Six Common Investing Errors

While we can learn about successful investing by studying the best, we can also learn from our mistakes. Here are six common investing mistakes, as identified by the CFA Institute:

1. Expecting too much — Having reasonable return expectations is important to help support good decision-making, risk management and long-term planning. Yet, investors tend to have higher expectations than professional money managers. One study suggests Canadian investors expect an average annual return of 10.6 percent on investments, versus 6.5 percent by financial professionals — one of the highest expectation gaps globally.[1] Consider that the 50-year average return of the S&P/TSX Composite Index is 5.9 percent.[2]

2. Not having clear investment goals — Some investors may become too focused on short-term returns or the latest investment fad. A recent study in the U.K. suggested that less than one-third of investors had any specific long-term goal in mind when investing.[3] However, by having a plan, alongside some discipline, even a modest investing program can yield significant dividends down the road. Investing just $20 per day at an average annual return of 6 percent would yield over $1.2 million in 40 years.

3. Failing to diversify — A well-diversified portfolio is important to achieve an investor's appropriate level of risk and return. Having too much exposure to a single security or sector comes with risks. Diversification is intended to protect from the downturns that may affect sectors at different times, while also giving access to the best performers. Consider the difficulty in consistently picking individual winning stocks over long periods: only 21.4 percent of U.S. stocks beat the market over 20 years from 1927 to 2020.[4]

4. Buying high and selling low — While a fundamental principle in investing is to "buy low and sell high," many investors do the opposite because they may be motivated by fear or greed. It has been estimated that the loss in returns by "buying high and selling low" versus a buy-and-hold strategy is on average around 2 percent annually,[4] which can become meaningful over time.

5. Trading too much — Investing often involves patience to endure down-market times. Timing the markets is difficult, if not impossible. Even if you were to exit the markets before a downturn, you'd need to re-enter before the markets resume their upward climb. This often happens with little warning. Consider the S&P/TSX Composite — the rapid climb to end 2023 was largely unpredicted. Studies have shown that the average underperformance by the most active traders annually (versus the U.S. stock market) is 6.5 percent.[4]

6. Reacting to the media — In this modern era of connectivity, we are being fed news at a rapid rate — and this news continues to be increasingly negative.[5] This may trigger fear, which can cause investors to make decisions not in their best interests. Yet, despite this negativity, consider that from 1975 to 2023, the S&P/TSX Composite Index has posted annual positive gains 77 percent of the time.[6]

Do any of these investing errors sound familiar? As advisors, we do our best to prepare our clients by putting a plan in place to set priorities and using a disciplined approach that emphasizes asset allocation, strategic diversification, risk management and a focus on quality. We can also integrate different techniques into investing programs to reduce impulsive decision-making, as many investing errors result from succumbing to our behavioural biases. This includes regularly rebalancing portfolios, using managed products to put buy/sell decisions in the hands of professional managers or incorporating systematic investing programs.

Remember that we are here to help keep you on course and limit the impact of investing errors as we chart the path to longer-term success. For a visual of 20 common investing mistakes, please see: https://www.visualcapitalist.com/20-most-common-investing-mistakes/

1. https://www.visualcapitalist.com/portfolio-return-expectations-by-country/; 2. S&P/TSX Composite Index 12/31/1973 - 1,193.56; 12/29/2023, 20,958.40; 3. https://www.fca.org.uk/news/press-releases/young-investors-more-likely-have-long-term-goals-mind-dating-when-investing; 4. https://www.visualcapitalist.com/20-most-common-investing-mistakes/; 5. https://www.bbc.com/future/article/20200512-how-the-news-changes-the-way-we-think-and-behave; 6. S&P/TSX Composite annual returns to 2023.

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Richmond Cord Wealth Advisory
BMO Nesbitt Burns

Bonnie Richmond, BSW
Investment Advisor,
Wealth Advisor
416-365-6081
Bonnie.Richmond@nbpcd.com

Elias Cord, BA Hons. Econ.
Investment Advisor
416-365-6085
Elias.Cord@nbpcd.com

Sarah Sampogna, PFP®
Business Associate
416-365-6045
Sarah.Sampogna@nbpcd.com

Jacqueline Lee
Client Service Associate
416-365-6019
Jacqueline1.Lee@nbpcd.com

Danielle Bacci
Client Service Associate
416-365-6019
Danielle.Bacci@nbpcd.com

BMO Nesbitt Burns Inc.
First Canadian Place
100 King St. W., 38th Floor
Toronto, Ontario M5X 1H3
Toll Free: 1-800-567-3006
Fax: 416-359-4941

www.RichmondCordWealth.com

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Richmond Cord
WEALTH ADVISORY
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