



## How to Worry Less About Your Investment Returns

### Description

Investors buying stocks have varying levels of expectations. For some, they may be hoping to generate a higher return than from cash savings, while for others they may be aiming to beat the wider index. Either way, a common trend among almost all investors is a fear of volatility and the paper losses it can cause.

However, the reality is that there are periods of time when all investors have paper losses. No investor has ever been able to consistently buy stocks at their lowest point and go on to sell them at their highest level. As such, volatility is not only a part of the investment 'game', but is something which can work to an investor's advantage.

### Changing perspective

One reason why many investors worry about paper losses is their time horizon. As Warren Buffett famously stated, he invests on the basis that the stock market will close for the next five years and he will not be able to sell any of his holdings. In other words, he assumes that he must give each of his stocks at least five years (and often longer) to deliver the returns he believes are possible. And should they fluctuate in price, exhibit high volatility or even fall during that time, it is unlikely to bother him.

Adopting a similar perspective may help an investor to worry less about their investment returns. It could lead to an acceptance that during the specified holding period, there could be difficulties and challenges ahead which may impact on the valuation of a specific stock or wider portfolio. But by focusing on long-term growth, it may be possible to generate higher returns than through buying and selling on a more regular basis.

### Historical trends

Furthermore, stock markets have always exhibited high levels of volatility at times. In the 21<sup>st</sup> century alone, there have been two extended periods of depressed stock prices. Therefore, investors may find it easier in the long run to accept that while stocks can deliver high returns, the flip side is that they also experience concentrated and severe falls at times. And while the past is not always a good guide to

the future, in this respect it is likely to be relatively accurate.

## Defensive options?

Of course, it may be possible to reduce paper losses and volatility through purchasing [defensive stocks](#). This could also help an investor to worry less about the performance of their portfolio, since lower-beta stocks may deliver a smoother growth trajectory over the medium term.

However, even less risky stocks can fall heavily in periods of market turmoil. This means that investors may be better off seeking to profit from volatility through buying stocks when they have wider margins of safety, as opposed to worrying about it. By doing so, an investor may be able to not only maximise their overall returns, but also spend less time feeling concerned about the value of their portfolio.

## CATEGORY

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