What Can We Learn From Elon Musk's +$30 Billion Loss?

Description

Many investors have had a rocky start to 2022.

And that's an *understatement.* As of January 24, tech stocks alone were down -15.66% year to date, with huge names like **Shopify** (-31.76%), **Lightspeed Commerce** (-25.12%), and **Absolute Software** (-18.97%) taking huge losses. Energy stocks, too, were down, following an unexpected rise in U.S. crude and fuel inventories, taking with them energy-dependent companies like **Air Canada**.

But it's not just average Canadians who are watching their portfolios drop into the red. The world's wealthiest man, Elon Musk, took perhaps the largest loss of all.

Elon Musk reportedly lost nearly $30 billion in January, following a plunge in Tesla stocks. This is the second time in a year that Musk has lost that much in such a short period of time (the last time was $50 billion over *two day*s in November).

Losing $30 billion is hard to stomach. But, despite the number, Musk's loss isn't that far from home: if we assume Musk's net worth is $240 billion (it fluctuates daily), then Musk lost 12.5% of his wealth. Most of us can understand a 12.5% dip: many of us have lost *more* than that.

So, during this time of market uncertainty, I thought it worthwhile to ask: what can we learn from Elon Musk's $30 billion loss?

The stock market will fall

First, the most obvious: when you invest in stocks, you take on the risk of market volatility.

Volatility is just a measure of how much the stock market's value will fluctuate over time. When a stock's value jumps fluidly, whether up or down, we say that stock is highly volatile.

Stock prices can move in radically erratic ways. Take **Tesla**, for instance. Even though Tesla is a large-cap company, it's still a growth stock. As such, its value can fluctuate considerably. Truthfully, all it takes is one poorly thought-out Tweet by Elon Musk, and Tesla stocks can plunge (as they did last November).

But market volatility isn't necessary a bad thing. It's because of market volatility that stock investors can make extraordinary gains.

Problems arise, however, when we *internalize* volatility, converting it into a powerful emotion: greed when volatility is in the upward direction; fear when volatility is downward. If we then let these emotions control our decisions, then we let the heart make mistakes that the mind would *never* rationally do.

Musk hardly ever reacts to market volatility. Yes, he's the CEO of numerous companies, meaning if he overreacts, then his holdings could take a serious plunge.

But wait — isn't that why we're seeing stocks fall? Stockholders overreacting to market news about "stock selloffs" and market volatility? Perhaps if we all acted like CEOs, standing like stone walls in the face of volatility, we'd have fewer selloffs.

The stock market will rebound

It *always* does.

This is why stock investors should never sell their positions in a market downturn: what goes down ultimately goes *up*. Despite what you see today, the stock market is resilient. You might see a significant portion of your portfolio drop (hopefully not $50 billion!) But, unless you sell out your positions, you won't lock in your losses.

Rather than focusing on what's happening *today* (or this month), keep a long-term perspective. This leads us to another important point…

Don't invest what you'll need in five years

Recently, Iain Butler, Motley Fool Canada's Chief Investment Advisor, sent a special message to Fools in Canada.

> "Do not invest a single dollar into the stock market that you could foreseeably need within the next five years."
> *Iain Butler*

Iain's point is that if you follow this principle, stock market volatility *won't* rattle you. When you invest money that you don't need in the short term (five years or less), your money has a longer time horizon. And the longer the time horizon, the more likely your investments will rebound when they fall.

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