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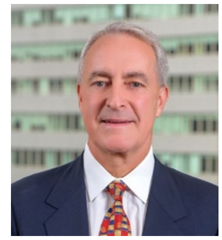
Thoughts for Investors



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Technology's Danger to Investors

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"A clever person solves a problem. A wise person avoids it"

– Albert Einstein

Steve Jobs eloquently summed up the value of technology when he said, "The computer is the bicycle of the mind". Technology is a wonderful productivity-enhancing tool and offers some great investment opportunities as well. Yet it can also be dangerous if misused such as the case with "hacking", "spam" or worse. But what really worries me is when technology acts as an aid for self-inflicted harm. I believe technology's greatest threat to investors is when they assume that everything "on the internet" is true, and that technology can do all their pedaling. Not so. In this newsletter I will explain how investors misuse technology to their detriment and how to correct that.

"Not everything that can be counted counts and not everything that counts can be counted"

– Albert Einstein

Back in the old days, if an investor wanted to "see how my portfolio is doing", they waited for their statement to come at the end of the month. Maybe they made some adjustments once in a while after careful thought (or emotional reaction!). Today, advertisements for investor technology claim you can act on ideas as you get them and track and make changes to your portfolio while you wait for your latte. You can watch the value of your portfolio instantly move with the volatility of news and the stock market. You need never be out of touch. Mobile apps* like Acorns, and Robinhood allow you to invest as little as $5 at a time in one of several different portfolios after you answer a few questions about your "risk tolerance". How do they "measure" risk? The legendary investor Benjamin Graham said that risk is not easily "measurable". Who can take investing seriously if it can be done for the price of a lottery ticket? All this reminds me of how advances in golf club technology still have not helped the average golfer. Why is that? In short, because you still have to swing the club.

"The only source of knowledge is experience" "The only real valuable thing is intuition"

– Albert Einstein

Thanks to the computer, more and more data is available to everyone. But is it all important? Can too much information lead to "analysis paralysis"? What about Werner Heisenberg's "Uncertainty Principle" which suggests that the act of observing something changes it. Even Einstein struggled with this. If everyone has access to "all" the information thanks to the internet, two bad things can happen in my opinion. The first is a "race" whereby the only value to information is if you can do something with it faster than the next guy. How else can one explain why high-frequency traders are debating whether they should tunnel through the earth to build a straight-line fiber optic connection from one side of the world to the other? Current fiber optic lines on the surface follow the earth's curvature which means transactions can take a millisecond longer, putting them at a disadvantage!

The second, even worse, danger of having access to lots of information is that it reduces the "value" of the information. Either that or investors believe that somehow the market has digested all the information and “efficiently” priced stocks. This is the basis of passive investing. But what if the information is incorrect, purposely misleading or fraudulent? I believe markets will never be efficient until every human acts rationally (and truthfully). It only takes one irrational investor to throw things out of balance and create opportunity. I believe some investors even rationalize their emotional decisions after the fact!

“If the facts don’t fit the theory, change the facts”

– Albert Einstein

Einstein’s comment is not as far-fetched as it seems. With all the latest technology and investor “tools”, why aren’t more investors millionaires? Maybe the “facts” about what leads to investment success need to change. Maybe “asset allocation”,” benchmarking”, “backtesting” and even a fixation on cost do not guarantee investment success. “Tools” are only useful in the right hands. In my career I have found that the most successful investors follow 3 basic principles.

“Everything should be made as simple as possible, but not simpler”

– Albert Einstein

1. Establish a simple financial plan based first on a commitment to save, then to invest, and finally on spending. Yes, spending should be the last step in your plan not the first. I believe it is more important to first, create an investment plan you are emotionally capable of living with and then second, accept the level of income it generates, not the other way around. If you are only comfortable with CDs then you must accept a low level of income. Unfortunately, many investors start with an income goal which requires them to adopt an unreasonable investment plan for their emotional aptitude (think high yield bonds or stocks). Then when the inevitable volatility occurs and their account fluctuates they panic... and blame the market. If your financial plan comes in a binder, it’s likely too complicated and too costly.

“Everybody is a genius. But if you judge a fish by its ability to climb a tree, it will live its whole life believing that it is stupid.”

– Albert Einstein

2. If you feel the need to “compare”, build your portfolio based on a target rate of return goal (net of costs) that, if achieved, will allow you to meet your financial needs. From that point on, “compare” your return to that “target”. DO NOT use any other comparison or “benchmark” such as stock market indices like the S&P500 or the return your brother-in-law is supposedly getting. Ignore these siren songs. They will cause you to perpetually chase performance and end up frustrated and unsuccessful. Remember, the S&P500 only has one speed, even as it goes over the cliff.

3. Proper temperament is an important characteristic of a successful investor. Be patient. Make changes with a “light hand” if needed. “News” is usually not a reason to make any changes to your investments because there will be different, often conflicting, “news” tomorrow anyway. The more changes one “needs” to make to their portfolio, the more they are admitting they didn’t have good investments, advisors or goals in the first place; and the more taxes they may pay as well. Remember, technology cannot help you “calculate” your way to investment success by finding the lowest cost “solution” or the correct “asset allocation”, “alternative investment” or “5-star mutual fund”. If you don’t agree, I dare say that even if Warren Buffett were running your portfolio, when the inevitable market volatility occurs, you will panic, react emotionally and override the technology anyway. If a stock is doing well, don’t sell simply because some software reminds you that you are older or it has become a larger piece of your portfolio. That’s confusing an investment decision with a financial planning issue.

“Sometimes one pays most for the things one gets for nothing”

– Albert Einstein

In summary, as I asked earlier, with all the technology available such as robo-advisors, sophisticated financial planning and investment software, truckloads of internet-supplied data to support any investment scheme and financial websites full of advice, why aren’t more investors millionaires? “Cost” can certainly be a culprit but, in my opinion, often not the main culprit. Jack

Bogle has seen to that. I believe many investors mistakenly assume that all technology, cost saving and otherwise, is good, useful and true. Technology is indeed a useful tool, yet it doesn't replace the need for an investor to do some pedaling, i.e., to think, to control their emotion, and to harness other investors lack of emotional control. If you don't have the time, interest or experience to do so, you had better get a tandem and let someone else do the pedaling.

"Any fool can know. The point is to understand."

– Albert Einstein

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