Motley Fool
Wealth Management

3 Investing Mistakes in a Volatile Market

The severity and length of a market drawdown often leads investors to make three key mistakes with their long-term portfolios.

Three Common Mistakes

Emotional reactions tend to cause investing mistakes.

	Emotion	Mistake
Anchoring	Ego or pride-based motivation	Anchor to portfolio's most recent high
Selling	Fearful of losing (more) money	Sell as the market declines and often wait to get back in the market
Waiting	Once bitten, twice shy mentality	Sit on the sidelines with cash

The Fallout

These typical mistakes can have tragic consequences to building long-term wealth.

Anchoring

- Take on too much or too little risk
- Fail to meet lifestyle spending needs

Selling

Tend to miss the best days and give up long-term returns[1]

Waiting

- Inflation causes $1 tomorrow to be less than $1 today
- Tend to miss the best days and give up long-term returns[2]

A Better Choice

We think you can overcome these mistakes with a sound wealth plan.

Anchoring

Define specific goals and an objective measure of achievement for each.

Selling

Set aside enough liquid cash to meet your spending needs and sustain your lifestyle during a prolonged market decline.

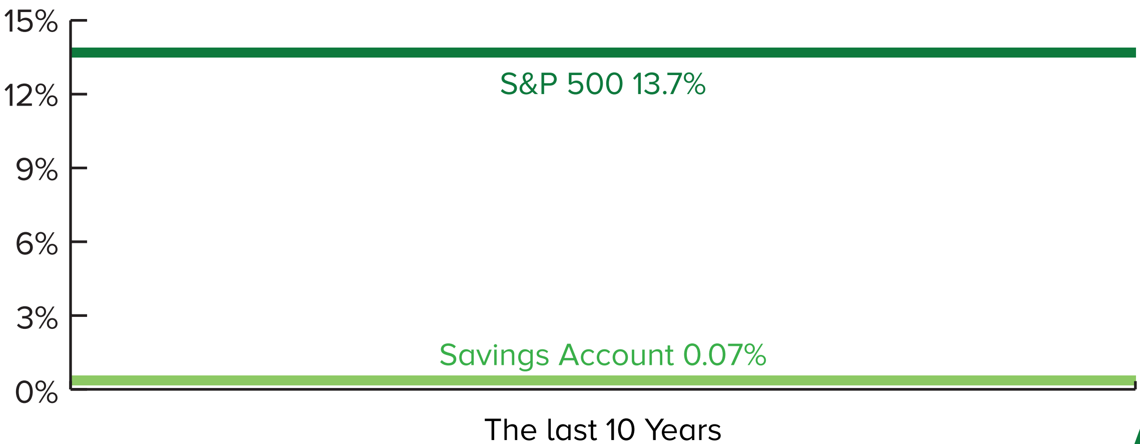
Waiting

If being in the market elicits fear, dip your toes in slowly by buying slowly over time—known as dollar-cost averaging. That way if the market goes down, you're buying at cheaper prices.

Why cash is not king

Cash is not a good investment in the long run, especially if it's sitting in a savings account.

Over the last 10 years, the average annual return on a savings account was 0.07% while the S&P 500 delivered 13.7%.



Footnotes:

[1]Data measured over 20 years on a $10,000 hypothetical portfolio invested in the S&P 500 Total Return Index from Jan. 1, 2002 to Dec. 31, 2022. Source: JP Morgan Guide to Retirement

[2]Data measured over 20 years on a $10,000 hypothetical portfolio invested in the S&P 500 Total Return Index from Jan. 1, 2002 to Dec. 31, 2022. Source: JP Morgan Guide to Retirement

[3]slickcharts.com. S&P 500 Total Returns 2012 through 2021

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