Fidelity®

MONEY GAINS MAKING IT COUNT

Chapter 1: Investing Concepts

Video 8

Common investing pitfalls

Behavioural finance

Behavioural finance studies the relationship between behavioural psychology and finance and helps explain why people make irrational financial decisions.

Dollar-cost averaging

Dollar-cost averaging is the process of spreading out your purchases and investing incrementally in regular intervals over time. It involves spreading out your purchases, continually investing the same amount of money at regular intervals over a certain period of time. As a result, the total price you pay is less affected by market timing.

Lump-sum investing

Lump-sum investing involves taking all the money you have available to invest and investing it all at once, putting your money to work immediately.

Prospect theory (or loss aversion theory)

This theory suggests that for investors, experiencing a loss in the value of an investment hurts them more than an equal-sized gain makes them feel pleasure.

Rebalancing

“Rebalancing” refers to periodically buying and selling assets in a portfolio to restore the originally intended asset mix. Because the values of assets are constantly changing, rebalancing is required to ensure that a portfolio remains aligned with an investor’s risk profile.

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