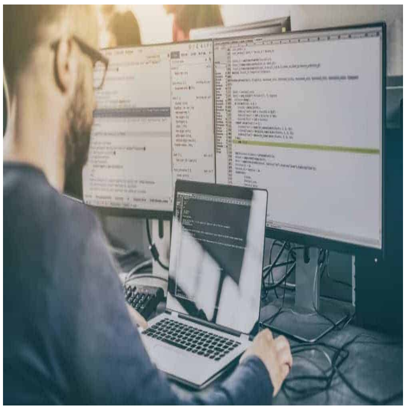

Avoid This Easy-to-Miss Mistake With Your TFSA Retirement Fund

Description

Warren Buffett's old-fashioned buy-and-hold-forever style of investing (or Charlie Munger's sit-on-your-bum approach) is going out of fashion with retail investors now that trading commissions have been falling steadily over the years, while actionable news has been soaring.

Are $0 commissions actually a curse in disguise?

With free commissions at select big-league brokers in the U.S., which may spread to Canada at some point over the next few years, it's expected that the average holding period for a stock will plunge. While $0 commissions are indeed good news for investors, it may be a curse in disguise for beginner investors who now have less of a reason to hold onto their stocks when they go down.

Back in Buffett's younger years, commissions were quite high, and it was harder to find appropriate resources to do your research. Heck, it was so inconvenient to check on day-to-day stock price movements that it was really pointless to do so.

Although the barriers to entry into the world of investments were higher back in the good, old days, it was easier to keep your cool once you finally constructed a portfolio. With no non-stop checking of intraday share movements, and since trading commissions were high, the incentive to put in ample due diligence was there.

The average holding period for stocks has shrunk over the decades, and it'll continue to do so as $0 commission become the norm, but that doesn't mean Buffett's buy-and-hold-forever strategy, which entails buying a stock with the desire to hold it for life (or at least a very, very long time), is no longer effective.

Sure, it's unsexy, and it's harder to do with all the news at your fingertips and the action-encouraging financial TV shows that now resemble exciting sports programmes.

But for those who are willing to buy and hold for five, 10, 20, even 30 years at a time, there are tremendous rewards to be had over those who now have even less of a reason to invest for the long term and more of a reason to time the markets over the short term.

So, what's the unforeseen mistake as the field of retail investing changes?

The mistake is trading stocks because you have the ability to do so for free.

Buffett says that just because you *can* trade doesn't mean you *should* trade. And while there's nothing wrong with trading, which ought to be seen as separate from investing, many Canadians are at risk of unnecessary short-term trading with holdings within their supposedly long-term-focused retirement investments.

The incentive to time the market is growing now that anyone can trade anywhere for little to no cost. Selling all your stocks suddenly went from $200 in commissions (for a 20-stock portfolio), not to mention the cost to buy back, to $0. And at the first signs of a panic sell-off, all one has to do is hit a button, and it won't cost them a dime to exit the market entirely.

And a solution to the problem?

Don't give your portfolio a chance to put you in a state of panic.

It's understandable that many of today's retail investors have never invested through a market crash, and while it's easy to understand the implications from the next crash, it's a heck of a lot harder to invest in the heat of the moment.

How can one not overestimate their ability to stomach such risks? Try a risk-parity portfolio with stocks like **Fortis** (TSX:FTS)(NYSE:FTS), my favourite regulated dividend-growth utility and bond proxy (or bond alternative), which has the ability to hold their own when the sky inevitably falls.

You won't be immune to downside, but a stock like Fortis can help buoy your portfolio and keep its head above water when the flood inevitably arrives.

If you find you're overweight in higher-beta cyclical names that could provide you with more upside in an upmarket, you may be more at risk of selling at a loss when your portfolio sheds value at a quicker rate than that of the market indices.

You might tell yourself you've "done something wrong" to see your portfolio implode 75% when the markets just fell 30% With a stock like Fortis, you'd have the opposite problem and will be able to maintain your cool in tough times as others lose theirs.

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