Why DIY Investment Management Is Such a Risk

Paying attention to the wrong things becomes all too easy.

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If you ever have the inkling to manage your investments on your own, that inkling is worth reconsidering. Do-it-yourself investment management is generally a bad idea for the retail investor for myriad reasons.

Getting caught up in the moment.

When you are watching your investments day to day, you can lose a sense of historical perspective. This may be especially true in longstanding bull markets, in which investors are sometimes lulled into assuming that the big indices will move in only one direction.

Listening too closely to talking heads.

The noise of Wall Street is never-ending and can breed a kind of shortsightedness that may lead you to focus on the micro rather than the macro. As an example, the hot issue affecting a sector today may pale in comparison to the developments affecting it across the next ten years or the past ten years.

Looking only to make money in the market.

Wall Street represents only one avenue for potentially building your retirement savings or wealth. When you are caught up in the excitement of a rally, that truth may be obscured. You can build savings by spending less. You can receive "free money" from an employer willing to match your retirement plan contributions to some degree. You can grow a hobby into a business or even switch jobs or careers.

Saving too little.

For a DIY investor, the art of investing equals making money in the markets, not necessarily saving the money you have made. Subscribing to that mentality may dissuade you from saving as much as you should for retirement and other goals.

Paying too little attention to taxes.

A 10% return is less sweet if federal and state taxes claim 3% of it. This routinely occurs, however, because just as many DIY investors may play the market in one direction, they also may skimp on playing defense.

Failing to pay attention to your emergency fund.

You may need more than six months of cash reserves. Many people may not have anywhere near that, and some DIY investors give scant attention to their cash position.[1]

Overreacting to a bad year.

Sometimes the bears appear. Sometimes stocks do not rise 10% annually. Fortunately, you have more than one year in which to plan for retirement (and other goals). Your long-run retirement saving and investing approach – aided by compounding – matters more than what the market does during a particular 12 months. Dramatically altering your investment strategy in reaction to present conditions can backfire.

Equating the economy with the market.

They are not one and the same. Moreover, some investments and market sectors can do well or show promise when the economy goes through a rough stretch.

Focusing more on money than on the overall quality of life.

Managing investments – or the entirety of a very complex financial life – on your own takes time. More time than many people want to devote; more time than many people initially assume. That kind of time investment can subtract from your quality of life – another reason to turn to other resources for help and insight.

CITATIONS

1 - cnbc.com/2019/03/18/how-much-to-save-for-emergencies-comes-down-to-income-spending-habits.html [3/18/19]

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