3 Potential Pitfalls Facing Investors Who Are Saving For Retirement

Description

Buying stocks is never an easy task. While the internet has made it a simpler process, it is still tough to generate high returns over a long-term investment horizon. While there are a wide range of reasons for this, there are a number of common mistakes which investors persistently make. By overcoming the following three potential pitfalls, it may be possible to boost your portfolio returns.

Buying during bull markets

The stock market is probably one of the few industries where customers (investors) want to buy more of a product (stocks) the higher its price. In other words, many investors seek to add companies to their portfolios during a bull market, when the prospects for the company, industry and economy seem to be improving.

While this may lead to positive short-term returns, the reality is that buying during bear markets is a much more logical approach to take. One reason for this is that during a bull market, the valuations of companies include an assumption that improving growth will be delivered. They therefore often lack a margin of safety, which can mean that their returns are not especially impressive.

Certainly, buying when stock prices are falling may require a strong mentality from an investor. But history shows that stock indices always bounce back from declines in the long run.

Personal opinion

While it is difficult to be completely emotionless when buying stocks, leaving personal opinions of a company to one side is crucial. An investor may have had a bad experience with a company from a customer perspective, or they may not be impressed by the product or service being sold by a particular business. However, this does not mean that the stock is a poor investment. Other customers may have positive experiences, while different demographics may be the intended target market for that company’s offering.

If an investor is able to focus on facts, as well as remain impartial about stocks, they could generate higher long-term returns. While this may be a difficult undertaking for some investors, doing so could prove to be a shrewd move.

Research

The internet has made researching stocks far easier than it ever has been. Alongside regulations on accounting and the volume of updates that need to be released, investors have a wealth of free information available to them through which to make investment decisions.

Still, many investors fail to check the fundamentals of a business before buying it. Even a relatively small amount of time spent focusing on areas such as debt levels, cash flow, valuation and the strategy being adopted by the stock could lead to a more informed decision being made by an investor. It may also help them to avoid companies that, while having an interesting story attached to them regarding how they intend to grow sales, ultimately offer high risks and modest potential rewards.

By spending more time researching stocks, remaining objective and buying during bear markets, an investor could boost their portfolio returns in the long run.

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