Look Less, Make More

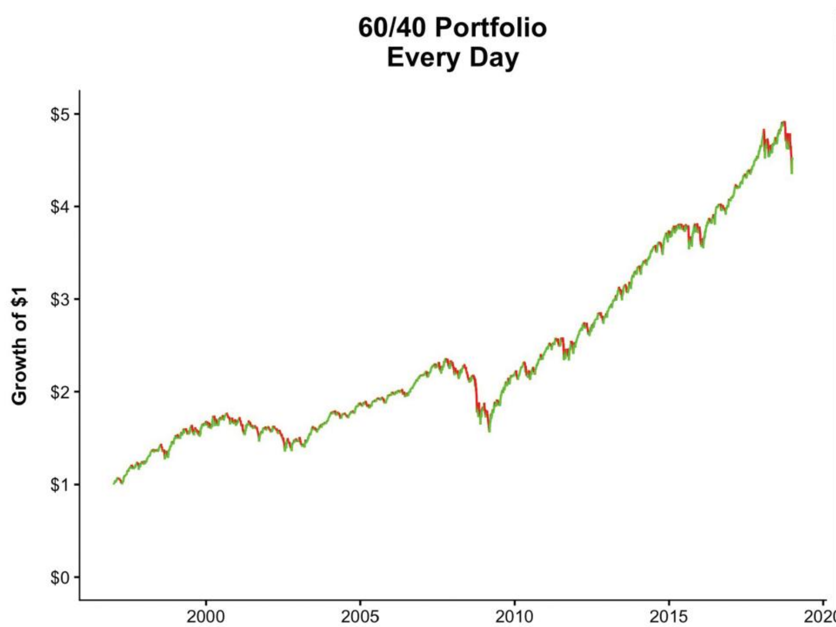
You’re likely to read a lot of articles about how to be a better investor, and they will tout everything from watching complicated charts looking for patterns to more mainstream dollar-cost-averaging, to buying only the stocks of companies that you know.

But surprisingly, the easiest route to improving your investment performance may also be the laziest.

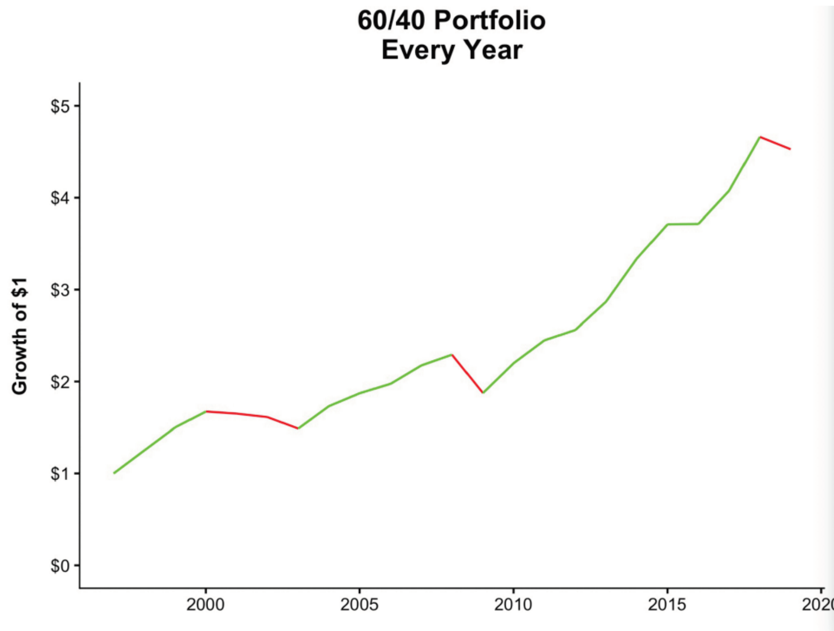
A recent article notes that all of us are wired to experience the pain of loss more than we feel the joy of gain. Translated into investment behavior, that means that we have an innate instinct to stop the pain by selling out of a portfolio whenever it goes down—and that is usually a poor idea when the markets are generating normal volatility. Trying to time the market is a loser’s game, even if it is driven by instinct rather than intent.

So the solution is…? The less you monitor (or watch) your portfolio’s ups and downs, the fewer times you will experience the pain of (temporary) loss. The fewer times you will have an instinct to sell or change something, and the more likely you are to receive the benefits of the market’s long-term growth in value.

Consider a couple of charts showing periods when the market is down (in red) and when the market is rising (green). The first chart shows what that would look like if you checked every day—or if you watched financial news every day to see how the markets did. When you look at your portfolio every day, you will see red an average of 46% of the time, which means almost half the time you will feel an instinctive alarm and a desire to make a change.



The second chart shows the same ups in green and downs in red, but over periods of years instead of days. If you look at your portfolio only once a year, you will see a downturn only 26% of the time and feel that same self-destructive instinct.



This is not, obviously, a perfect solution; you will still experience times when the markets are down, when you're fighting the urge to make a change. But instincts are harder to control than habits. If you can make a habit of looking at your investment returns less often, your instincts won't have as great a chance to undermine your long-term results.

Source:

https://theirrelevantinvestor.com/2019/04/11/how-to-improve-your-risk-adjusted-returns/

By Bob Veres, publisher of Inside Information - the premier publication of financial industry trends and information for leading practitioners in the financial planning profession.