S&P 500 returned 8.2 percent over the past 20 years through 2015, while the average investor return in U.S. equity funds over that period was only 4.7 percent. The disparity between the "average investor" return and the benchmark is startling and reveals the negative impact poor investment decisions, usually driven by emotions, can have on long-term returns.

Fortunately, there are ways to improve your emotional intelligence when it comes to investing by learning some of the basic principles of behavioral finance.

The field of behavioral finance has grown rapidly over the past decade and is based on an integration of psychology and finance that can be used to understand how and why investors make decisions, and the most common mistakes they make. Studying and learning from the mistakes of others, without making them on your own, is one of the smartest ways to improve your investment returns.

Warren Buffett famously wrote in one of his annual letters, "You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ." The point here is that emotional intelligence and avoiding mistakes is just as important as IQ when it comes to investing.

Here's a list of some of the most common behavioral mistakes investors make, and a few tips on how to avoid them.

• **Overconfidence** — Investors often overestimate their knowledge and skill, leading to overly aggressive bets and lack of diversification.

• **Herding —** Though we are often unconscious of it, the investment decisions based on what everyone else is doing, which is often buying at the top of the market and selling at the bottom.

Tip: Ask yourself what is the basis for a popular trend to continue, and if the trend is so well known is the value already reflected in the investment's price.

• **Confirmation bias** — The tendency to only seek out information that supports our current beliefs. For example, investors that believe the market will rise, tend to only seek out news and information that supports that view.

Tip: Play devil's advocate and seek out opinions that differ from your own. If it still seems like a good investment go for it.

• **Loss aversion** — The fear of loss often leads to the selling of assets at the worst possible time, also known as "panic-selling."

Tip: Evaluate each investment on its own merit and ask yourself if the fundamentals have changed before hitting the panic button and selling. It's not unusual for stocks to experience periodic sell-offs, and if the fundamentals haven't changed it may be time to consider buying more rather than selling.

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Here are a few more ideas that will also help you become a better than average investor:

Keep your costs low. A recent Morningstar study, Predictive Power of Fees: Why Mutual Fund Fees Are So Important, concluded that "the expense ratio is the most proven predictor of future fund returns."

Develop a disciplined investment process that you can consistently implement over the long-term. A good investment process should document how you will make investment decisions before you are actually required to do so, making you less prone to making the behavioral mistakes discussed above.

If picking your own investments and using the above tips seem too daunting, don't worry there are other good options available. Simply invest in broad index funds at a very low cost that will match the markets performance, or consider working with an experienced investment adviser that will remain objective and invest as a fiduciary in your best interest.

Both options should put you well ahead of the "average" investor highlighted in the Dalbar study.