The value and opportunity cost of your investment time

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The Value and Opportunity Cost of Your Personal Investment Management TimeYour time is valuable, and it should be included in calculations about your investment returns. Whether you add or subtract value from your assets when you spend time on investment activities should also be evaluated. Some investors spend significant time on the wrong strategies. Instead of adding value, their efforts reduce their investment portfolio performance and degrade their financial welfare.The personal process of financial planning and investing is life long, and is not just a one-time exercise. Personal situations and financial requirements change, as do the economy and the financial markets. Investment plans need to evolve periodically to remain current and appropriate. When pursuing optimal investment strategies and controlling costs and taxes, you also need to establish a time-efficient system to monitor, adjust, and adhere to your plan. This article introduces the concepts of an opportunity cost for your time and a value-added or value-diminishing wage for the time you spend on investment activities. It also discusses two other ideas: that more time spent on poor strategies will just cost you more and that scientifically grounded investment strategies tend to take less time to implement. Other articles in this Personal Efficiency category will develop these ideas in more detail. You will also find a list of these additional personal efficiency articles at the bottom of this page. The scientific investment literature indicates that many of the activities that individual investors engage in do not produce superior results. Very often, they have the opposite effect – especially after costs and taxes are considered. Only a relatively small subset of investment activities tends to produce positive value. Valuable strategies tend to be passive and not active, and they usually focus on reducing costs and taxes rather than attempting to beat the market. When estimating the net contribution that you might make when you spend time on investing, you first need to estimate whether or not your decisions actually add value to your investments. Because most individuals probably are not adding value with current strategies, they need to change their approaches. When you honestly evaluate your positive or negative value contribution and track your hours, you can calculate your positive or negative value contribution on an annual and hourly basis. The size of your portfolio also influences the size of your positive or negative hourly investment activity wage. Next, you can calculate your hourly opportunity cost, which quantifies the value of spending your personal investment time on alternative income generating or leisure activities. By combining your hourly investment value contribution with your hourly opportunity cost, you can estimate the overall value of your personal contribution to your investment affairs. Usually this annual or hourly figure will be negative for an investor. Finally, to estimate your overall investment efficiency, your personal value contribution and opportunity cost should be added to all the excess industry investment costs and unnecessary taxes that you incur.