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E1 Asset Management Says The Two Biggest Lies in Investing

Two stock market myths that keep small investors from participating in the market. It discusses the belief that investing in stocks is the same as gambling.

JERSEY CITY, NEW JERSEY, UNITED STATES, April 30, 2021 /EINPresswire.com/ -- Viewed properly, the stock market is the greatest wealth-creation device in the world. Only in the market can you regularly beat inflation, without investing in illiquid items like real estate or antiques. Unfortunately, those who avoid the market are often those who would benefit the most. If you are independently wealthy or make a million dollars a year, you need never touch the stock market to maintain your lifestyle and retire comfortably. But if you earn a modest living, the stock market can be the difference between working forever and retiring comfortably or between living comfortably and barely scraping by. Two persistent myths, so widespread they might be considered “common knowledge,” keep individual investors out of the market. In bad times and times of high market volatility, those myths become ever more widely believed, scaring people out of the market just when they should be investing.

Lie no. 1: Investing is no different than gambling. Like most widely believed falsehoods, there is an element of truth in this one. Because the future is always unknowable and because extremely unlikely events sometimes occur, there is an element of risk in investing. The analogy between the casino and the stock market quickly breaks down, however. In the former case, you are betting that you are going to make money in spite of the fact that the house has stacked the deck against you. In the latter, you’re betting that well-chosen companies are going to make money and pass some of that money on to their shareholders. Which bet would you rather take?

Lie no. 2: The stock market is rigged against the little guy. Once again, this myth isn’t entirely false. There is no way that you can buy entire companies at a discount like Warren Buffett and

no way your computer can buy and sell as fast or efficiently as the computers of the big fund managers. Nor do you have access to the complicated algorithms their computers often use to trigger their buys and sells. What this myth fails to take into account, however, is that individual investors have some marked advantages. SEC rules and mutual fund rules and restrictions often prevent them from making certain trades, which effectively bars them from many small and microcap stocks as well as stocks that don't fit their investment profile. The same is true of other large institutional investors. Somewhere in America, the next Wal-Mart is gathering steam and only individual investors can get in on the ground floor. It can also be more difficult for the big funds to unload shares. It's far easier to move a hundred shares than a million. Of course, small issues are riskier than their larger siblings, so it's important to diversify your holdings. If you select wisely, the ones that double and triple will more than make up for the duds.

Individuals have another advantage as well: they don't have to answer to shareholders or a corporate board. They can ride out the temporary dips instead of selling every time a share price wiggles. They have no pressing need to make every quarterly report look good. They can buy the stock with the outlandish name or the strange new idea, without having to justify their decision to anyone but themselves. They can also go completely to cash, whereas as many funds are required to stay invested at all times.

Taken together, these two myths have caused many individuals to avoid the stock market altogether. Those who jumped in at the wrong time and lost the patience and confidence to "wait and see" have been badly burned and may never gather the courage to try again. Every year, they will stick with "safe" investments like bonds and bank accounts. In addition to watching their funds erode due to inflation, they're likely to find out that bonds aren't quite as safe as they're believed to be. That doesn't mean you should put all your money in the market, and it certainly doesn't mean you should invest before you've acquired an ample emergency fund, but avoiding the market altogether is a decision you're likely to regret.

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