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Building Wealth Wisely

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Stop Looking at Your Investments So Often

It's not healthy or helpful to obsess over your investments

Many investors can't help themselves from frequently checking their account balances. Some might check their accounts weekly, daily, or even multiple times a day. As tempting as it is to do this, they should stop. It is neither helpful nor healthy.

There are plenty of reasons why investors should stop checking their portfolios too often. At the top of the list is their mental and financial health. While some people may think frequently checking their portfolios is a good habit, in reality it usually leads to increased stress, impulsive behavior, and poor investment performance.

Financial markets can be volatile. It is close to a toss-up whether investments will be up or down on any given day, week, or month. The stock market can fluctuate hundreds of points in one direction – and then back the opposite way – before the closing bell rings. Over 40 years, the average daily swing has been over one percent up or down.

When we see negative numbers staring at us, our emotions can get the better of us. Behavioral finance studies indicate people dislike losing money more than they like making it. In other words, we feel the pain of a loss much more deeply than the satisfaction of earning profits. This is often referred to as myopic loss aversion. The more time we spend checking and second-guessing our portfolios, the more likely we are to react to volatility and let our emotions take control.

Investors who check their portfolios often typically perceive investing to be riskier than investors who don't. Many behavioral studies have concluded that investors who seek the most frequent feedback take the least risk – and earn the least amount of profits. Checking portfolios quarterly instead of daily can cut in half the chance of seeing, and reacting to, a decline of two percent or more.

The fear of losing money can make us more reluctant to invest in assets like stocks that fluctuate a lot. Even if we logically know that our growth-oriented investments will most likely prosper over the long term, the idea of losing money in the short term can sometimes be too much to bear.

Watching our investments drop in value can cause us to make rash decisions. This can come in the form of reducing our long-term risk tolerance and/or selling our investments at a loss at the wrong time. This short-sighted perspective directly threatens our long-term financial health, and overcoming it is necessary for achieving financial success.

Research proves that investor behavior is the leading cause of underperformance. Multiple studies indicate the average equity mutual fund investor underperforms the market due to a lack of commitment to their strategy. This is even more true for investors who try to time the market, which usually leads to disappointment if not disaster.

There are three things we can do when our investments drop in price: buy, sell, or hold. Selling is usually the worst mistake we can make. Remember that we only truly lose money if we sell while an investment is down. With a balanced, long-term strategy in place, holding is almost always better than selling.

If we can exercise willpower and avoid the mistake of selling during downturns, we can ride out declines and then watch our portfolios flourish as markets recover. For investors who have the money to continue investing during a downturn – or have the discipline to rebalance during declines – their investments will likely be worth even more over time.

Consistently adding to our investments and rebalancing during bad times can help us take advantage of downturns by buying additional shares at lower prices. Taking a systematic approach to investing, such as dollar cost averaging, is particularly convenient for those who participate in a workplace retirement plan, where investing is automatic with each paycheck.

The compounding of investment returns can take a long time to work. It requires patience. We shouldn’t expect quick results when we invest. Furthermore, we should expect to experience many periodic market downturns along the way. That is the nature of investing. Committing to a long-term investment strategy is hard, but it is ultimately how most investors make money. What happens with our investments on a daily, weekly, or monthly basis simply doesn’t have much meaning over the long term.

Investing is uncomfortable – it is one of the most unnatural things most people will probably do in their life. We are putting our wealth and future on the line. To be successful with investing, we must get comfortable with being uncomfortable. Rather than struggling to fight the market and suffering from harmful side effects, investors should only check their portfolios when it is time for a periodic review.

We recommend most investors only check their account balances two to four times a year. It would be best to review financial accounts to assess if we are on track to meet our financial goals just once or twice a year. Studies also indicate that portfolio rebalancing strategies aimed at maintaining one's target asset allocation and risk exposure are usually most effective if performed only once or twice a year on average.

Investors would also be better off if they read or watched the news less often, especially investment news and political views spread by the internet and mainstream media. To attract attention, many media sources tend to prey upon people's fears and play up negative news and divisive opinions. A lot of news and opinions are just noise with minimal impact on our future and long-term well-being. Instead of letting ourselves be bombarded by gloomy viewpoints, it would be better if we just turned off our screens and spent more time with our family and friends.

By resisting the urge to check our investments too often, we will be more satisfied individuals and less worried investors. No matter how much our investments fluctuate in the short run, we improve our chances of achieving important financial goals if we take a long-term view.