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Market Insights

The biggest investment mistakes

Michael Ferber

A large number of myths persist when it comes to investing – and some are particularly widespread. Many individuals could do much more with their money. Some invest little or nothing in the stock market because they worry so much about their money that they can't sleep. Others pursue risky investment strategies or buy overpriced financial products. "The money isn't gone, it's just somebody else's" – the saying may be true, but it's cold comfort in this case. Many savers lack knowledge about investing. These are the ten biggest investment mistakes:

"Investing is only for the wealthy." Many people assume they don't have enough money to invest in the stock market. Others believe that the pension system will provide adequate retirement income. As people live longer, private savings will become increasingly important for those on low to middle incomes if they want to maintain their standard of living in old age. You can also start investing in financial products and build wealth with small amounts of money today. Exchange-traded funds (ETFs) or index funds are suitable for this purpose.

Philipp Ochsner, founder of the asset management firm Index-Investor, presents the following calculation: Anyone between the ages of 30 and 65 who puts aside 600 francs a month and invests in an equity index fund, can expect to accumulate 1 million Swiss francs if the equity markets return an average of 7 per cent per year over this period. This can be done tax-efficiently through pillar 3a, says Ochsner. According to Bank Pictet, Swiss equities generated an average annual inflation-adjusted return of 7.4 per cent between 1926 and 2023, while Swiss bonds returned 2.1 per cent.

"If you invest in equities, you might as well go to the casino." The above figures show that equities can build wealth over the years. "Equities represent entrepreneurial capital and are far removed from gambling", says Baar-based asset manager and author Pirmin Hotz. "In a casino, the players lose money in the long run, while the casino wins."

"I can beat the market." Investing is like driving a car – many people overestimate themselves and think they are better than the average. They assume that they can find particularly good stocks and thus achieve a better return than the market. In reality, this very rarely comes true. Ochsner cites a study by US investment firm Dimensional Fund Advisors. According to the study, only 18 per cent of US registered equity funds have survived the past twenty years and outperformed their benchmark index.

"Most speculative strategies involving stock picking and market timing result in investors underperforming the benchmark index", he says. Stock picking is the process of selecting stocks for a securities account rather than buying an investment product based on a stock index such as the MSCI World, S&P 500 or SMI. Market timing is the practice of entering and exiting the stock market at specific times in order to generate higher returns.

"Today's financial markets are more efficient than ever, with all the relevant information circulating around the globe in fractions of a second", says Hotz. Only by investing countercyclically during periods of significant market volatility can investors outperform the market.

"If you want to build wealth, you have to trade securities regularly and be active in the financial markets." Many investors assume that constant trading will increase their chances of achieving good returns. According to Hotz, this is exactly the wrong approach. Patience is required to achieve consistent long-term investment returns. "Hectic buying and selling mainly results in fees and therefore reduces the net return", he says. The old stock market adage "back and forth leaves pockets empty" still holds true.

"Now is not the right time to invest." "When it comes to investing, it's virtually impossible to find the perfect time", says Hotz. However, it is also "extremely dangerous" not to invest for long periods of time. He has often seen clients wanting to get out of stocks for

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a while and then buy back in at lower prices. But many of them, he continues, failed to get the timing right and lost a lot in returns.

When markets are at record highs, many investors are reluctant to get involved. However, it's in the nature of things that this is often the case, as prices tend to rise in the long term. According to fund research firm Morningstar, record highs on the stock market often herald further all-time highs. As an example, Morningstar refers to the period from March 2013 onwards. On that date, the US benchmark S&P 500 index hit a record high for the first time since 2008, followed by 52 other record highs throughout the year.

"The best performers of the past will also be the best in the future." Looking at past returns tells us little about future performance. "The funds that were the best in the past often underperform afterwards", says Hotz. It's better to define a strategy and stick to it, even in difficult market times.

"Diversification reduces returns." "Don't put all your eggs in one basket" is a stock market rule. Despite this, many investors believe they need to find the "right" equities to be successful. A broad distribution of funds is often considered less important. According to Hotz, it is scientifically proven that diversification is the only "free lunch" in investing. The risk is reduced by spreading the investment over 30 stocks.

This was recently demonstrated in the Swiss market, even for a stock like Nestlé with its considerable long-term success. The recent performance of Nestlé shares has been poor. Those who had only this one stock in their securities account suffered losses. "Diversification increases the expected return and tends to reduce volatility", says Ochsner. This leads to fewer sizeable gains and losses in diversified portfolios. "Those who are poorly diversified take on too much risk, which can lead to high or low returns." The only way to avoid missing the outperformers is to invest in all stocks.

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"Costs don't matter if you have good asset managers." Costs add up on a massive scale, especially for long-term investments. What may seem like a small amount will reduce profits in the long run. "The costs and fees of investing have a direct impact on net returns", says Hotz. This is especially true of exotic and alternative investments, which are often particularly expensive.

"If you can't beat the market, it makes sense to invest as broadly and as cheaply as possible", says Ochsner. Index funds and ETFs are suitable. According to Ochsner, other factors are equally important. Many investors experience an intention-behaviour gap – they plan to do something, but fail to follow through. According to Ochsner, such gaps result from the chase for returns, emotions such as greed and fear, and changes in strategy.

"Tech equities are the better stocks." Technology equities are "en vogue" at the moment – after all, US big tech equities have delivered huge returns in recent years. "New technologies are the driving force behind economic growth", says Ochsner. However, companies that develop new technologies are not automatically better investments. How a company's value develops has a lot to do with its competitive environment.

Technology equities have performed very well over the past twenty years. "If you look further back, the picture changes", says Ochsner. According to him, the Nasdaq Composite Index achieved an average annual return of 9.8 per cent in dollar terms from 1972 to 2023 – in Swiss francs it was around 6.6 per cent. Over the same period the MSCI World returned 9.7 per cent (6.5 per cent in Swiss francs) and the S&P 500 10.8 per cent (7.5 per cent in Swiss francs).

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"There are always trends in investing", says Hotz. The topic of artificial intelligence (AI) is currently one such trend. Just because stocks associated with this topic have yielded high returns in the past does not mean they will continue to do so in the future.

"I'm young and can invest later." Many younger people believe they don't have enough money to build wealth. Moreover, retirement is still a long way off for them. Because of the power of compounding, a very long investment horizon offers a particularly good opportunity to build wealth – even with small investment amounts.

Hotz recommends starting to invest as early as possible. Anyone looking to buy a house or an apartment would also be well advised to use stocks to build the necessary equity, at least over a longer investment horizon.