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# FOMO could lead to bad investment decisions

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### FOMO has always been there

**Investors like to compare their portfolios with others and not just those of friends and family. No, investors like to compare their portfolio performance to those who achieved the best possible returns. It is only natural and if you start looking at what you 'could've made' (even if it is that one in a 1,000 chance), the fear of missing out (FOMO) is a sly devil that could lead to bad investment decisions. It's not a new phenomenon, even if the term 'FOMO' only recently got popularised.**

Let's take smartphones as an example. When Apple released its first iPhone in June 2007, the company's share price gained 37.20% in the following year. Investors knew that smartphones were the next big thing, but Apple wasn't the company everyone was chasing. No, that mantel belonged to Blackberry, which returned 75.36% over the same period, more than double Apple's performance. Blackberry made great smartphones and was dominating the market at one point, but there is a reason why investments carry a disclaimer of 'past performance is not necessarily an indicator of future performance'. From July 2008 to where we are now in 2021, Apple's share price gained an astonishing 2,383%. In comparison, Blackberry's share price is down 92%. Chasing something that delivered a good return the previous year, may not provide the same fortune the next year. The same thing can be said about sectors, asset classes, and funds.

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### Sectors rank differently in performance each year

On closer inspection, you will often find a top-performing sector in one year fall down the rankings the very next year. To illustrate this, we followed Health Care's performance each year. If you stood at the start of 2016 and looked at the performance of Health Care in 2014 and 2015, you would've felt some FOMO if you missed out, but switching your portfolio to this sector would have had disastrous consequences as Health Care was the only sector to record a negative return in 2016.

### Diversification reduces risk of picking the worst-performing sector

Picking the top-performing sector each year is a super power yet to be discovered in any investor, no matter how good or legendary. Diversifying portfolios by allocating across sectors is the best strategy. The difference between the best and worst-performing sector in the market is usually around 30% and could even be as big as 83%, like we saw in 2020.

### Large returns concentrated in certain sectors fuel FOMO

Investors who were not invested in global equities over the past few years and in particular, Mega Cap Technology and Biotechnology sectors, lost out on stellar growth and one of the fastest and strongest recoveries in market history, post the Covid-19 volatility of March last year. Technology, Communication Services, and Health Care led the recovery as lockdowns, unprecedented stimulus, dovish monetary policy, and historical low interest rates pushed valuations in these sectors to highs never experienced before. The staggering difference in returns is even more apparent when compared to other asset classes like bonds and property.

Investors often ask their wealth advisors about switching into growth-style sectors, like technology, as these have delivered superior returns compared to multi-asset funds and value-style stocks. I caution against making this comparison as these all serve as important components of a long-term portfolio, rather than stand-alone investments.

Investors must remember that bonds, property, and cash all serve a purpose when included alongside equity in a portfolio. In my experience, these asset classes hold up better than equity during times of economic crises, which happens to be the most likely time investors need to dip into their funds. Being forced to sell when the market is at a low must be avoided. Including value-style stocks within the equity portion of a portfolio adds another layer of protection in the event of a downturn and it is one factor that has started to play out in 2021.

### A value revival

Value stocks are recovering following years of underperformance that was magnified during the Covid-19 crash. This comes off the back of extremely high valuations in growth sectors, in part due to record low interest rates that investors no longer find palatable. The top three best performing sectors in 2020 all find themselves in the bottom half in the first quarter of 2021. Active fund managers with a value bias benefitted from this.

The sector rotation from growth into value has happened spectacularly fast. By March 2021, value regained the ground it lost during the pandemic.

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