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Five portfolio mistakes even savvy investors make

Investing missteps are common, here's how to avoid them

Everyone wants to be a smart investor but even the financially savvy make portfolio mistakes. With recent worries over the inversion of the bond yield curve and a potential recession, the U.S.-China trade war and Brexit's political turmoil, it may be tempting to make panic-based changes to your investments without the required due diligence. Alternatively, underreacting could be costly if you have a lot of assets concentrated in a risky industry sector and need to diversify.

Ultimately, you're responsible for what happens to your money. Start with a proactive approach by ensuring your portfolio is up-to-date and meeting your current goals and timeline. It helps to work with a financial planner to regularly review just how well your investments are performing, tweaking as needed and refreshing with new investment products such as smart beta ETFs (a type of exchange-traded funds) as a mutual fund replacement.

Meanwhile, be mindful of the following missteps that can trip up your long-term plan.

BEING OVEREXPOSED

A frequent error that Barbara Knoblach, an associate of Money Coaches Canada and a fee-only financial planner in Edmonton, observes with experienced investors is being overexposed to the stock market. For instance, if you're planning to retire in 10 years or less, and have a sizable nest egg, you might crunch numbers with a planner on what type of return you need in your portfolio to reach your target spending power in retirement. If you don't need a high return, consider a more conservative investing approach to reduce your risk.

IGNORING YOUR TAX BILL

Another mistake is not considering the long-term tax implications of your investment behaviour. Knoblach says a typical error is letting your registered retirement savings plan (RRSP) grow too much in size and/or waiting until the age of mandatory registered retirement income fund (RRIF) conversion before commencing a drawdown from the RRSPs. If you wait until you have to take money from the RRSPs, you could end up in a very unfavourable tax situation, such as having high taxable income throughout retirement and being clawed back on government benefits. She suggests working with a financial planner who can point out errors.

TOO MUCH CANADA

Since Canadian investments are taxed at a much lower rate than foreign dividends and interest, it's natural for Canadians to support Canada and get the tax break. However, Knoblach warns it's possible to over-invest in the Canadian economy since it's strongly tilted towards the financial and energy sectors, which both tend to be affected strongly in falling markets. So while she says "yes" to investing in Canada, you should also have holdings in U.S. and international equities, particularly in sectors that are underrepresented in the Canadian economy.

NOT ENOUGH SAFETY

"Go through your current portfolio with a fine comb," Knoblach says. "Have you added shaky investments that may not withstand a recession? Divest those now and purchase only high-quality products, such as utilities stocks, which tend to hold up strong even during a recession."

Additionally, she recommends having high-quality fixed-income investments, which should also be diversified. "It also makes sense to throw in some guaranteed investment certificates (GICs), and consider investments that are uncoupled from the stock markets, such as real estate or private equity."

While alternative hard investments, such as commercial buildings, airports or toll roads add diversity, Knoblach warns they also come with their own pitfalls, such as low liquidity, and a positive return isn't guaranteed.

"The best approach to long-term investment success is maintaining a reasonable asset allocation throughout all market conditions," Knoblach says.

BEWARE THE CRYSTAL BALL

Ron Graham often comes across people wanting to do something on the basis of a prediction that may or may not happen. A fee-only financial planner and principal with Edmonton-based Ron Graham and Associates Ltd., Graham says a common mistake right now would be selling everything and going to cash to wait for the market to go down so you can get back in later (for less). Why? Because you can't predict the future.

In 2018, he saw people selling their investments as the market was going down from October to November. Then, in January of this year, it turned around and suddenly went back up, but he says nobody really knew why.

"My advice to clients is to try and ignore the noise in the news media of what's going to happen this week, next month or next year," Graham says. "What's important is not to lose sight of your goals."

Graham believes the role of financial advisors is to create a portfolio to achieve the client's goals over a longer period of time, not on a day-to-day basis.

"If you can understand what your investments are supposed to be doing for you — growing if you're young, paying income if you're in retirement — and those investments are set up to do those things, don't get too hung up on what's happening today," Graham says. "Whether interest rates go up or down, whether we have a recession or not, the market will recover. What matters is that you're making enough money to meet your goals."