



The Secret to Improving Your Portfolio Returns

Description

For many investors, finding the right investment strategy is not an easy task. Inevitably, some styles work better than others depending on market conditions. Therefore, adopting a [value-orientated style](#) or a growth strategy, for example, may not always be the most effective means of beating the index over a specific time period.

However, rather than constantly change investment strategies depending on market conditions, investors may wish to adopt one simple approach that could work well under a variety of scenarios.

Market noise

At any given time, there is a significant amount of market 'noise' surrounding stocks and their movements. Market noise is perhaps best defined as short-term price movements, trending news and even word of mouth. It can lead many investors to make snap decisions regarding their portfolios – even if it goes against their overall strategy.

For example, during a major bear market such as the financial crisis, many investors decided to sell their holdings due to market noise. There were various news stories around at the time which claimed that the world faced financial Armageddon. While it was a severe recession, ultimately global stock markets have since recovered, and investors who sold out of their positions at the time have missed out on the subsequent gains which have been available.

Likewise, during bull markets such as the dot.com bubble, many investors left behind their sensible value investing strategies and instead focused on growth. While growth investing in itself can be a successful strategy to pursue, obtaining the right price for an investment remains crucial. With stocks valued on high multiples of future sales during the dot.com bubble, excitement and rising stock prices caught many investors out.

Mental strength

Clearly, market noise can have a major impact on an investor's decision making. It can cause emotion

to rule a rational thought process and if it does, it may mean that the wrong decisions are made.

As a result, ignoring market noise could be a simple and yet highly effective means of improving an investor's portfolio returns. Doing so could leave an individual with the ability to rely on facts and figures, as well as their own logic and judgement, when deciding how to apportion their capital. In the long run, this is likely to mean higher returns, since it could allow an investor to capitalise on mispricing opportunities during bullish and bearish periods alike.

Of course, ignoring market noise is easier said than done. After all, most investors read newspapers, watch the news and keep up to speed with developments regarding their holdings. As such, hearing some market noise is almost inevitable.

However, one method of ignoring market noise which could be a pragmatic solution is to rely only on 'trusted sources'. In other words, have a shortlist of well-known investors, news sources and industry leaders who have solid track records in their respective fields. While they may not always be correct, they may allow an investor to focus on facts and informed opinions, rather than considering more general information which, in the long run, may prove to be detrimental to their financial outlook.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date

2025/08/26

Date Created

2018/06/17

Author

peterstephens

default watermark