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Understand Your Wealth

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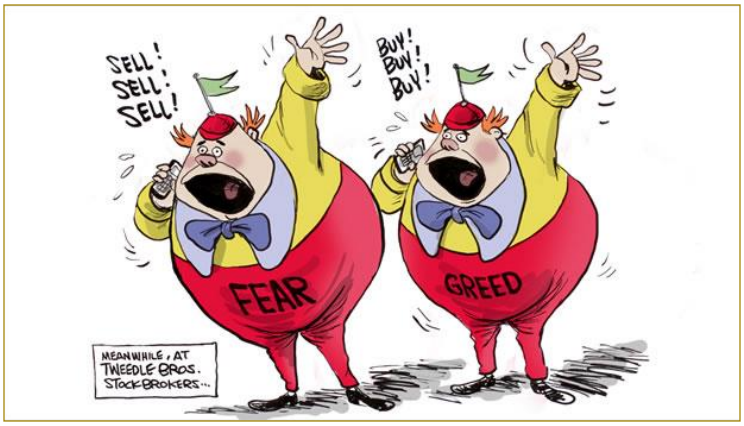
Buy High Sell Low?

If I was to ask, "what is the one thing people know about investing," what would the answer be? Buy low and sell high. That is not surprising. What is surprising however is that this one piece of information, the golden rule so to speak, is rarely followed. We have all met investors who "just have bad luck," ones who swear mutual funds can and will only ever lose your money. Can mutual funds lose you money? Absolutely, but whether they will or will not over the long term is likely up to you, and your decisions when emotions cloud judgment.

Emotions and Investing

Investing is a highly emotional experience, and it should be. Our investments are our life savings. They are our retirement, our children's education and inheritance. In most cases our money is one of the most important factors in our lives. So, it is understandable when our emotions inhibit our ability to invest wisely.

When markets go up we get excited, we call our advisors and we are more than happy to throw our money into investments. When the markets are down, we feel depressed and anxious and pull our investments out. The result of this is locking in the loss and a resentment towards investing.



"Leveraging on Stock Market Greed and Fear," Dr. Tee, March 1 2018, http://www.ein55.com/tag/stock-market-greed-and-fear/

December 2018 – When it all hits the fan

2017 was one of the best years the stock markets have had. Returns were high and volatility (the ups and downs) was low. The result of this was an influx of investors, happy to chase risk in the hopes of riding the big returns. Then 2018 came along. Inundated with interest rate hikes, slowing global growth, tariffs and more - 2018 was the worst year we have had since the 2008 financial crisis.

The Dow Jones and S&P500 fell 5.6% and 6.2% respectively (market indexes which simulate "The Market") and the year was finished by the worst December since the Great Depression. The outcome should be obvious. If we buy low and sell high, you would expect an inflow of new money to the stock market. Of course, that did not happen, in fact over 50 Billion dollars was sold out of it.

[we can help.]

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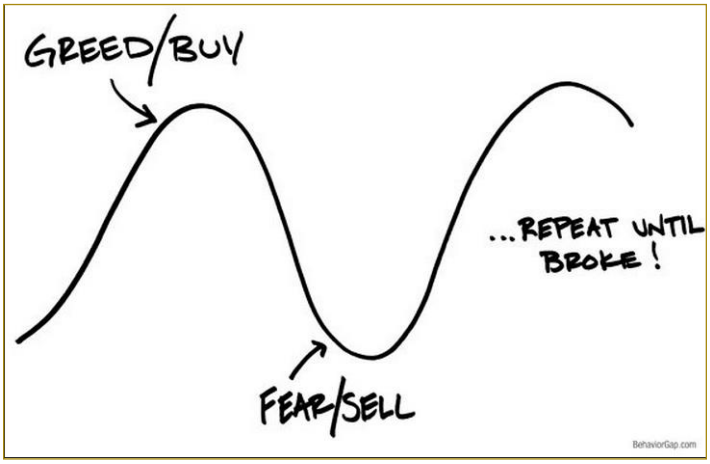
January to April 2019 – Yin to 2018's Yang

The investors who accepted their losses and pulled their money at the bottom of 2018 did so with the expectation that they were cutting their losses and that things were only going to get worse. So, what happened next?

As of April 14, 2019, the Dow and S&P500 have increased by 13.22% and 15.22% respectively. And the results?
Many investors are once again happy to take their life savings and put them in the market.



"Why Does the Cycle of Fear and Greed Persist?" Ben Carlson, April 13 2014, https://awealthofcommonsense.com/2014/04/cycle-fear-greed-persist/

Opinion

I need to be very clear. You absolutely can lose money in mutual funds, and of course many have. Furthermore, just because markets have generally increased after large decreases, there is no guarantee this will happen in the future. I am only speaking to well diversified portfolios or portfolio funds, and time frames suitable to the risk involved with mutual funds.

The investors who let their emotions get in the way sacrifice a long-term plan over short-term discomfort. They sell their investments after they have lost money, securing this loss, and buy more after the subsequent recovery, missing the gain. The best days for investments are often after the worst, and if you miss these it could have a detrimental effect on your ability to reach your goals. The key in times of market downturn is to remember your time frame. If we are saving to a goal that is 10 or 20 years in the future, you are likely in a more aggressive investment, and therefore will see huge variations in the return of your investments. It seems boring (because it is), however the old adage of "Buy and Hold" is likely the best.

Nothing we do is random. You are in an investment suited to you, your goals and your financial situation. If your situation changes, speak with your advisor - that is the time to make investment changes.

Retire comfortably

"Time is your friend;
impulse is your enemy"
Jack Bogle

"Long-term Crypto currency Investment in 2018, Tousef Ahmed Kahn, https://steemit.com/investment/@touseefk/long-term-cryptocurrency-investment-in-2018

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The average Canadian doesn't know how much they need to retire. Do you?

[We can help.]

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