PRIVATE WEALTH MANAGEMENT

ONE-TO-ONE INSIGHTS

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INVESTING FOMO: THE PERILS OF SHORT-TERM THINKING

It’s hard to believe we’ve been living with the COVID-19 pandemic for over a year now. For many, it’s brought about stressful and overwhelming challenges, and has even caused strong feelings. With emotions running high and a concern about what could happen next with the markets, it may feel like a roller-coaster ride for investors.

Help manage your emotions by remembering the foundations of good investment strategies and understanding the reasons behind your reactions.

Let the long term prevail

Your investment strategy was developed with your long-term goals in mind. Don’t lose sight of that.

In times of market uncertainty, the emotional response is to do something. This can lead to hasty decisions, such as panic selling or impulse buying. Your best plan of action may actually be to do as little as possible. By accepting that short-term volatility happens, you can stay focused on your long-term investment goals.

Remember that throughout history, stocks have generated long-term gains despite many short-term declines caused by global events. As an investor, weathering this pandemic will require patience and thoughtful planning.

Don’t let your long-term plan be influenced by short-term events. Remember that time in the market is always better than trying to time the market.

The Reddit run-up and understanding FOMO

Another outcome of the pandemic is that day trading and individual investing have boomed over the past few months. Platforms, such as Reddit and Robinhood, have become hubs for discussion and trading activity instead of more traditional arenas.

"Reddit and message boards in general are nothing new," says Craig Jerusalim, Fixed Income Client Portfolio Manager at CIBC Asset Management. However, he notes that the pandemic has created a situation where masses of people are sitting at home on their phones. This, combined with generationally low interest rates, zero-cost fractional share purchases and stimulus money created the perfect scenario for the recent Reddit run-up.

Some of the latest rise in the market has been attributed to fear of missing out (FOMO) on stock market gains. This is an emotional reaction that pushes us to trade or invest in a less disciplined way. Rather than buy stocks when they offer the most attractive risk-to-return ratio, we may feel the need to trade stocks regardless of how attractive they are.

However, once the initial speculation dies down, the focus falls on the companies' fundamentals, and stocks pull back to more reasonable levels. "The speculative frenzy has begun to abate, just as we assumed it would," says Jerusalim. "In the end it comes down to fundamentals. Markets will move on to the next big thing like they always do."

Did you know?

The FOMO phenomenon has been around as long as the human race. In ancient times, our survival depended on being aware of threats and opportunities—both to ourselves and to the larger group. For example, to not be aware of a new food source meant you literally missed out on something that could mean the difference between life and death.

Fast-forward a few thousand years. In this age of social media, our feelings that we're losing opportunities are amplified. We're constantly exposed to photos and updates from people that may make us feel like others seem to be doing better than us.

Count on us to help manage the noise. *We're always here to support you, and especially when you feel like news headlines or other sources could influence your investment decisions. We've seen market cycles come and go, and can offer expertise and objective advice to help you during difficult times. This is an important part of reaching your long-term financial goals. Contact us anytime.*