SHOULD YOU CARE WHAT THE FINANCIAL MARKETS DO EACH DAY?

by Dominic Lucente

Focusing on Your Strategy During Turbulent Times.

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 financial markets. When stocks slip, for example, some investors grow uneasy. Their impulse is to sell, get out, and get back in later. If they give in to that impulse, they may effectively pay a price.

Across the 30 years ended December 31, 2018, the Standard & Poor's 500 posted averaged annual return of 10.0%. During the same period, the average mutual fund stock investor realized a yearly return of just 4.1%. Why the difference? It could partly stem from impatience.[1]

It's important to remember that past performance does not guarantee future results. The return and principal value of stock prices will fluctuate over time as market conditions change. And shares, when sold, may be worth more or less than their original cost.

Investors can worry too much. In the long run, 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 each day.

Too many investors make quick, emotional moves when the market dips. Logic may go out the window when this happens, in addition to perspective.

Some long-term investors keep focus. Warren Buffett does. He has famously said that an investor should, "buy into a company because you want to own it, not because you want the stock to go up.[2]

Buffett often tries to invest in companies whose shares may perform well in both up and down markets. He also has famously stated, "If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes."[2]

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

To make market timing work, an investor has to be right twice. The goal is to sell high, take profits, and buy back in just as the market begins to rally off a bottom. But there is volatility in financial markets and the sale at any point could result in a gain or loss.

Even Wall Street professionals have a hard time predicting market tops and bottoms. Retail investors are notorious for buying high and selling low.

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

Nobel Laureate economist Gene Fama once commented: "Your money is like soap. The more you handle it, the less you'll have." Wisdom that may benefit your strategy, especially during periods of market volatililty.[3]

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Citations.

1 - nytimes.com/2019/07/26/your-money/stock-bond-investing.html [7/26/19]

2 - fool.com/investing/best-warren-buffett-quotes.aspx [8/30/19]

3 - suredividend.com/best-investment-quotes/ [12/5/18]

NHTI Concord's Community College

CONGRATULATIONS FALL 2019 GRADUATES

The following students graduated from NHTI Concord's Community College, during the Fall 2019 term:

Bow - Dawn Detrio, Elbert Mejia

Contoocook - Gabriel Nichols

Hopkinton - Tammy Clay