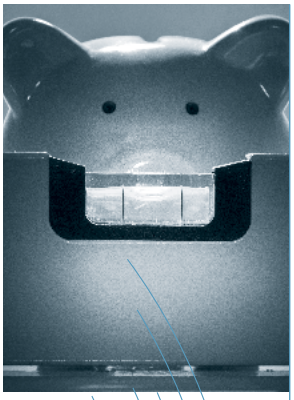
HBKS® Wealth Advisors

DIY Investing

It's on the Rise, but is it Wise?



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THERE HAS BEEN AN UPTAKE IN DO-IT-YOURSELF INVESTING. According to Bloomberg Intelligence via *The Wall Street Journal*, individual investors were responsible for an estimated 19.5 percent of U.S. equity trading volume in 2020, four percent more than in 2019 and double that of 2010 (https://www.wsj.com/articles/individual-investor-boom-reshapes-u-s-stock-market-11598866200). The increase in individual trading is related to multiple drivers, including lower costs to trading access, decreased or eliminated account minimums, ease of access and time availability.

CAPITAL GAINS

My husband became interested in the stock market in 2019 and more interested in 2020. (Forget that I had been trying to get him interested for the previous five years.) He purchased a few stocks we were watching and did some research. One of the stocks he bought was Tesla. While individual stock selection is not my recommended investment strategy, I couldn't argue with him, because Tesla proved a big winner.

He purchased some shares in March 2020, then watched the stock price soar throughout the year. He sold his position on December 31 for a 140 percent gain. But what about the capital gains taxes? When you think about capital gains taxes, you think of 15 or 20 percent, a small price to pay for that kind of gain. But those rates apply to long-term capital gains, which require you to hold the stock for more than a year. Short-term gains are taxed at ordinary income tax rates, the same rate you pay on your W-2 income. If your taxable income was at $40,525 as a single taxpayer or $81,050, married filing jointly, your rate is 22 percent, but with more income could climb as high as 37 percent. This is where being married to a financial advisor paid off for my husband, because I had advised him to make his stock selections within his IRA account. As such, capital gains were not an issue. We'll deal with the tax much later, when he draws on the IRA in retirement, which is also when people's rates are typically lower than when they are employed. However, not all investors have an IRA they can make these trades within, so it is important to understand the tax implications of their investment activity.

TOO BUSY TO WATCH

I suspect the increase in the number of DIY investors is related to being "safe at home" during the pandemic and having more time to focus on an investment portfolio. However, most people will eventually return to a more traditional working environment and lose that excess time. While a related study by the Financial Industry Regulatory Authority (FINRA) and the National Opinion Research Center (NORC) (https://www.finrafoundation.org/sites/finrafoundation/files/investing-2020-new-accounts-and-the-people-who-opened-them_1_0.pdf) cited "invest for retirement" as the primary reason for opening new accounts during 2020, not all investors are thinking long term when buying stocks. If you are attempting to time the market (which is not recommended), but you are too busy to watch, it is likely to negatively impact your portfolio. Once the Spring 2020 home-school fiasco ended for us, my husband was back at work and spending significantly less time reviewing and researching the positions that interested him. He still read about it, but not nearly as much. My concern for the newer DIY investor is that as life more closely resembles their former routine, there will be less time to focus on their investments.

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LESS INFORMED DECISION-MAKING

It's impossible to be an expert in everything. As noted in FINRA-NORC study, which compiled data by type of investor on the sources of information they used when making investment decisions, "While close to half (48 percent) of Holdover Account Owners in our sample reported relying on financial professionals when making investment decisions, only 23 percent of New Investors did so, with Experienced Entrants falling between these two groups (39 percent). New Investors tended to seek information from friends, colleagues, or family members (38 percent), as well as from the company they planned to invest in (for example, annual reports, company websites) (37 percent). Experienced Entrants reported preferring 'other personal research' (42 percent) and information from the company they planned to invest in (42 percent)." The more experienced investors relied on professionals to assist in their investment decision-making, while new and less experienced investors were seeking information from their friends and family. The benefits of employing a professional to assist with your decision-making is that, in addition to being more investment savvy, they have access to more sophisticated research and deeper resources. They can leverage their teams and technology to make more informed decisions and create better long-term strategies.

EMOTIONAL DECISIONS

It is natural to react emotionally to the changes in the market and your portfolio. This is where financial advisors and planners can be most helpful. When the markets dip, we get calls from worried clients. There are always a few who want to "cash out," "cut their losses," and "stop the bleeding." But history has taught us that is not a wise decision. They are choosing to lock in their losses and will likely miss out on a market rebound. Our models are built for long-term investment and strategies are in place to ride out the storms when they arise. It is also our practice to educate clients about market volatility,

History has taught us that it is unwise to "cut your losses" when markets dip, since you are likely to miss out on a market rebound.

so when a global pandemic results in extreme downward pressure on their portfolios, they already know the plan: Stay the course. Don't make emotional decisions.

ADVANTAGES

Younger investors entering the market through DIY investing enjoy some advantages. First of all, they have time: time to ride out volatility in the market without wreaking havoc on their overall investment portfolio and long-term goals, assuming they are smart about their investment decisions along the way. As well, they are experiencing the market more personally than through their employer-sponsored 401(k) plan, and may discover the value of working with a financial professional sooner in their career, which is likely to result in better long-term planning and achieving bigger and better goals.

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