3 Investing Mistakes You Must Avoid in 2021

Description

Long-term equity investing is key to building wealth, but you can undermine your efforts by falling prey to some common mistakes. We'll look at three investing mistakes Canadians need to avoid in 2021.

Panic selling

Selling your stocks when the going gets tough is a surefire recipe for disaster. It means you will sell at a loss and miss out on a recovery that inevitably follows any market correction. If you have a portfolio of quality stocks, you should be confident in your investments and avoid the temptation to sell at a lower price.

Timing the market

Buying at market lows and selling at the peak seems the best strategy for investors. However, it's almost impossible to predict a market crash or even a market recovery. Missing even a few trading days may leave you poorer by a few thousand dollars, and this is a luxury you can ill afford.

In fact, investors should focus on dollar-cost averaging and buy shares on a regular schedule, eliminating the need to determine the perfect moment to time the market.

Failing to understand risk tolerance

Investors need to make a calculated and informed choice about the amount of risk they are willing to take and decide the capital they need to allocate towards buying equities. Risk tolerance is a metric that changes over time. For example, if you are nearing retirement age, it makes sense to invest in low-risk asset classes such as bonds and GICs.

We can see that investors need to be disciplined in order to benefit from the power of compounding and create significant long-term wealth. If you do not have the time or expertise to identify individual stocks, it is advisable to invest in a low-cost index fund like **iShares Core S&P 500 Index ETF** (TSX:XSP).

ETF investing is one of the most popular forms of investing, as you can diversify your risk significantly. ETFs generally provide you exposure to a basket of stocks across sectors and the XSP owns a portfolio of 500 large-cap companies in the U.S. while hedging for currency risk.

The XSP ETF replicates the performance of the S&P 500 and is designed to be a long-term core holding. With a management fee of 0.09% and a management expense ratio of 0.1%, the XSP ETF is a low-cost fund and should be on the radar of most equity investors.

The ETF will give you exposure to tech giants such as Apple

In the last 10 years, the XSP ETF has generated annual returns of 12.73%. Further, it also has a dividend-reinvestment plan and a forward yield of 1.3%. Investors can indirectly invest in the largest tech companies in the world such as **Apple**, **Amazon**, **Facebook**, **Alphabet**, and **Microsoft** by investing in XSP.

Though the ETF is trading close to its record high, you must continue to invest in the fund, despite fears of an impending market crash. We have already seen it's impossible to time a market crash, which means dollar-cost averaging remains the key to creating massive wealth.

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TICKERS GLOBAL

1. TSX:XSP (iShares Core S&P 500 Index ETF (CAD-Hedged))

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