2 Resolutions Investors Should Make for 2018

Description

One of the biggest challenges for investors is to create good habits and not to invest based on emotion. Jumping aboard the hype and buying because a stock is going up can be a very risky thing to do. Sometimes it can pay off, but other times the share price could crash and leave you with a big loss.

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Shopify Inc. (TSX:SHOP)(NYSE:SHOP) saw a lot of momentum for much of 2017, and everything was going well until a critical report released from a known short seller sent the stock into decline. Shopify will likely recover, but investors that bought at the peak, expecting the ride to continue, have seen their portfolios take a hit.

This situation obviously doesn't happen in every case. Tech stocks are known for their outrageous valuations. **Netflix, Inc.** (NASDAQ:NFLX) for example, trades at nearly 200 times its earnings, and with **Walt Disney Co** (NYSE:DIS) recently opting to go its own route for streaming, Netflix's sales could be in real trouble. The company is struggling to grow subscribers in its home base in North America, but that hasn't stopped the stock from rising.

Cannabis stocks provide another example where valuations have gone out of control with many pot stocks doubling, and some even tripling in value this year.

Meanwhile, Bitcoin's 1,300% returns are just the cherry on top of a wild year that saw investors get into a frenzy.

Can it continue?

That's probably the question most skeptics and investors are asking. How long these valuations can go on for is the big question. Many analysts, even world-renowned investor Warren Buffett, believe the market is overvalued. The danger for many is that it's not just a pot bubble, a Bitcoin bubble, or even a tech bubble. The markets as a whole are overvalued, and that could put every stock at risk.

There are a few ways you can mitigate some of this risk, and that's where I propose two resolutions for investors in 2018:

Avoid speculation

If you stick to fundamentals, then at the end of the day, you're investing in a company that you believe in because it has a good future and potential to succeed. If, in the worst-case scenario, the markets crash and your stock has plummeted, it might just present a good opportunity to buy more of it.

After all, if it's a good stock that went down only because of the market or other external factors, then it's likely still a good buy.

Force yourself to use stop-losses

One of the worst sins in investing that many of us are guilty of (myself included) is thinking that the share price will recover from a stock that has dropped in value. When it doesn't, you give the stock a bit more rope thinking that it must have reached the bottom and can't go any lower.

Then when it drops in price again, you find yourself married to the stock because you don't want to sell it at a disastrous loss.

Although a stop-loss won't save you from when a stock goes over a cliff, it'll prevent you from rationalizing and will lock you into a decision before your emotions can talk you out of it.

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