Can You Risk Not Investing in the Stock Market?

Most people feel that investing in the stock market is too risky, but not investing in stocks can be the real risk.

JERSEY CITY, NEW JERSEY, UNITED STATES, April 8, 2021 /EINPresswire.com/ -- It has often been said that stocks are the only items on earth that become less attractive when they go on sale. This old adage is true on many different levels, and it may account for the fact that so many individual investors do so poorly in the stock market. Even though stocks have consistently outperformed nearly every other asset class, the experiences of many individuals holding stocks and mutual funds have been quite different.

One reason for this disparity of performance is the fact that it is easy to get emotional about buying and selling stocks. Even though it is natural to bring emotions into investing, it is important to keep this urge at bay. A stock does not care who owns it and becoming emotionally involved with a particular stock or mutual fund can lead to financial disaster.

The same is true of the stock market as a whole. It is all too easy to become overly glum when the stock market experiences one of its inevitable downturns. It is also quite easy to get caught up in all the excitement when stocks are seemingly rising to the new highs every single day. Neither scenario is sustainable for the long run, however, and the investors who do the best tend to take a buy and hold approach rather than attempting to time the market.

That having been said, it is important for each individual to determine his or her own tolerance for risk before getting started investing in stocks. An investor who has grown accustomed to the stability of fixed income investments like government bonds and bank certificates of deposits may be understandably alarmed by a portfolio whose value can change quite substantially during the course of a week or even a day. Investing in the stock market requires the ability to ride out those bumps in the road, keeping in mind that the long-term trend line for stocks has been quite positive.

It is also important for those investors to determine the proper mixture of stocks, bonds, cash and other investments. A number of factors play into this asset allocation decision, including the age of the investor, how close he or she is to retirement, cash flow needs and of course tolerance for risk. It is vital for new stock market investors to determine how much risk they can tolerate before purchasing their first share of stock or that mutual fund they've had their eye on.

How Much Risk is Too Much?
If you are trying to assess your own tolerance for risk, ask yourself this important question. How would I react if the value of my portfolio declined 5%, 10% or even 15% or more overnight? Would I panic and sell to preserve what was left, or would I welcome the decline as an opportunity to purchase additional shares at bargain prices. As long as that stock market portfolio is invested in a wide range of stocks, or better yet in a quality stock market index fund, chances are very good that it will recover all of its losses and tack on additional gains as well. Selling into a down market can be a very risky behaviors, but it is all too easy to get caught up in the doom and gloom.

In fact many stock market investors end up doing the opposite of what they should be doing when it comes to investing. The goal of investing is of course to buy low and sell high, but all too many novice investors end up doing just the opposite. During the recent downturn in the stock market many new investors were frightened out of stocks altogether, and many of those investors suffered significant losses when they sold. Selling when the market is down does nothing more than lock in those losses; it is far better to hold quality stocks and mutual funds for the long haul. The buy and hold approach to stock market investing has been a time tested and proven way to make money, and there is no reason to think that this tried-and-true approach will not continue to be effective.

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