Prudential Investment Managers

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FOMO and your investments: A dangerous combination

FOMO (or Fear Of Missing Out) is more than just a cute acronym when it comes to your investments. The impact of FOMO can be severe, primarily because it's driven by an emotional response to feeling left out while everyone else is (seemingly) making huge returns. And as most of us know by now, making investment decisions out of emotion can be detrimental to your long-term investment returns. So to help you navigate the FOMO conundrum, below are some of the more common ways in which this "emotional response to missing out" can impact your financial outcomes, plus some tips on how to avoid mistakes.

FOMO fuels spending

Not wanting to miss out on the material items and lifestyle experiences that others are enjoying is one of the biggest drivers of overspending and unsustainable personal debt levels. If you're driven to "keep up with the Joneses", it may serve you well financially to examine the psychological roots of this tendency and try to overcome it. It's also important to remember that everyone's financial position is different, so rather than focusing on what others are doing with their money, it's a better idea to focus on your own spending habits and making sure that you live within your financial means.

Investing in a "winning" share, regardless of the price

If you had piled into Naspers shares in the late 90s, your financial life would probably be on a different trajectory right now. But it would have taken over 10 years before things started taking off, and there was no sign that it was going to be a "winning" share at the time. And just because this particular share has done phenomenally well so far, doesn't mean it's guaranteed to continue doing so into the future. As investment professionals like to remind us: past performance is not an indicator of future returns. Arguably, those shares that are widely known as "winners" are probably quite expensively priced, and may not give you as much upside as other cheaper options. For the average investor who is not spending the bulk of their day doing in-depth share research and analysis, investing in the stock market through an equity unit trust, such as the Prudential Equity or Dividend Maximiser Funds, is usually a better option than trying to identify the next "winners".

Trying to time the market

It's remarkable how difficult it is to convince people of this well-established investment truism: there is no bell that rings to signal the top of the market or the bottom. Investment professionals themselves freely admit to getting it wrong quite often. But waiting for that magical "right time" to invest is likely to result in further regret and FOMO. A better option is to accept that it's not possible to time the market and that having an investment plan and sticking to it (regardless of the noise around you) is usually the best thing you can do. Another approach, once you've defined your investment objective and chosen a fund that meets these needs, is to phase in your investments gradually and consistently over time. For more information on how this works, read our article on rand cost averaging.

Falling for a fad or scheme

If it sounds too good to be true, it probably is. For those who suffer from financial FOMO, the big question right now is: should I be investing in alternative investment options, like cryptocurrencies? While there are those who have certainly made money following this route, many investors have also lost money or been taken in by fraudsters, with little recourse to recoup their losses. Our view is to tread with extreme caution when it comes to alternative investment options as many are highly speculative and are still largely unregulated.

Discipline and consistency are key

It's painful to hear about other investors making spectacular returns in short periods of time with investments you missed out on. But to become a successful investor, resisting FOMO is an important behavioural practice you need to get used to. Leaving yourself vulnerable to big losses is a bigger mistake than missing out on the top performers. Discipline is one of the most important characteristics in investing, and history has shown time and again that being consistent and sticking to a long-term strategy is what sets successful investors apart from the rest.

It’s important to realise that the fear of missing out is a natural emotion and not necessarily something that can be overcome in a short space of time. The important part is knowing that FOMO exists, being able to identify it when it appears, and avoid making emotional decisions that could negatively impact your long-term investment returns.

For more information, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.