Smart investors don't get rattled

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So far, it is yet another scary October for the stock market. How can we avoid behaving irrationally?

First, focus on the income side of your portfolio.

I'm a portfolio manager and there are a variety of reports I can show to my clients, everything from asset mix pie charts to performance graphs. The report that I consider to be the most relevant to most of my clients is called "projected annual income" which is a list of every security (stock or bond) held in the portfolio, along with the associated dividend or interest payment in dollar terms.

The report only shows the amount of cash generated by the portfolio on a monthly, quarterly and annual basis.

Why does it make sense to focus on income rather than price fluctuations? Because most people aren't planning on liquidating their entire portfolio today. But they do care about the cash flow available, so focusing on that makes more sense.

As long as that cash flow is still what the client needs and planned for, daily price fluctuations are not only irrelevant but tend to be a distraction.

Cindy has her own insurance advisory business in Toronto and explained it this way to a client: "I love this report because it shows that the manager has invested in a well thought-out group of securities and every stock and bond comes with a stream of annual income."

Reminding yourself that you have a properly constructed portfolio can go a long way to keeping emotions out of investing.

Second, make sure you have done your research.

Janis, a senior bank executive in Singapore, suggests: "Do a lot of research into every stock that you think about buying. There isn't a lot of rhyme or reason as to how the market behaves. You have to have staying power. Don't react to general market behaviour. You are better off understanding all of the companies that you invest in. I invest with a lot of confidence when I have done the research."

You will have a lot less fear if you have made very well-informed investment decisions.

Third, think about time in the market.

Deanne is a financial writer and editor who took advice from her father on this topic long ago. "My dad said the stock market allowed him to pay for both of his daughters' university education. His only regret was that he didn't start investing sooner. I took his advice and I have contributed 10% of my income every year to various investment accounts. A lot of success is just 'time in the market.' After 20 years I'm not a beginner anymore, and I have a good size investment portfolio. I strongly suggest that people think ahead more."

The biggest mistake investors make is attempting to time the market. The average investor usually gets it backwards and cashes out when they should be buying, and vice versa.

Finally, remember that all markets are cyclical.

Sometimes it can feel like the stock market is a casino and we forget that proper investment plans are in place for good reasons.

Take the advice of smart women and try not to mess with your portfolio.