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When the Market is Erratic, Avoid These Investing Mistakes

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By Annika Cushnie, Brett Miller, and Tom Presley

Last month, it appeared that Scrooge, the Grinch, and the Wet Bandits from the movie “Home Alone” were conniving to steal Christmas from investors.

December 2018 was the worst closing month for the Standard & Poor’s 500 Index since 1931, and the year ended nearly 20 percent off its highs in September. But since December 26, the stock market has gradually regained its footing, helping ease investors’ fears. Despite these gains, the market’s herky-jerky behavior is making investors nervous. For example, on the day after Christmas, the Dow Jones Industrial Average completely reversed course, and had its biggest one-day points gain in history, adding over 1,000 points.

After a couple of months of extreme volatility, our clients are asking the obvious question: What should we do?

Here is an obvious answer: It is critical to avoid making quick decisions that will veer away from your long-term strategy and destroy your wealth. Here are a few tips to keep in mind:

Don’t Allow Your Emotions to Overtake Your Plan.
Our role as wealth advisors is to keep our clients on the right course. We want to discourage them from making decisions that will result in the permanent loss of capital, derail their long-term investment strategies, and more importantly, their overall financial plan.

We don’t know many investors who like losing money. But we also believe it’s important to step back and acknowledge that the pain of losing a dollar exceeds the joy of gaining a dollar. And this pain can drive investors to make strange decisions.

Look Ahead, Not Back. And Consider the Fundamentals.
It’s not uncommon for investors to think about their portfolio’s value at its highest point. Even though many stocks have increased consistently in recent years, when prices drop, we begin to worry. Just because the stock is trading below that previous high, doesn’t automatically mean it’s below its fair value. Here’s a good example: Despite its poor performance in December 2018, the Dow Jones Industrial Average grew almost 6,000 points from December 2015 – just three years ago.

Investors need to be careful that they don’t view a stock’s high price as an anchor that has no impact on its future. If they do, they may hurt future performance by holding onto “losers” for too long or being reluctant to sell winners at a prudent time. The past is the past; we help our clients look to the future by carefully considering current fundamentals in the investment landscape.

Don’t Overvalue Daily Reports of the Market’s Ups and Downs.
With news alerts and information available at a moment’s notice on our phones, some people can suffer from information overload. When there is a significant event or an abundance of news about a particular stock or industry, people may make major decisions based on a short-term event.

Bad news is always more eye-catching. If the stock market drops by more than 2 percent in one day, it usually seems more newsworthy than if the market climbs by 2 percent. Avoid the temptation to react to short-term events. Instead, investors should remain focused on making financial decisions based on research and their own unique situations.

Finally, Be Patient. When the Dow Jones Industrial Average is dropping hundreds of points, it’s human nature to want to take drastic action. But that’s usually not the right decision.

One of Warren Buffet’s most famous quotes is “The stock market is a device for transferring money from the impatient to the patient.” We certainly believe this to be true. Future money is often made, and lost, during volatile times. That’s why it’s important to have a sound, long-term financial plan and investment strategy in place.

The plan serves as a map to guide you when the ride gets bumpy. Our investment portfolios are designed to preserve capital as well as achieve growth. With proper planning, we make sure that our clients’ cash flow needs are coordinated with their investment strategy. That way, we don’t have to pull from the growth assets when the stock market is down.

Recently, one of our clients remarked that markets are like escalators when they are rising and are like elevators on the way down. That really a good way to view how markets often move.

There are more escalators and elevators to come. Avoiding some of these common wealth-destroying mistakes and sticking to your long-term plan is the best path to achieving your financial and life goals.

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