Revealed: how investor impatience can come with big costs attached

Taking your time before selling an asset is important however much you might not want to hear it

We're often told that patience is a virtue, which let's be honest can be fairly annoying – we understand, obviously, but it's not always easy to put this doubtless good advice into practice.

This maxim is just as frequently applied to investing as it is to other areas of everyday life, and will probably prove no less of an annoyance to anyone sitting on significant losses in 2022.

However, there is fresh evidence that when it comes to stocks, however much it might reek of being scolded by a parent or a schoolteacher, this advice should be grudgingly accepted.

One of the UK's largest investment companies, **Alliance Trust (ATST)**, has modelled a £1.3 billion impatience tax on knee-jerk decisions by UK investors over the last 12 months.

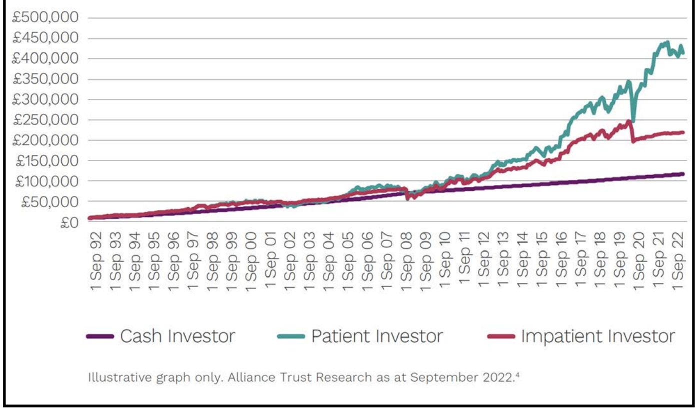
It defines impatient investors as those who sell a losing share, or in other words crystallise a loss, when the market dips, only to buy back again at a higher level when it recovers.

According to its research, 45% of UK investors are willing to admit to having done this in the past and 12% in the last year. Tellingly, just 41% said they were confident it was the right decision for the asset in question, while 23% confessed they got spooked and cut their losses and 16% fell prey to peer pressure from others selling. Over half of respondents (52%) regretted selling in hindsight.

Alliance Trust has produced a chart to illustrate the cost of impatient investing over a 30-year timeframe.

The chart plots the returns for two hypothetical investors who both invest £10,000 in 1992 and add 10% of the average monthly salary for the next three decades. The patient investor holds their nerve through any market dips whereas the impatient investor sells 25% of their shares if the market dips 5% in a single day. When the market recovers 10% in a single day, the impatient investor buys back in.

The real cost of impatient investing



Illustrative graph only. Alliance Trust Research as at September 2022.[4]

After 30 years, the patient investor is sat on £410,757 while their impatient counterpart has just more than half this total at £217,884. Given this figure doesn't include fees or other costs associated with trading in and out of shares, the gap is actually likely to be more significant.

It's not surprising one of the bigger investment trusts is trying to remind people of the merits of long-term investing, but it makes the entirely fair point alongside this research that people selling investments at a loss to put their money into what they perceive as safe cash deposit accounts are in fact taking a substantial risk, particularly given even improved rates of return from cash come nowhere near to matching inflation.

According to almost all studies, stocks beat cash over the long term. This has undoubtedly been a bruising year and being patient doesn't mean doing nothing with your investments. However, before you sell make sure you have weighed up the decision very carefully.

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