

## The hidden risks behind DIY investing success

### Managing Your Money

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The past few years have delivered exceptional returns in financial markets, leaving many do-it-yourself (DIY) investors feeling like they've cracked the code for investing success. From soaring stock prices during the pandemic recovery to a rapid rise in technology and growth companies, the bull market rewarded those who stayed "invested and aggressive". However, this recent period of strong performance has also instilled a false sense of confidence among many DIY investors – an overconfidence that may prove costly when market conditions shift.

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Recent years have been profoundly shaped by the pandemic. We've witnessed historically unique economic and investing conditions: the COVID-19 market crash in early 2020 was followed by an unprecedented rebound, driven by massive monetary stimulus, ultra-low interest rates, and a surge in retail investing. This environment enabled even riskier assets, such as speculative tech stocks and cryptocurrencies, to deliver outsized returns.

For DIY investors who saw their portfolios grow significantly during this period, it might feel good to attribute success to their investing acumen rather than acknowledging the favorable backdrop. A rising tide lifts all boats, as the saying goes, but it doesn't guarantee smooth sailing forever. Overconfidence driven by a few years of unique conditions, and maybe some luck, can lead to poor decisions when markets become more volatile or unpredictable.

When the market's delivering strong returns, it's easy to overlook the risks. DIY investors who invested heavily in volatile sectors, like technology or cryptocurrencies, may not have fully appreciated the risks they were taking. The strong performance of these assets may have created the illusion that they were "safe" or that risk-taking is always rewarded. This mindset can become dangerous when market conditions change.

One of the biggest challenges DIY investors face is managing their emotions. During a bull market, optimism runs high, and it's easy to dismiss the possibility of

losses. This "recency bias" – the tendency to believe that recent trends will continue into the future – can cause investors to become overly aggressive, assuming markets will keep rising.

However, when market volatility returns, emotional decision-making can become a major liability. DIY investors who are overconfident in their abilities may hold onto losing investments for too long, double down on risky bets, or sell in a panic during downturns. Without a clear investment strategy and the discipline to stick to it, emotional responses can undermine even the strongest portfolios.

Some of the worst situations I have seen in my career were truly heartbreaking. One of the most crushing was the Nortel debacle of the early 2000s. Many relatively inexperienced Canadians became "instant" millionaires, only to see their fortunes disappear. I had people reaching out to me as their investment was tumbling, hoping that I could do something or come up with a strategy. Unfortunately, it was too late.

I did have one client at the time who was a retired Bell Canada employee who had received Nortel stock through Bell. He hesitantly diversified when I advised him to, and while he still lost on the Nortel portion, most of his fortune was protected. I say 'hesitantly', because a desire for more is part of human nature. He wanted to keep increasing his profits. It's one of the most difficult emotions for DIY investors to contend with when they've tasted success.

It's natural for DIY investors to feel proud of their success over the past few years – investing, after all, requires courage and commitment. However, there's a fine line between confidence and overconfidence. Assuming that recent gains are solely the result of skill can lead to costly mistakes in the future.

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It's during difficult or uncertain times that professional financial advice can make a real difference. Financial advisors bring experience, perspective, and a structured approach to managing risk, rebalancing portfolios, and aligning investments with long-term goals.

Advisors also act as a buffer against emotional decision-making, helping investors stay focused on



their strategy and long-term goals instead of reacting impulsively to market fluctuations. DIY investors who dismiss the value of professional advice based on recent success may find themselves unprepared when markets inevitably become more challenging.

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I've seen this scenario play out countless times throughout my career – especially with DIY investors, but also with those working with advisors they don't truly trust or have confidence in. Impulsive decisions are made in the heat of the moment, and once the damage is done, there's no turning back.

I'm not saying everyone needs an investment advisor. Some investors are well-equipped to manage on their own if they have some training in handling money, the time to stay actively involved (since it's not something you can do well as a side project), and the drive to take charge of their investments. This means not only enjoying the process when things are good, but also staying disciplined and committed even when markets are challenging, and decisions become tougher.

Investors should take a step back, reflect on the unique market conditions that fueled their returns, and assess whether their current approach is sustainable in a less favorable environment. Diversification, risk management, and a healthy dose of humility are critical for long-term success in investing.

As the market landscape shifts, it's those who remain disciplined and adaptable – not those who rest on recent successes – who will ultimately thrive.

**Note:** For more tips and insights on managing your wealth, follow me on my Facebook page **Richardson Wealth – Ephtimios MacNeil Wealth Management**.

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