



Get Rich Slowly by Sticking With These Tried-and-True Investing Principles

Description

Most people are familiar with the Pareto principle. It states that you get 80% of your results from 20% of your efforts.

Investing is one of the best examples of this principal in action. Investors spend countless hours on stuff that doesn't matter. We read the 143rd page of the annual report, hoping to unearth some nugget of information that will make the difference between profit and loss. Or we look at charts to determine suitable entry points for stocks without realizing that one piece of bad news will render any price history useless.

Ultimately, a lot of investing success comes down to three simple factors. Let's take a closer look at each.

Opportunity costs matter

There seems to be a select group of investors who are convinced the market is about to head much lower, no matter what the economic cycle dictates. Naturally, these folks are usually sitting on a large percentage of their portfolio in cash, hoarding it until they see an opportunity.

There's only one problem. By the time a real opportunity comes along, there's usually so much bad news out there that weaker investors are scared off. Who wants to put money to work when there's talk of recessions and bankruptcies everywhere?

Besides, investors as a group are terrible at timing markets. For every investor who is smart enough to accumulate cash when the market gets expensive, there are probably 10 who sell out prematurely or sit on cash for years waiting for the perfect opportunity.

Markets tend to go up. Unfortunately for investors, they don't go up in a straight line. Since it's hard to predict when they'll go up and go down, investors should just adopt a simple strategy of staying invested all the time. That way, they're guaranteed to not miss any of the up days.

Stick to long-term investing

Individual investors who look at the long term have a huge advantage to the mutual, hedge, and pension funds that dominate the market.

An individual investor can buy a position in a solid company with temporary issues and forget about it for five years. Portfolio managers often don't have the same luxury, since they know big investors are paying attention. If they own assets the market doesn't like, there's a chance money leaves the fund. That's the last thing someone managing money wants.

Long-term individual investors can shrug off short-term losses, while fund managers are constantly being held up to the standard of the index. This allows investors to take a long-term attitude, while fund managers have to keep at least one eye on short-term results.

There are a few reasons why many mutual funds can't beat the market. Fees are probably the biggest, but the short-term bias isn't far behind.

Great companies, fair prices

There's a reason why the greatest investors of all time advocate for acquiring shares of great companies at fair prices. It's because it works.

Take **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) as an example. The company is a leader in Canada's banking sector, dominating the retail, capital market, and wealth management sectors. It has successfully expanded into the U.S. and has quietly become a top 10 North American bank by assets.

It's also been a great investment. Over the last 20 years Royal Bank shares have returned 14.7% annually, assuming all dividends were reinvested. A \$10,000 investment in the bank in March 1996 would be worth \$155,621 today.

Think about all the bad news faced by Royal Bank over the last two decades. It survived the bursting of the tech bubble, the Enron scandal, the Great Recession, and most recently, the Canadian commodity bust. Even through all of that, the stock still returned nearly 15% annually.

Sure, the bank is facing a few headwinds today, like low interest rates and a Canadian housing bubble. But this is a stock that survived the Great Recession without cutting its dividend. It's going to take more than a downturn in housing to really hurt it.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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