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Why you should stay the course in the stock market, even amid the GameStop trading frenzy

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Tiffany Hagler-Geard | Bloomberg | Getty Images

GameStop, AMC Entertainment, BlackBerry, Dogecoin and silver – all have been subject to epic rallies and falls in recent days, spurred by droves of retail investors driving up prices and then selling.

While it may be tempting to pile into an asset that’s seen such rapid growth, financial experts say it’s best to invest for the long-term.

“A lot of the investors are just jumping in because of FOMO [fear of missing out],” said Yanely Espinal, director of educational outreach at Next Gen Personal Finance. It’s important for investors to be aware of the cognitive biases they may have to recognize when they're being influenced by social media herd mentality, Espinal added.

Speculating vs. investing

Several stocks, including GameStop, AMC and BlackBerry, have spiked recently, driven by traders on WallStreetBets, a popular online forum on Reddit, looking to short squeeze hedge funds betting against the assets.

While some people have claimed big returns on the trades, there have also been large losses — on Monday, GameStop lost more than 30% and slid another 45% during intraday trading Tuesday.

Financial experts caution that trading in popular stocks driven by social media is speculating, not investing, and that people should be extra careful before jumping into any trends, as the chance of losing money is high.

"It's just like a casino — the house always wins; hence, you will always lose," said Ian Weinberg, a certified financial planner and CEO of Family Wealth & Pension Management in Woodbury, New York.

He added that trading on margin or using leverage — tools that have become popular with some retail traders — is especially dangerous, as it can multiply losses. "A lot of novice investors don't understand what they're getting into."

Invest for the long term

Instead, financial experts say, investors should focus on building wealth over decades in the markets, not making profits from quick trades.

"Tune out the noise and think about your individual goals," said Catherine Gearig, a CFP at LifePlan Financial Advisory Group in Rochester Hills, Michigan. "Don't worry about what you can't control."

In addition, to grow investments over time and minimize risk, it's important to have a well-balanced portfolio spread across many sectors and asset classes, she added.

This also means rebalancing your portfolio if you have an asset with a large price increase, Gearig said. She gave Tesla as an example — when the stock had a massive run-up, Gearig advised clients to keep it to no more than 5% of their total portfolio, meaning they'd sell part of their stake and reinvest in other assets if it grew to more than that amount.

"I've seen too many people burned by individual stocks or exposure to them," she said. While it can be difficult to part with a stock that's performed well, it's important to take the emotion out of investing to make sure you sell high and buy low, she added.

"You can never go broke if you take profits," said Weinberg.

Those who may not be able to work with a financial advisor can use certain tools to keep balanced investments and protect themselves from market risk. One is dollar-cost averaging, or continuously putting money in the market over time, which is used by most who have an employer-sponsored 401(k).

People can also use a target-date fund, an investment vehicle that periodically rebalances to optimize risk and returns over a set period.

If you do want to trade popular stocks

To be sure, some may still want to invest in popular assets or get into the recent run on meme stocks.

If this kind of trading is something you're interested in, financial advisors recommend keeping what you invest a small portion of your total portfolio and an amount that you're willing to lose.

"Go into it knowing this is your limit, don't go past it and then stick to your guns," said Jessica Goedtel, CFP and lead planner at Facet Wealth, registered investment advisor in Baltimore. "Ultimately, don't view this as an investment strategy; view this more as a game and a hobby and treat it as such."

But overall, most financial experts say to steer clear of any speculative trading.

"Save the bumpy rides for jet skiing and thrills for the amusement park," said Nicole Gopoian Wirick, CFP and president at Prosperity Wealth Strategies in Birmingham, Michigan. "When it comes to something as important as your money, be boring and remember you're in it for the long haul."