Take Emotion Out of Investing With These 2 Strategies

Description

In times of economic turmoil, it is not uncommon for investors to begin to get emotional, as large stock price swings become an everyday occurrence. In this article, I'm going to discuss how investors can stay level-headed in times of severe market turbulence.

Invest based on allocations

Having a pre-defined investing system and sticking to it, no matter what, can take a lot of stress out of investing. Re-balancing a portfolio is important. I would recommend investors do this annually or semi-annually. However, checking one's portfolio on a minute-by-minute basis is generally unhelpful. This is especially true for investors with a long-term investment time horizon.

Having pre-set allocation percentages for specific stocks or sectors can take away the stress of knowing when to buy and sell; when re-balancing on a pre-defined schedule, one can simply re-adjust one's positions to a certain percentage and then forget about it until the next re-balancing period.

For example, say one owns a company like **Canadian Imperial Bank of Commerce**. They set an allocation of say, 3% for this holding. If this stock increases in value by 50% over a period of time and becomes 4.5% of one's portfolio, one can sell enough shares of CIBC to get the allocation back down to 3%. They can use those funds to engage in buying shares in other holdings that have decreased in value to get them back up to their allocation percentages. This can help ensure steady performance over long periods of time. In addition, this can help avoid situations in which one stock becomes too big of a component in a portfolio. This scenario would result in under-diversification and potentially too much portfolio risk.

Stay away from glamour stocks, always

Some glamour stocks have indeed done extremely well in recent years. The temptation for many investors to jump into some of these high-risk, high-reward plays is real. In general, if you're an investor with a long-term investment time horizon and a relatively conservative investing ideology, steering clear of such sectors altogether can provide serious peace of mind. One might feel “loss” about missing out on the run up in the share price of a particularly hyped-up stock or sector. However, the ultimate loss you’d feel when valuations come back down to earth is far, far worse. Think cannabis or cryptocurrencies.

If your investment plan for retirement relies on 5-8% growth each year, don’t go hunting for stocks that can quadruple in one year and drop by 80% the next year. You’ll ultimately be worse off (at least from a mental health standpoint).

Stay Foolish, my friends.

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