The Biggest Mistake Investors Are Making Right Now

Description

Investors continue to be upset at themselves for not investing when the market bottomed out. The date was Mar. 18, 2020, and practically every stock around the world reached a bottom. Investors kicked themselves if they didn't get in on that date. But then they thought, "Hey, I can always plan for the next one!"

Big mistake

If your strategy for purchasing stocks is to wait for a market bottom, this is not a strategy at all. This is all pure risk. Sure, market crashes happen, and if you can get in on the ground floor, that's great. But these crashes do not happen all that often. In fact, the last crash was well over a decade ago in the Great Recession in 2009.

Granted, we're in a different scenario today. The pandemic has created a volatile market that have investors worried about future crashes. But it also has investors hoping that they can buy low in the near future. However, there is no crystal ball. You cannot plan on a market bottom.

There are some clear disadvantages to taking this "strategy." First, there's the opportunities you're missing while sitting on the sidelines. Next, there's the literal cash you're missing out on if you're waiting on dividend stocks. And finally, your cash will be sitting there doing absolutely zilch instead of making you returns!

A real strategy

Instead of waiting for the market to bottom out, there are several steps you can take. Sure, it may take a bit more forethought, but you'll see the returns a lot sooner. And those returns are likely to be far greater than if you had waited for a market bottom and just so happened to get in right on time.

First, you need to come up with a goal. If that goal is to purchase a home, for example, then how much can you afford to invest? And what is your goal for when you want to sell those shares and put it towards that home? If you're simply waiting for a market bottom, you may invest too much or too little and not see your goals met.

Next, you should plan a strategy for when and how much to invest. If you can afford to put aside 10% of your income each month, you can then put that in your Tax-Free Savings Account (TFSA) until you reach your contribution limit. Then you can either invest as soon as you put the money in or wait until there's a dip.

Wait, I thought we didn't wait to invest?

Although waiting for a market bottom isn't recommended, you can always create a watch list of stocks with alerts that tell you when there is a dip. Say you invest in a strong company like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). The stock has climbed relatively steadily for the last few decades. However, there is likely to be share growth or dips around earnings reports. Even a 5% dip could give you a nice boost to your investment.

So, you've now created a nice little investment egg in your TFSA, and you invest into CIBC during a dip. You then get a sweet boost of returns and aren't missing out on anything as the stock steadily rises. Meanwhile, you're making major dividends from this top dividend producer. In the case of CIBC, let's say you have $5,00o to invest. Shares trade at all-time highs at $123. So, let's say there was a 5% dip. That would bring your shares to about $117, and you could buy 43 shares. That would bring in $251.12 in dividends, and then you could quickly see returns of $289 when it's boosted 5%. That's $540 right there!

All in all, that's a solid investment strategy anyone can get behind.

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