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Are You Checking Too Frequently?

It has been said that "successful investing should be more like watching paint dry." Yet, for many investors today, the speed of change in the markets may be conditioning us to think otherwise. In fact, a recent Reuters report suggests that investors on one U.S. discount brokerage platform are checking their portfolios at an alarming rate of seven times per day.[1] Most would suggest that drying paint should not warrant that much attention.

The rapid rise of equity markets since last year's lows hasn't helped to nurture our patience. The S&P/TSX Composite Index (TSX) took only 200 trading days to return to its prior highs.[2] The S&P 500 Index rebounded in record time: just 107 trading days. This speed of recovery is unprecedented. Consider that over the past 40 years, it has taken an average of 380 days for the TSX to recover from just a 10 percent drop.[3] In similar fashion, this past summer it was reported that the pandemic-related recession was the shortest on record in the U.S., lasting only two months.

History has also shown that, on average, the TSX experiences a correction of at least seven percent per year. Yet, for most of this year, when equity markets have shown any sign of pulling back, retail investors have been quick to buy the dip.

Of course, these are unprecedented times. The extraordinary actions taken to fight the Covid-19 pandemic have helped to distort market and economic cycles.

Our Behavioral Biases Can Get in the Way

For most investors, the objective is to create wealth over the longer term, and not for tomorrow. As such, we shouldn't abandon the importance of patience within our investing programs. And, actions like constantly checking portfolios can be counterproductive. Why? One of the dangers of frequently checking is that there is a greater chance that we will trigger certain biases.

Viewing a portfolio more often leads to a higher probability of seeing a loss. By checking S&P/TSX Composite Index performance on a daily basis, there is a 48 percent likelihood of seeing negative performance. By checking only once per year, this decreases to just 28 percent. Modern behavioural economists have shown that a loss aversion bias means we may feel the pain of a loss about twice as much as the pleasure of a similar-sized gain. This can prompt us to make decisions that may not be in our best interests. Even seeing positive performance can prompt us to take action, such as selling a well-performing investment too early.

How about you? Are you checking your portfolio too frequently? For most investors, the investing journey will be a long one. Stick to the principles set out in your plan and be aware of the influence that human behaviour can have on investing, remembering the importance of patience in achieving our longer-term goals.

1. www.reuters.com/breakingviews/chancellor-robinhood-is-more-sheriff-than-rebel-2021-07-15/; 2. S&P/TSX Composite Index close, 3/23/20 to 1/7/21; 3. TSX close 10/29/80 to 4/30/21.

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