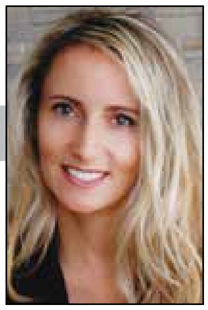
“Great investing requires a lot of Delayed Gratification” – Charlie Munger

Managing Your Money



LYNN MacNEIL

I have a client who’s not much of a gambler, but a few years ago he insisted on investing a little bit of money in a “hot stock” that his son mentioned. It went up. He was happy. It went down. He was hopeful. It went up again. He knew he should sell. It came crashing down to almost nothing. He was discouraged and gave up looking at it. But... just recently, a couple of years after all this excitement, it was back up again. A lot! He took his money and ran! He knew how lucky he was, and wasn’t going to push his luck, even if it does keep going up. Why did he buy such a risky “hot stock”? Instant gratification maybe? Excitement? The idea of quick, easy money? It’s a trap of human nature that we all fall into now and then.

Human Nature

Human nature is interesting. It has us believe things that we know are not true. People buy lottery tickets knowing they won’t win, but...just maybe. People try fad diets or diet pills knowing they’re too good to be true, but.... just maybe. And people buy “hot” investments hoping to strike it rich.... But it rarely works that way.

> *“Investing, and even speculating, requires discipline, not reacting to emotions – namely fear and greed.”*

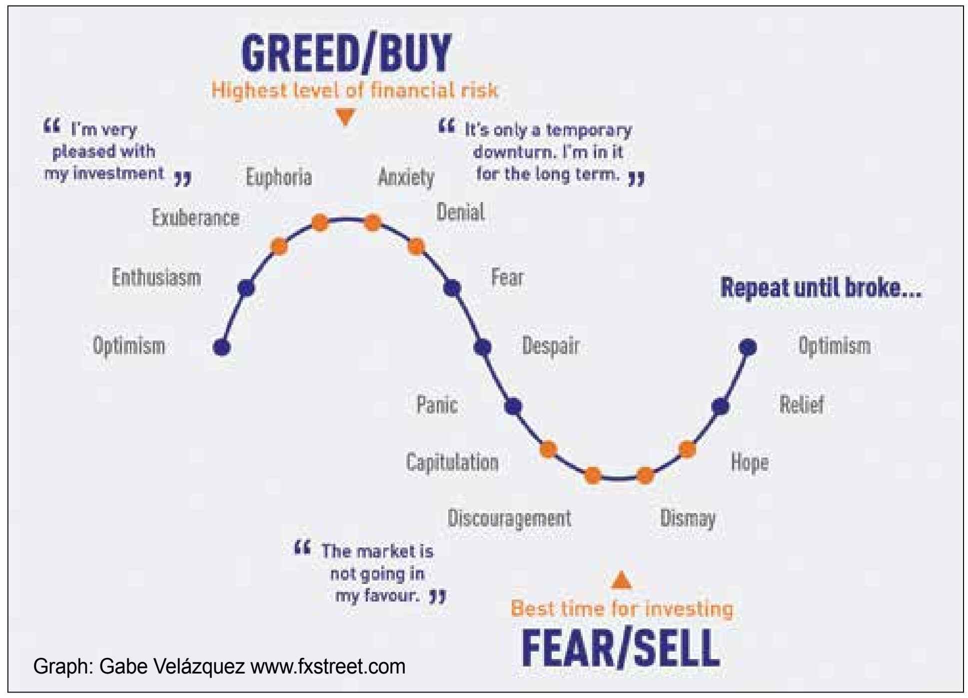
When millennials, grandparents and the media are all talking about the same hot stock or investment, you’re probably entering speculative territory. If you’re already in a “hot stock” as it becomes the talk around the virtual water cooler, don’t be shy to take some gains off the table. Most don’t go up forever. Investing, and even speculating, requires discipline, not reacting to emotions - namely fear and greed.

Bitcoin, Tesla, GameStop, and Cannabis

The media is drawing attention to investments like Bitcoin, GameStop, Tesla, and Cannabis. The GameStop frenzy that was all over the news a few weeks ago was started by a social media group. By the time it hit the mainstream media, it was too late to jump in. But many people did anyway. They wanted a piece of the excitement. And it was exciting! A David vs Goliath story. For those who got in with a little play money just to be part of the action, it was fun. And while a few people made fortunes in mere weeks, unfortunately, most people who took the ride weren’t so lucky. Some lost their life savings. Some of you may recall the Nortel saga – Canada’s largest company (by market cap) one day, tech bubble horror story the next.

Current reality

I have been managing investments, mostly in conservative retirement savings, for over 25 years. It’s not exciting. It’s a slow and mostly steady process. I work primarily with people who are in or nearing retirement. They want safe and stable investments. And over the past decade the markets have provided us with that consistent upward climb, like the guy in the ‘Cliffhangers’ game on The Price is Right.



The Fear-Greed Graph illustrates investor emotional swings while watching the fluctuations of a ‘hot stock’

Many people have long forgotten the market corrections we experienced with the tech bubble and the financial crisis. I’ve seen firsthand how investors, and even advisors, have become less risk adverse the longer markets go up. Some were brought back to reality by the March 2020 crash. But for many even that seems long forgotten as the markets recovered quickly and continue to rise.

Let’s stop for a second and consider the reality. The main US stock market, referred to as the S&P 500 is a collection of the 500 largest companies in the US market. If we dig a little deeper, of those 500 companies, 10 of them made up about 70%* of the overall market gain in 2020. While the markets finished the year “up”, it’s actually only a handful of companies that are truly up. Many are still below the pre-pandemic values. The markets are not reacting “normally” to economic, political, pandemic, and other news. The pandemic is not over. The economy is not stable yet. Yes, there’s a vaccine. And yes, hopefully the worst is over. But still, my advice is “be prudent”.

I had a lady recently who sent me her portfolio to get a second opinion. Her advisor had invested over 80% in equity. Now there’s nothing wrong with that, except that she is 78 years old, lives mostly off her savings, and is nervous about seeing her money fluctuate too much. Obviously, there are even advisors out there jumping on the equity band wagon believing that markets will always go up. So again, my advice is, be prudent.

If you weren’t investing during the market corrections of the 2000’s, and haven’t really experienced a prolonged downturn, be prudent. If your advisor was still in school, or not yet in the industry at that time, be extra prudent. Investing fundamentals have not gone away; they are just being ignored at the moment. As Warren Buffet always says, “Be fearful when others are greedy, and be greedy when others are fearful.” Stay safe!

**Source: Bloomberg*

Buying a ‘hot stock’ is not usually a successful strategy

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