Investing: Avoid Making This Common and Highly Costly Mistake!

Description

When it comes to investing, emotions can play a huge role in your portfolio's long-term performance. Whether it's fear of loss or fear of missing out, or just sheer impulse, avoiding decisions made based on emotions is extremely important.

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Often, investors know that the safer and more efficient way of investing is to invest for the long-term. Yet many still find high-risk, high-reward **TSX** stocks hoping for a massive overnight gain.

This is a problem for two reasons. First, by doing this, an investor is giving in to the impulse to buy that high-risk stock, despite knowing your money is better off in a safe long-term dividend-paying stock. However, it's also a problem because buying highly volatile stocks is an inefficient investing strategy.

Stable long-term investing vs. high-risk investing

Consider two investors, Sarah and John. Sarah has a well-diversified portfolio earning her stable capital gains and dividend income to the tune of 10% per year (a highly likely scenario).

John, on the other hand, only invests in high-risk, high-reward stocks that see major volatility. In years where he does well, John can make a whopping 50% return on his portfolio; however, every three years, his portfolio loses 50% of its value.

If both investors start with $10,000, at the end of 10 years, Sarah would have a portfolio value of more than $25,900 compared to John's portfolio value of just $21,350. So Sarah outperformed John by more than 20% over the 10 years, just by having a stable and consistent investment portfolio.

It's been proven repeatedly that buying stocks and holding for the long-term is the best strategy, especially for retail investors. Not only will higher-growth strategies likely perform worse, but investors will also see significant fees too, which the above example didn't even take into account.

Perfect long-term growth stock

That said, just because you should buy and hold stocks for long periods doesn't mean you can't still earn massive returns on your money.

An investor who bought **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) just five years ago to hold for the long term would have made more than 3,200% by now or more than 100% compounded annually.

This is because long-term investors have exposure to the company rapidly increasing its sales and improving its platform considerably. The improvement in its platform has made it even easier for businesses to start selling online and is a key factor in why Shopify's growth numbers are so astronomical.

This improved platform drastically helps merchants to expand their business. Because it's so powerful, these companies almost always continue using the platform, meaning that almost all of Shopify's revenue will continue to be recurring.

Shopify has also gotten a significant boost from the pandemic forcing more merchants to move online. And with growing technology around the sector, increased delivery times, and more consumers adapting, the e-commerce trend will continue to grow at faster and faster rates.

That's why Shopify continues to be one of the top long-term growth stocks for **TSX** investors to buy and hold.

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Bottom line

With constant news coming out of the stock market and continuous developments, it can seem like moving in and out of stocks or buying the highest-risk names might be a good growth strategy.

We have seen repeatedly, however, that the best investments are those high-quality businesses that you buy and forget about.

Let the stock do its work growing and compounding your money while you focus on finding the next high-quality investment you're going to make.

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