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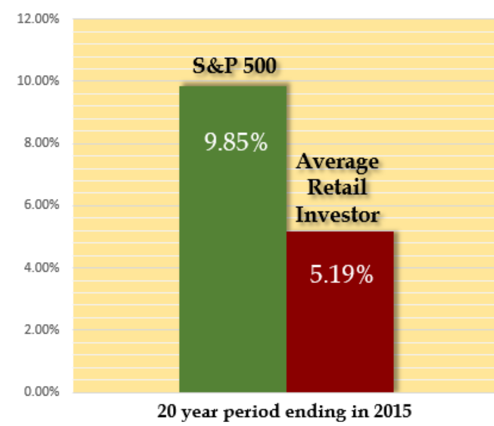
Should You Care What the Market Does Each Day?

A calm investor may realize better long-term returns than an overly concerned one.

Investors are people, and people are often impatient. No one likes to wait in line or wait longer than they have to for something, especially today when so much is just a click or two away.

This impatience also manifests itself in the equities markets. When the S&P 500, Dow, or Nasdaq take a tumble, some investors grow uneasy. Their impulse is to sell, get out, and get back in later. If they give into that impulse, they may effectively pay a price.[1]



Across the twenty years ending in 2015, the annual return of the S&P 500 averaged 9.85%. During this same period, the average retail investor realized a yearly return of just 5.19%. (These numbers come from Dalbar, a respected investment analytics firm.) Why the difference? It could partly stem from impatience.[1]

Some investors may be worrying too much – and acting on those worries to their detriment. An investor who glances at a portfolio once per quarter may end up making more progress toward his or her goals than one who anxiously pores over financial websites every day.[1]

Too many investors make quick, emotional moves when the market dips. Logic often goes out the window when this happens, along with long-term perspective.[1,2]

Some long-term investors focus on buying shares of respected companies. Warren Buffett does. He has famously said that an investor should buy shares of a firm to own a piece of it, not merely in hopes that its share price will rise.[2]

Certain companies are so strong, their brands so renowned, that their shares weather downturns better than shares of other firms. In a raging bull market, "all boats rise" and many types of shares may perform well. Buffett often tries to invest in companies whose shares may perform well in both up and down markets. In especially bullish times, his returns have sometimes lagged the market, but chasing the return is not his objective.[2]

In contrast with Buffett's patient long-term approach, investors who care too much about day-to-day market behavior may practice market timing, which is as much hope as strategy.[2]

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To make market timing work, an investor has to be right twice. Ideally, he or she sells high, takes profit, and buys back in at some point of capitulation – a moment when bears throw in the towel and the market rallies off a bottom. How many investors can pull this off? **This is hard even for Wall Street professionals**. Mostly, retail investors buy high and sell low. Picture a shopper only buying an item at a department store when the price rises, then returning it when it goes on sale – but only getting the sale price back.[1]

Investors who alter their strategy in response to the headlines may end up changing it again after further headlines. While they may feel on top of things by doing this, their returns may suffer from their emotional and impatient responses.[1]

Nobel Laureate economist Gene Fama, Jr. once commented: "Your money is like soap. The more you handle it, the less you'll have." Anyone who has invested some of their money in equities would do well to keep his gentle warning in mind, especially at times when markets grow turbulent.[1]

Citations.

1 - thebalance.com/why-average-investors-earn-below-average-market-returns-2388519 [8/28/16]

2 - usatoday.com/story/money/personalfinance/2016/01/30/3-reasons-you-shouldnt-worry-stock-market-2016/79304046/ [11/9/16]

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