1 Mistake That Could Wreak Havoc on Your Portfolio's Returns!

Description

There are many good buying opportunities out there for investors. However, it's important for investors to be careful in choosing which stocks to invest in, because even ones that look to be cheap today could still fall in value.

Although a stock that's undervalued could make it a good long-term investment, it doesn't mean that it will rise in value in the short term. The biggest challenge for many people is having the patience to hang on long enough to earn a good return.

This leads me to a very important mistake that investors should avoid doing, which is investing more money than they can afford to invest. The temptation may be there to get a quick profit (e.g., days, weeks) but the reality is that oftentimes it may take a lot longer for a stock to become profitable for investors.

Why investing more than you can afford can be problematic

When individuals invest money that they can't afford and that they'll potentially need access to sooner rather than later, that can have a significant impact on their overall returns. It can result in selling stocks too early and perhaps being too aggressive, looking for quick wins rather than prudent, long-term value buys.

A good example of this is a bank stock like **Bank of Montreal** (TSX:BMO)(NYSE:BMO), which has been an attractive buy this year given the softness in the financial sector. Whether it's trade wars, house sales slowing down, talks of interest rates falling and a possible recession, there have been plenty of reasons why investors have been down on bank stocks and why they haven't produced good returns this year.

And while they've been good value buys, investors hoping for some good returns may have been disappointed how long it's taken them to rally. Over the past two years, BMO stock has risen around just 1%, which is a terrible return given that profits have increased over this time and should have pushed the share price up. Instead, the stock has remained volatile, despite a very strong Canadian economy that's coming off a strong jobs report back in August that saw many new jobs added.

BMO has had a tough time cashing in on any bullishness, and it could take even longer for that to happen. And for investors that sell their shares because they need access to their funds, it could mean selling while returns are still low.

Investors should invest money they won't need for a year at least

BMO is a fairly stable buy, and at the very least, investors likely won't suffer large losses since the stock also pays a solid dividend, which has increased over the years. With other stocks, investors may not be so lucky and selling struggling shares too early could weigh on your portfolio's overall returns, perhaps putting them in the negative.

That's why investors should only invest in what they can afford to invest and leave idle for at least the foreseeable future, which I'll say should be at least a year. If investors are too focused on the short term, then investing in stocks could end up doing more harm than good.

Even if a stock is a bargain, there's no guarantee it's going to rally within the next few weeks and produce a profit. Patience is a big part of investing, and without it, investors could make some bad decisions along the way.

CATEGORY

1. Dividend Stocks
2. Investing

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