Improving Your Investing Behaviour

Has volatility in the marketplace got you down? Here are some worthwhile considerations on how to improve one's investing behaviour:

Remember your time horizon. Staying invested and sticking to a well-thought-out plan is the key to longer term investing success. This means avoiding the temptation to engage in market timing. Nobody has ever been able to consistently predict what the markets will do next. Volatility is inevitable in the short term, but, as history has shown, its effects smooth out over time.

Pay less attention to the financial headlines. It is easy to become preoccupied with the daily financial headlines. In the worst of times, the media can sensationalize the doom and gloom, which may feed speculation and cause poor decision making. Conversely, the media may create unfounded hype. Informed decision making should not be based on isolated headlines of the day, but rather solid data, thoughtful evaluation and consideration of your own personal goals and objectives.

Avoid succumbing to emotions. As the old saying goes, the market is driven by two emotions: greed and fear. During good times, greed often entices investors to enter the market but often at premium prices. During difficult times, many investors will sit on the sidelines out of fear and overlook bargains that may exist, or, worse, liquidate their portfolios at the market bottom. Keeping focus on your investment plan's objectives can help during times of emotion. Working towards measurable goals within your plan will help to maintain perspective.

Revisit your plan. Change is inevitable! Financial markets are constantly changing and the prospects of specific companies, industries, or even entire asset classes that may be attractive today may not be as attractive tomorrow. When reviewing your portfolio, diversification should be a broad goal to ensure a healthy portfolio balance and minimize the impact of adverse change.

Over time, your personal needs may also change. As such, your holdings should be adjusted periodically. Don't forget that your objective is to produce solid returns over time, and not to own particular securities forever.

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Keep tax considerations in mind. They can make a difference to the bottom line, especially during times in which high returns may be difficult to achieve. Don't forget to use tax-deferral and tax-free vehicles (such as Registered Retirement Savings Plans and Tax-Free Savings Accounts), to their fullest extent. Consider the tax status of different forms of investments when you review your portfolio allocation. Dividends enjoy the benefit of the dividend tax credit (for qualifying taxable Canadian corporations). The tax advantage can be significant. As an example, an investor in a tax bracket with 46.41 percent tax on interest income and 29.54 percent on dividend income would need approximately $1.31 of interest income to equal $1.00 of dividend income before taxes are paid. Capital gains are taxed at even lower rates.

At the same time, don't let tax considerations control your decision making! We've seen situations in which investors who are reluctant to sell a holding because taxes will be triggered, overlook important factors such as the changing fundamentals of the security or the need to maintain portfolio balance.