3 Investing Lessons to Take Into 2021

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Scary, Volatile, Challenging.

These are just some of the words that investors are using to describe 2020. From the COVID-19 pandemic, election and political coups, it's been a year filled with thrilling market events.

Whilst 2020 may be a year investors would like to forget, it certainly has many important lessons that we all can take away from the year.

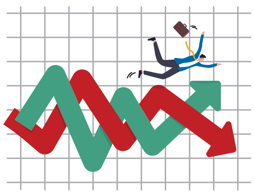
Here are 3 important lessons for investors to take heed in 2021.

Lesson 1
Practice Diversification

If 2020 has reminded us anything, it emphasises yet again the importance of diversification and not putting all your eggs in one basket! A pure global equity portfolio would be down 34.0% at the height of the market rout in March during the COVID-19 pandemic.

However, a simple diversified portfolio with just 50% global equities and 50% in global fixed income would be down a more modest 18.6%. Staying diversified across different asset classes, geographical and sector exposure can help minimise volatility and smoothen returns.

In turn, this will induce investors to remain invested and help them stay the course.



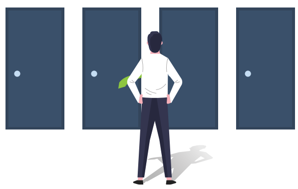
Lesson 2
Don't let emotions derail your investments

2020 also underscores the perils of market timing and investing according to one's emotions.

When the markets plunged in March with the S&P 500 plunging by 33.6%, many investors may have panicked and resorted to shifting all their allocation to cash. But just 6 weeks after the drop, the market began to recover with the S&P 500 rebounded back by 30.2% in April.

Not wanting to miss on out on the surge, many investors would then again shift back their exposure into equities. Which really does not make sense to you as an investor to exit and enter the market so frequently. Contrast to this scenario, where if you had just stayed invested during this period, you would have narrowed the losses to -9.2% in end April and breakeven by the end of July.

As such, timing the markets can prove to be more costly than the actual correction itself, especially if you miss the best days in the stock market.



Lesson 3
Understand your relationship with risk

2020 has been a rollercoaster ride for investors to say the least. But, don't expect the scary highs and chilling lows to pause in 2021. Volatility is something that investors will just need to get used to and live with.

One way to do this is to really learn and recognise your own relationship with risk.If you are taking on more risk you they can handle in your portfolio, this might cause jitters and lead you to making impulsive decisions that does not benefit you. A good yardstick measure is to ask yourself if you can sleep at night. If you can't... Chances are you are probably taking on too much risk in your portfolio.

In that case, you might need to rebalance or tilt your portfolio into more defensive asset classes like fixed income. Set aside some time in 2021 to assess whether your portfolio matches your risk appetite.

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