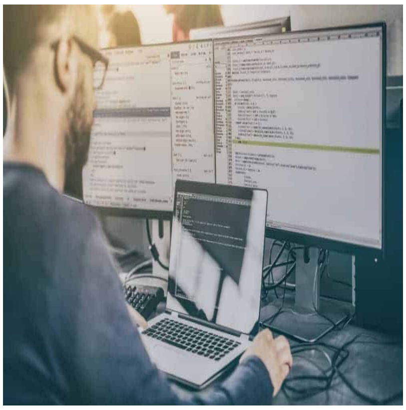

TFSA Investors: 3 Reasons Your Portfolio Is Underperforming the Market

Description

Investing can be difficult for a number of reasons, with one of the biggest difficulties being trying to figure out why your portfolio is lagging the rest of the market.

The reason why investors use a market index as a gauge for their performance is because anyone can gain exposure, owning them passively and growing their capital for next to nothing in management fees.

Because of this, if you have the opportunity cost of investing in a passive index fund, but you are deciding instead to pick your own stocks, then for that to make economic sense, you will need to outearn the market.

If your portfolio has been underperforming the market for a longer period of time now, you could be making one or more of these major investing mistakes.

Holding too much cash

Having a cash position to take advantage of any new opportunities that present themselves can be an important part of a long-term investing strategy; after all, Warren Buffett, the greatest investor of all time, is known to build large cash positions to make major acquisitions.

For many retail investors, however, a large cash position can weigh on your portfolio's potential return.

For instance, if you need to make 10% in a year to beat the market and you have a cash position that's 15% of your portfolio, the 85% of your money that you do have invested would need to earn 11.75% to deliver a 10% return on your total portfolio.

Earning 11.75% vs. 10% doesn't sound that much more difficult, but it will be, especially consistently over the long term, as just getting to 10% will be hard enough.

So, hold a small portion of cash for future opportunities, but don't overdo it, or you could be weighing on your potential returns without even knowing it.

You aren't investing long term

You may find yourself looking for the hottest stocks often, moving in and out of different positions, always looking to find more momentum.

Or maybe you are naturally influenced by news and headlines, which tend to send the market a certain way one day and the other way the next.

Regardless, if you are trying to employ any investing strategy that will earn your short-term results, you are likely taking on way too much risk, and if it doesn't go exactly right, it could impact your returns in a big way.

Instead stick with a long-term mindset; whether you are a growth investor or a value investor, you should always look at a company's potential over the long run, as anything less than that is pure speculation.

If you are employing a long-term strategy and you are buying stocks and holding them for a long period of time, yet your portfolio is still underperforming the market, then it could come down to the stocks you are buying.

You are buying the wrong stocks

We all want to think we are smarter than the market, but at the end of the day, numbers and results don't lie.

If you believe that you can implement some of these changes and continue to have a chance to beat the market, then go for it; however, if you're finding beating the market is too difficult, which, for a lot of people, it will be, don't waste any more time underperforming. Instead, look to invest a large sum of your money in different index ETFs.

An ETF like **iShares S&P/TSX 60 Index ETF** is an ideal choice for investors who would rather have exposure to an index fund, one of the best ways for people to grow their money passively.

The ETF will give you exposure to 60 of the top companies in Canada, spread across 10 industries.

Even Warren Buffett has said over and over that index funds are an incredible tool for retail investors to build wealth, especially those without the time, experience, or knowledge to try and consistency outearn the market.

Bottom line

Stick to employing a disciplined long-term investing strategy and making the right investments for you, so you don't waste any more time and you maximize your success.

CATEGORY

1. Investing

TICKERS GLOBAL

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1. Investing

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