3 Investment Lessons Which Will Last Forever

Description

Over time, various aspects of investing naturally evolve. In recent years, for example, technology has driven the cost of buying and selling shares down. This has made it easier to switch positions after a short period of time, since the cost of doing so is not prohibitively expensive. Similarly, technology companies have become more popular this year, while the banking and resources sectors are now not as coveted among investors as they were a decade ago.

However, some aspects of investing will never change. Therefore, by focusing on them it may be possible for investors to gain an advantage over their peers in the long run. Here are three examples which could help to improve your portfolio returns.

Cycles

While stock markets across the globe may have enjoyed a major Bull Run in recent years, the reality is that shares and the wider economy move in cycles. This has always been the case, and asset price bubbles and overconfidence can be traced back centuries. Their subsequent ‘busts’ are also inevitable, as human emotions turn from greed to fear in the face of a potentially uncertain economic outlook.

While fiscal and monetary policy can help to avert the deepest of recessions, the human factor which drives the economic cycle will never disappear. Shrewd investors can use this to their advantage, since it allows them to buy high quality shares at low prices and then sell them for over-inflated prices further down the line.

Value traps

While value investing is a sound investment strategy, sometimes it can lead to unfavourable situations. Value traps are where a stock appears to offer a strong investment case due in part to its low valuation. However, in practice, no asset is ever cheap without good reason. It may be facing financial challenges of its own, or a difficult industry outlook, for example. The key takeaway for investors is that something which looks too good to be true generally is.

Avoiding value traps can improve portfolio returns, as well as reduce the risk faced by an investor. In the long run, this can lead to superior investment performance.

Short-termism

While some investors buy a share and expect to hold it for a number of years, many investors continue to focus on the short term. This can lead to high volatility for even the most defensive and stable of companies, since traders are constantly seeking better opportunities for their capital. This situation is unlikely to change, since people have always been searching for opportunities to profit in a short space of time.

For long-term investors, this can create buying opportunities. Volatility can cause share prices to move away from their intrinsic values, which can lead to wide margins of safety. While instability in share prices can cause concern for investors with even the longest of timeframes, embracing it as a constant event can deliver higher than expected returns in the long run.

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