



Rearview mirror investing and emotional bias

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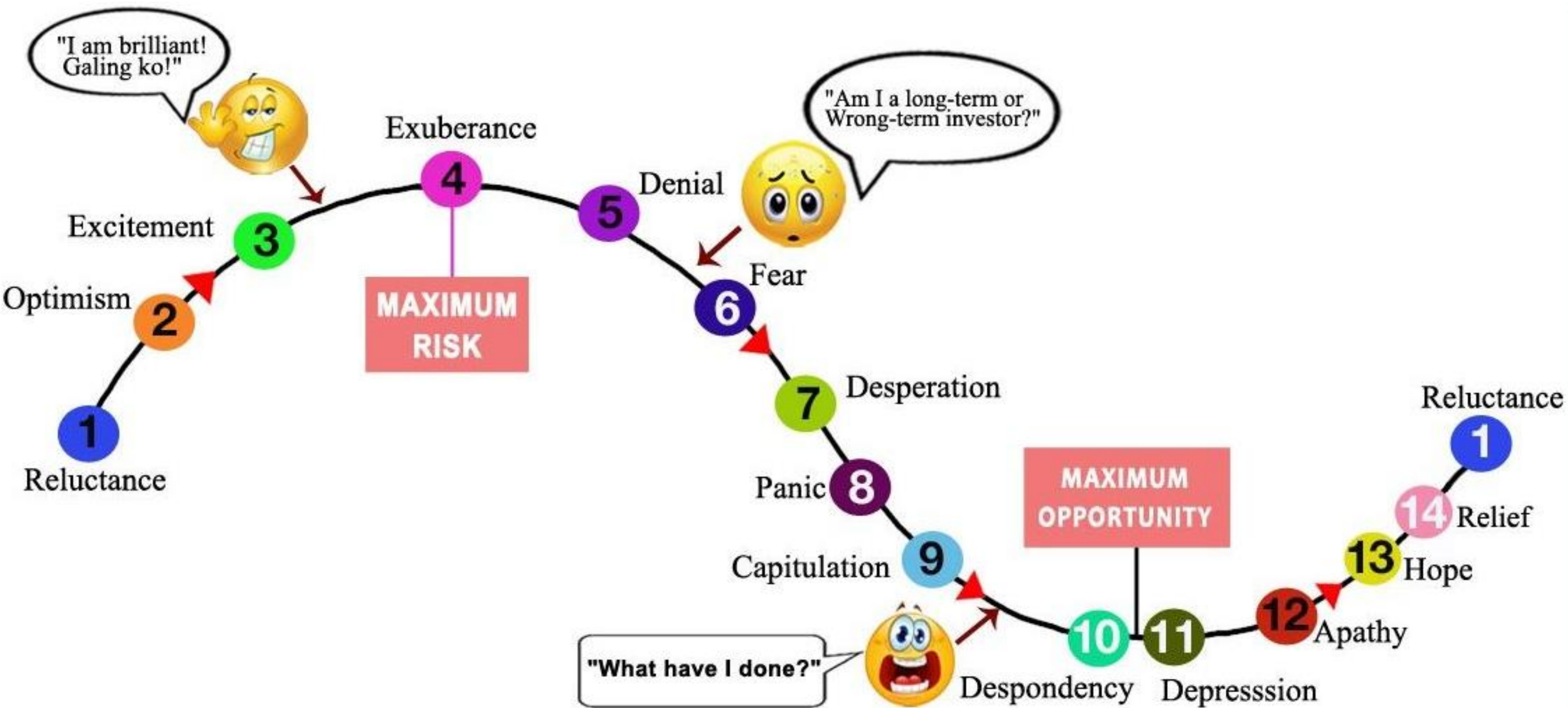
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Problem

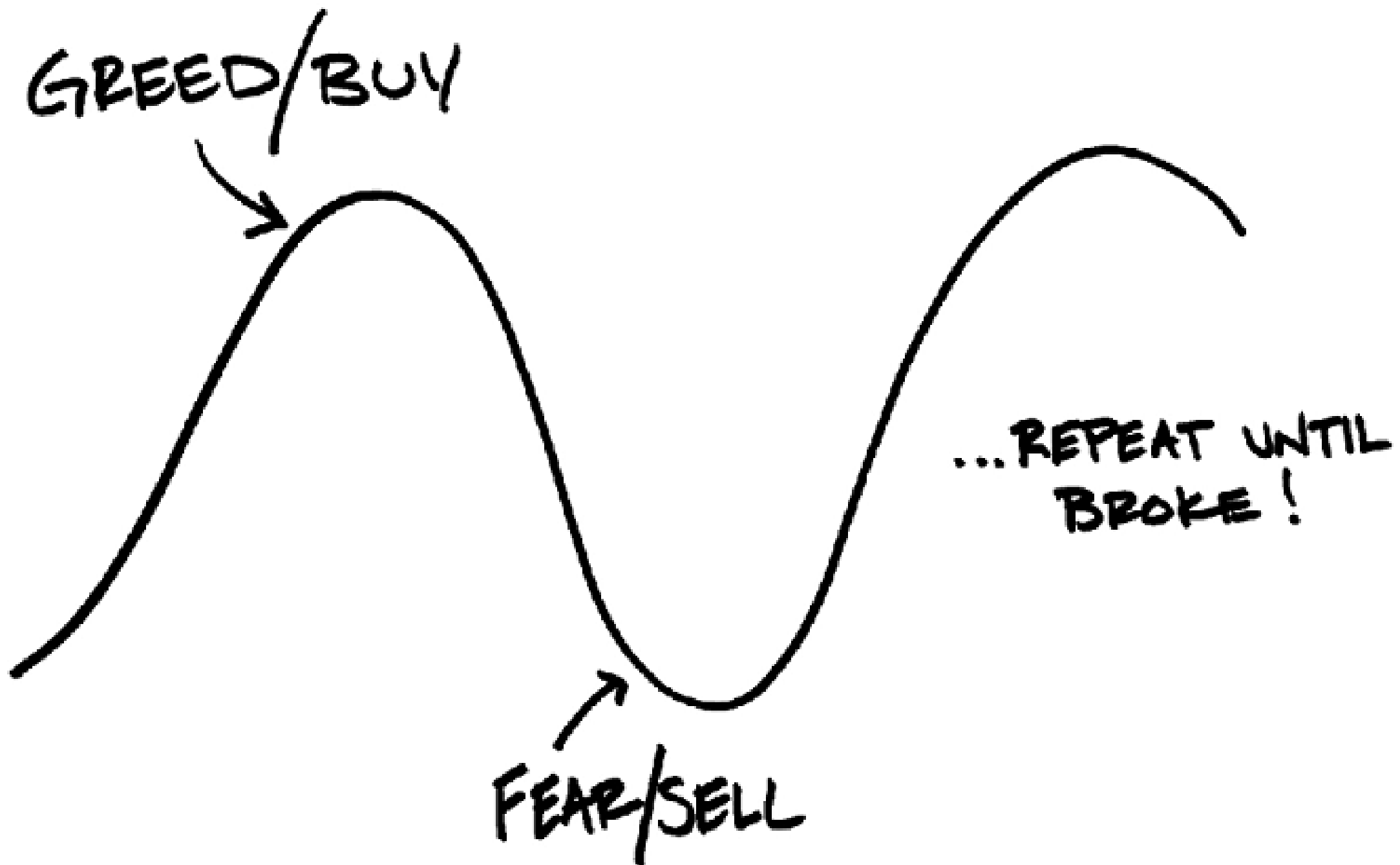
How we go about making investment decisions . . . whether to buy, sell, or hold

- Emotion . . . instead of carefully considered logic and evaluation
 - Fear
 - Greed
 - Hope
 - Denial
- Sales pressure . . . instead of well-informed holistic advice
 - Carnival barker
 - Empty storytelling
- Rearview mirror basis . . . instead of forward-looking
 - It's in our DNA . . . none of us can fully escape from this trap



Emotion driven investment cycle - abbreviated





Fear - you sell at the worst possible moment



Greed - you buy at the wrong time



Hope - wishful thinking divorced from reality



Sub-form of fear, greed, and hope - Denial



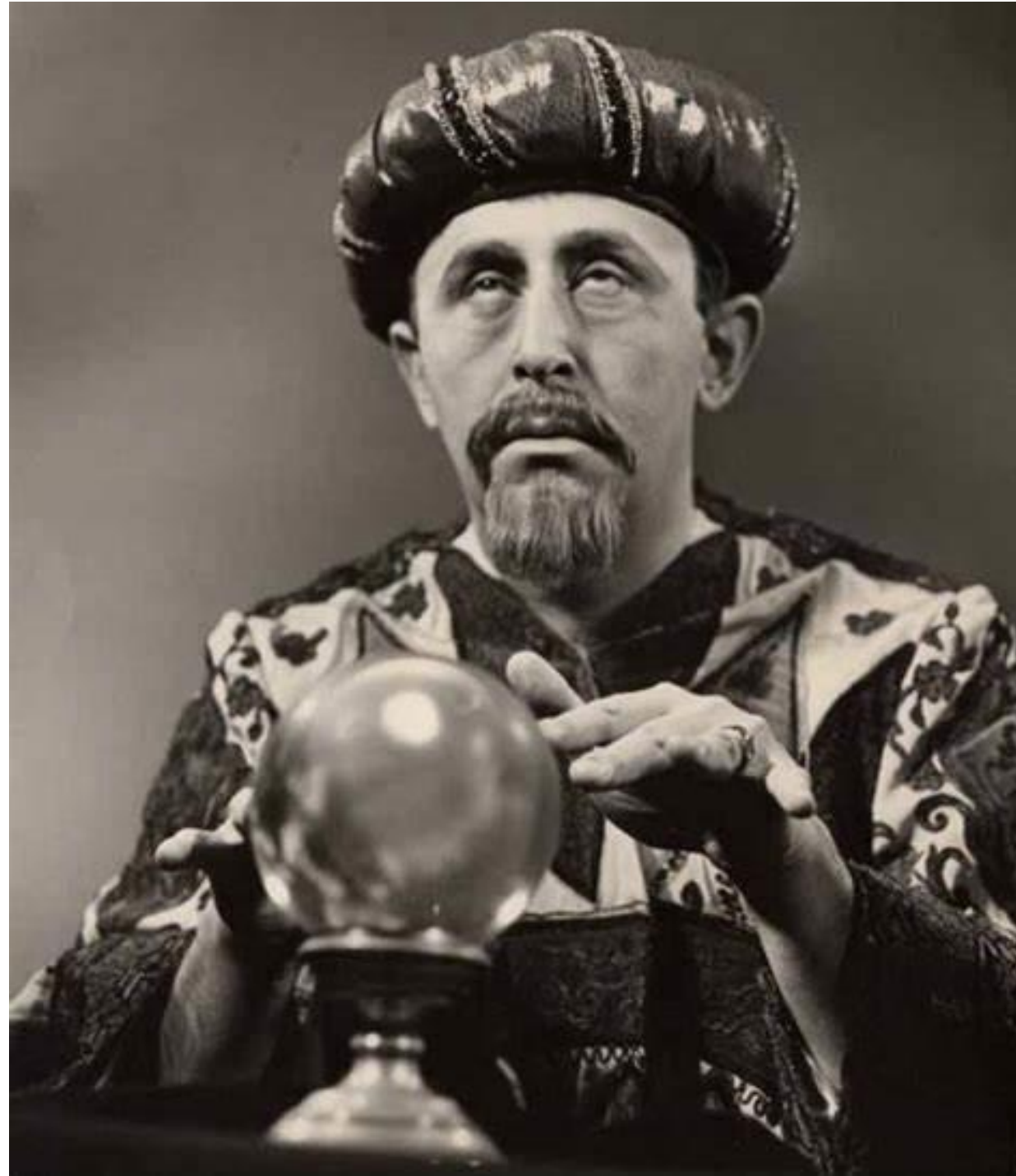
Industry sales pressure - catering to emotion and false logic



EMPTY storytelling

Now is the time for . . .

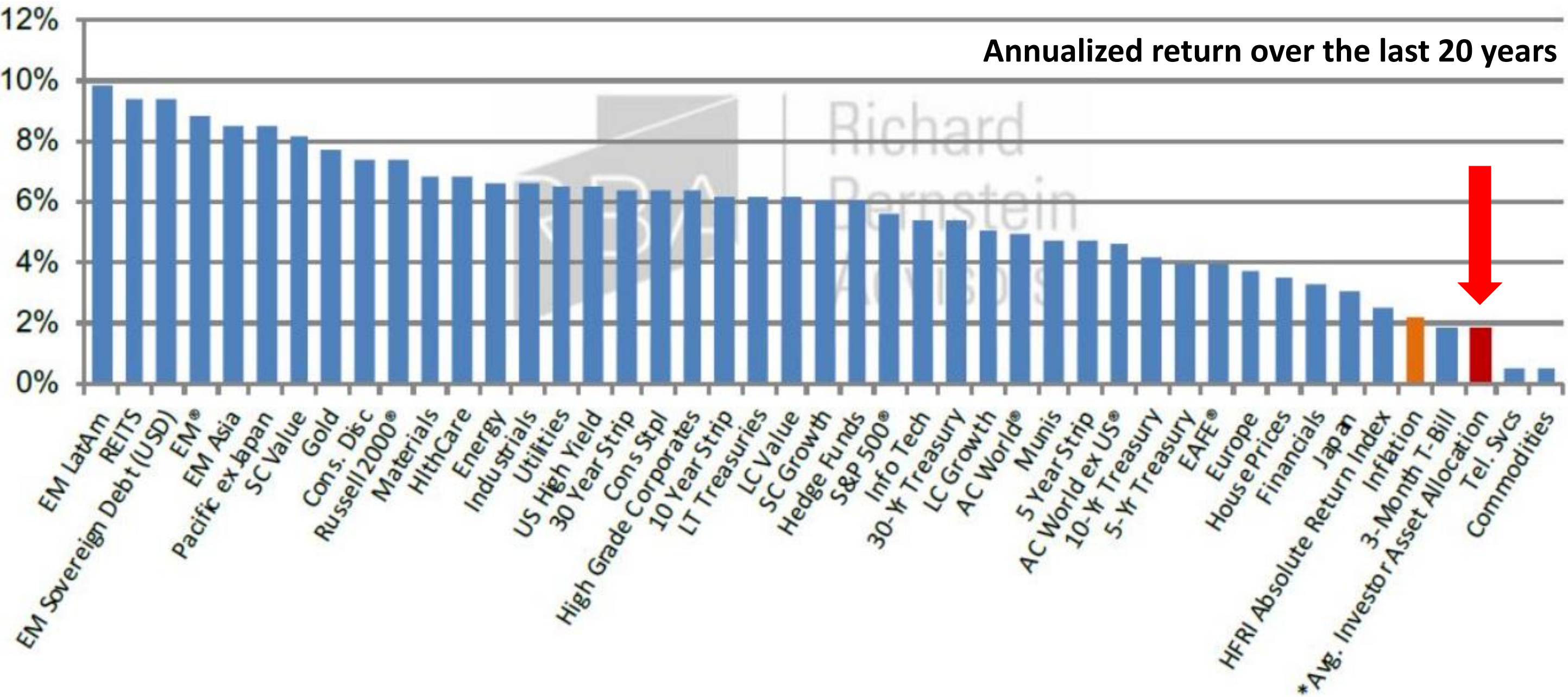
- Stocks vs bonds
- Domestic vs international
- Value vs growth
- Largecap vs smallcap
- Technology/innovation vs the market
- If you only had this particular fund



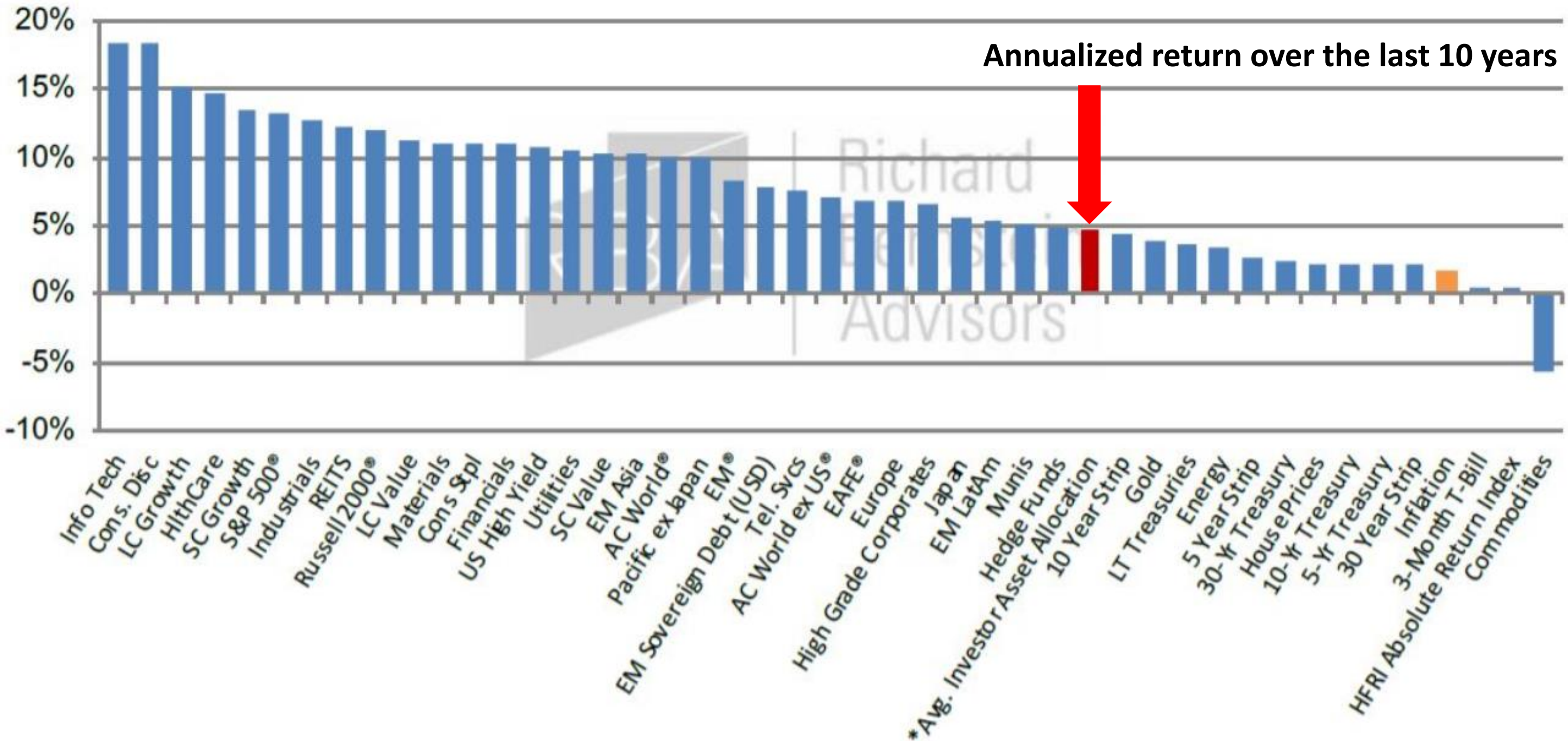
Consequences

Of emotion and sales pressure

The 2018 annual DALBAR study estimating investors' performance



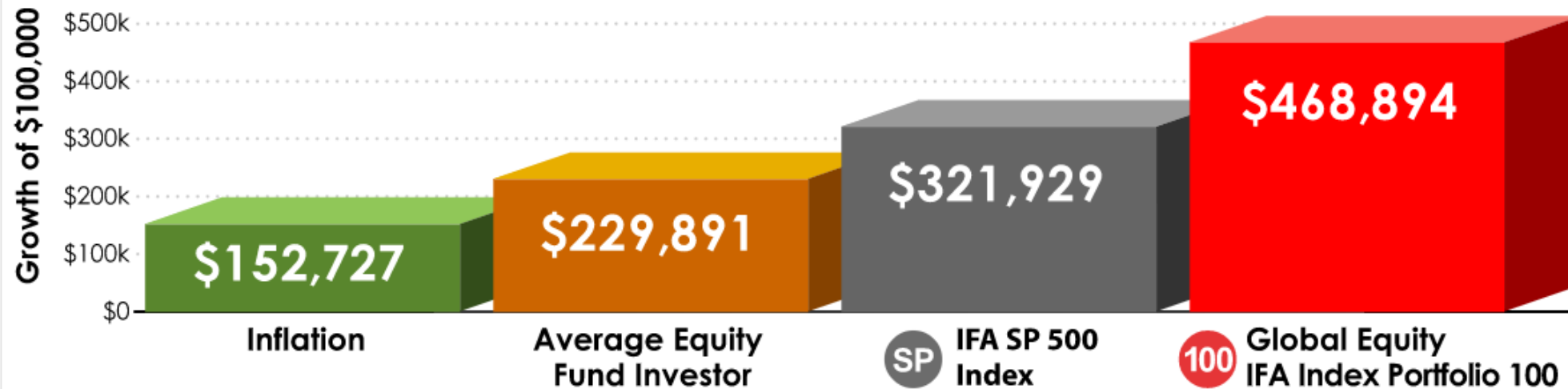
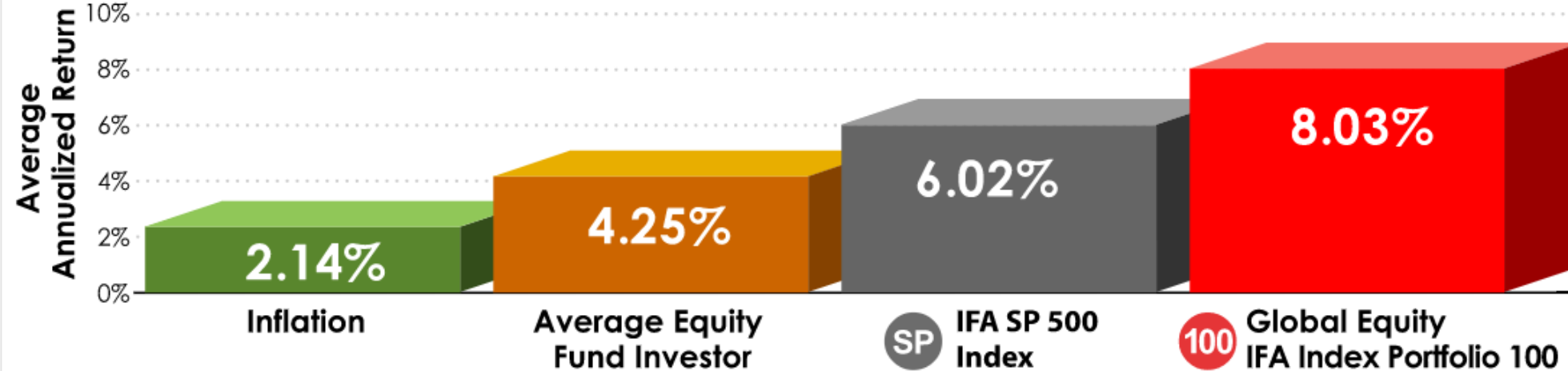
Even over shorter periods, the average investor did terrible



Investors are their own worst enemy

The Dalbar Study: 20 Years of Average Equity Fund Investor vs. Indexes

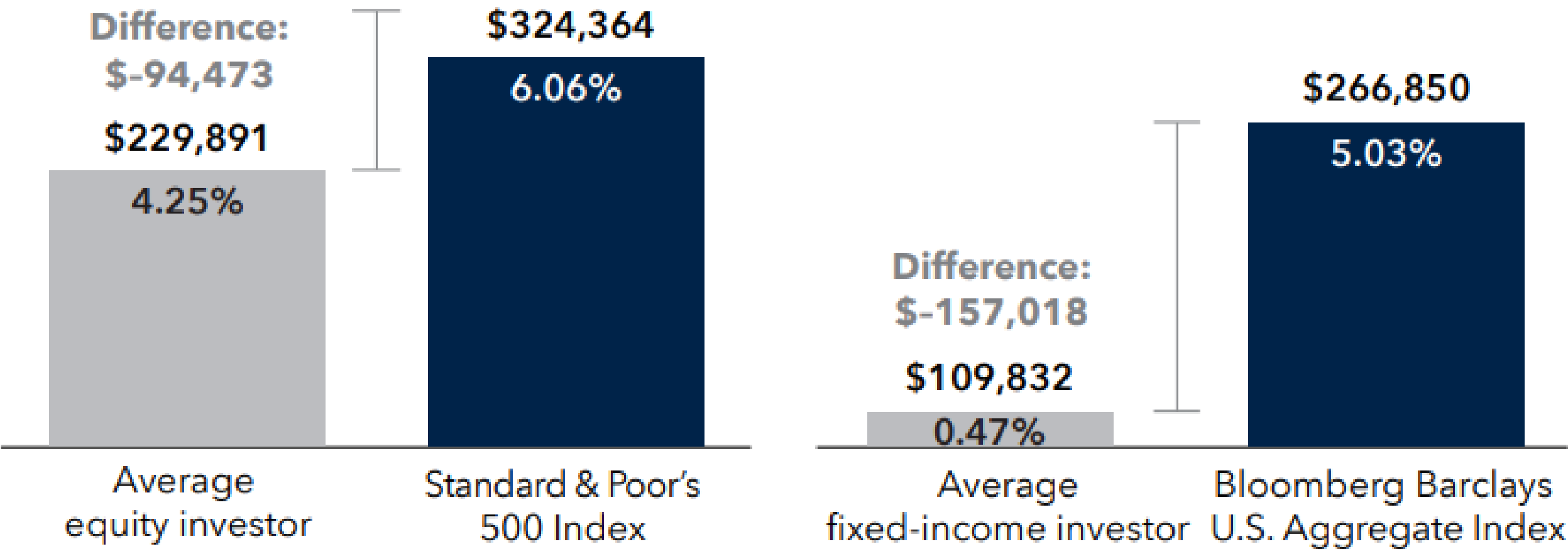
20 Years (1/1/2000 - 12/31/2019)



* Average Equity Investor as determined by Dalbar | Study sources, [Dalbar 2020 QAIB Study](#), Morningstar, Inc. | For HYPOTHETICAL back-tested performance data shown in this chart, including sources, updates and important disclosures, see [ifabt.com](#) IFA Index Portfolios are labeled with numbers that refer to the percentage of stock indexes in the asset allocation, as opposed to the allocation of bond indexes. For example, an IFA Index Portfolio 90 is 90% IFA stock indexes and 10% IFA bond indexes. IFA Indexes are labeled with letters to designate the index name and are defined at [indexdescriptions.com](#).

It's even worse for retail bond investors

Growth of a hypothetical \$100,000 investment (12/31/99-12/31/19)



Rearview mirror investing

The curse of investing based on what happened in the past

You can't invest in the past . . . only in the future



Rainbow chart



Growth versus value since March 2009

- Mar 3, 2009 through Dec 30, 2020
- **+465% value**
 - VTV Vanguard Value Index Fund ETF
- **+1,265% growth**
 - QQQ Invesco QQQ Fund ETF

But going into growth now . . . Is an attempt to invest in the past

Annualized Performance by Decade				
Era	Growth Stocks	Value Stocks	S&P 500	Winner
1950s	15.8%	27.0%	18.3%	Value
1960s	6.8%	15.0%	7.8%	Value
1970s	2.4%	12.0%	5.9%	Value
1980s	12.3%	19.1%	17.5%	Value
1990s	18.7%	17.2%	18.2%	Growth
2000s	-2.5%	9.4%	-1.0%	Value
2010s	13.9%	11.6%	13.0%	Growth
2020s	?	?	?	?
Total	9.3%	15.6%	11.0%	Value

Source: Ken French Database, 6/30/1951–10/31/2019. Growth and Value stocks defined as the 20% of stocks with the highest and lowest P/E ratios, respectively. 1950s commences with beginning of data (6/30/1951); 2010s end as of latest data (10/31/2019).

- "There is a danger of expecting the results of the future to be predicted from the past."

- "It is a cruel joke that the most popular asset of each era will impoverish its owners?"
- Every 20 years or so in the twentieth century, the most rewarding investment of the day reached the top of its rise and started a long decline, and the least rewarding investment hit bottom and began a long ascent.
- These turning points enriched a small group of nonconformists who caught the turn, but the majority continued to put their money on yesterday's proven winner.
- The majority's loyalty cost them plenty."

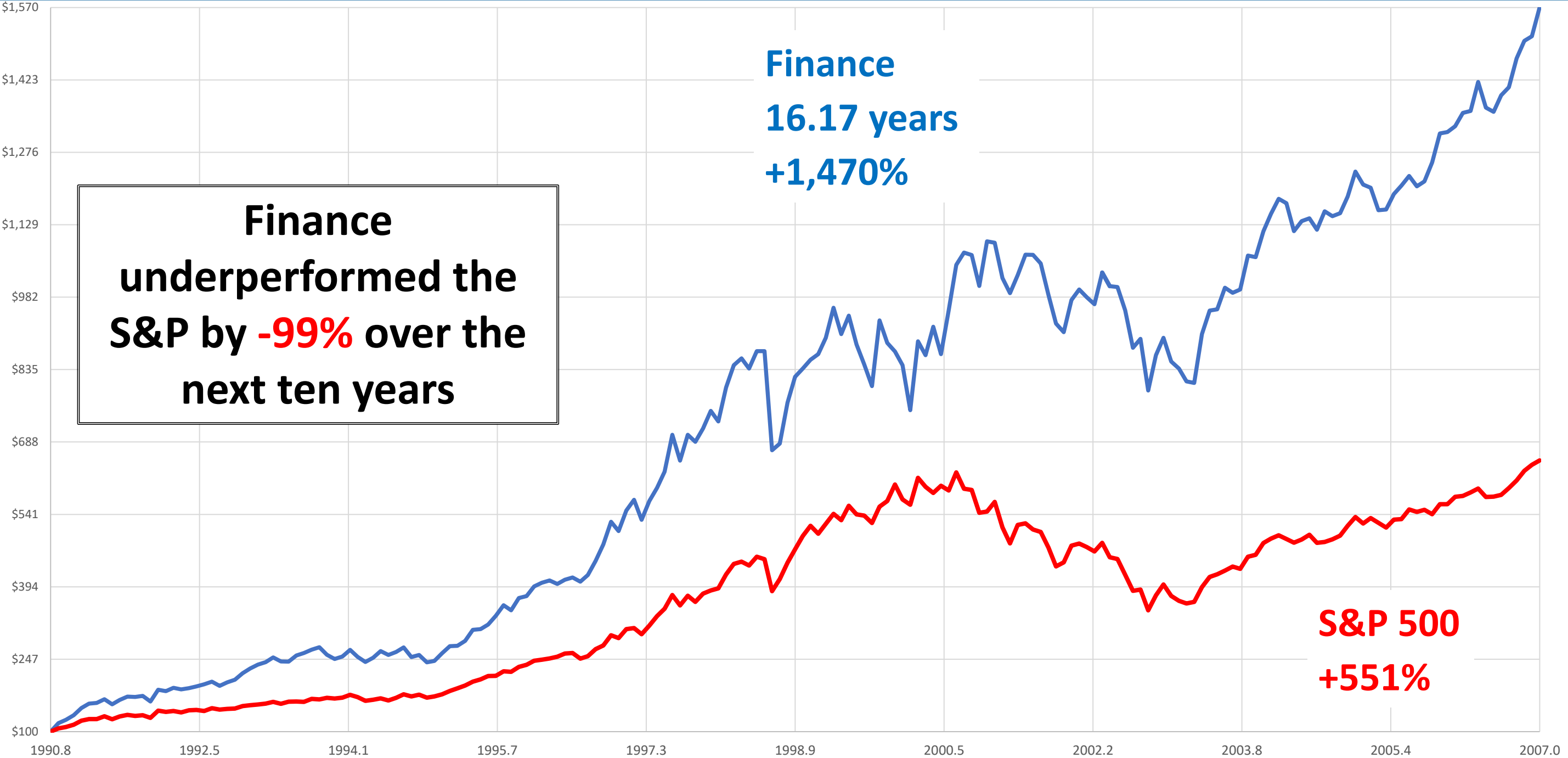
- “The biggest mistake investors make is to believe that what happened in the recent past is likely to persist.
- They assume that something that was a good investment in the recent past is still a good investment.
- Typically high past returns simply imply that an asset has become more expensive and is poorer, not better, investment.”

- "The biggest mistake investors make is looking backward at performance and thinking it'll recur in the future."

A couple advisors have asked

Isn't now the time to add Innovation and Technology to all of our client accounts?

Finance boom and bust

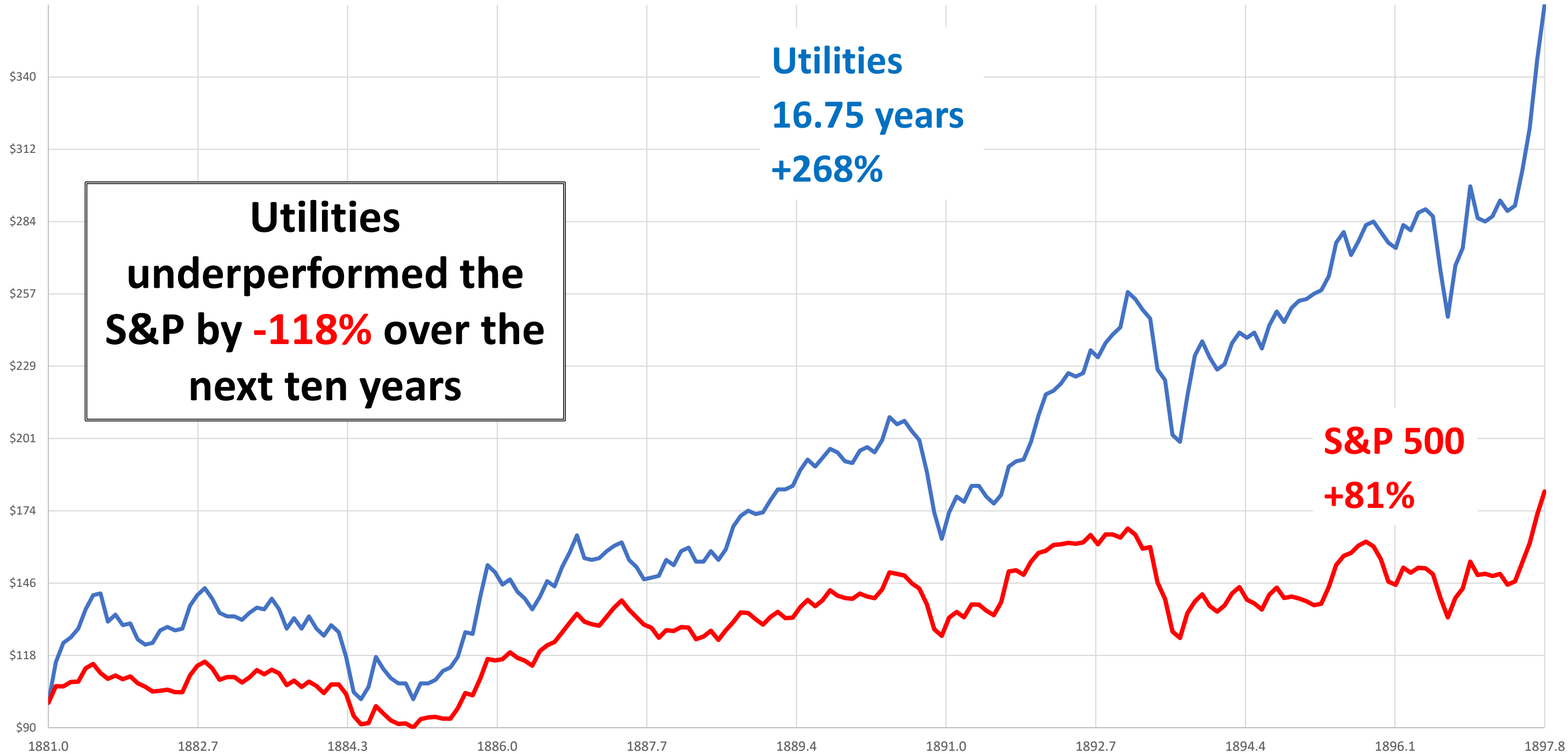


Finance
underperformed the
S&P by -99% over the
next ten years

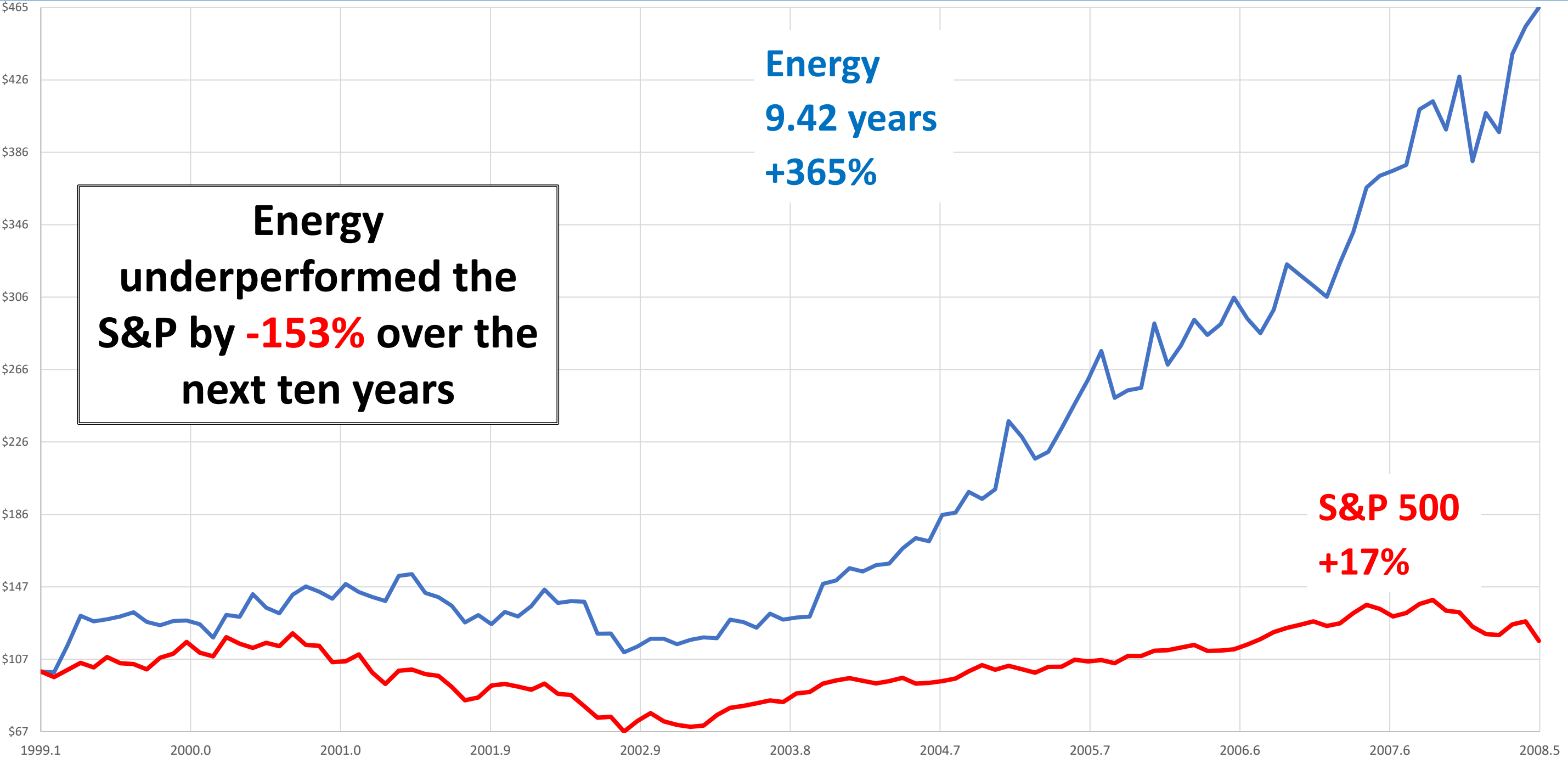
Finance
16.17 years
+1,470%

S&P 500
+551%

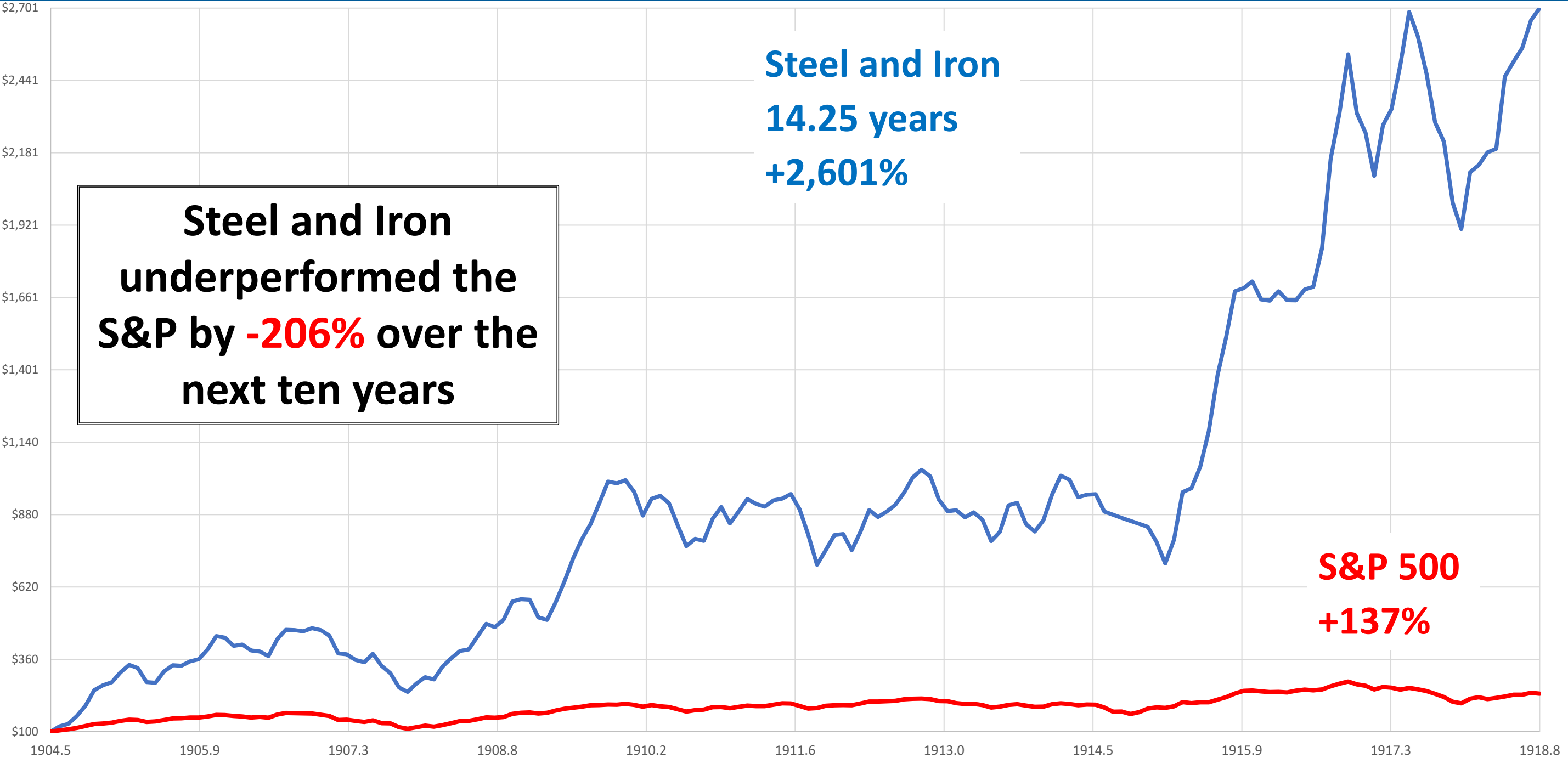
Utilities boom and bust



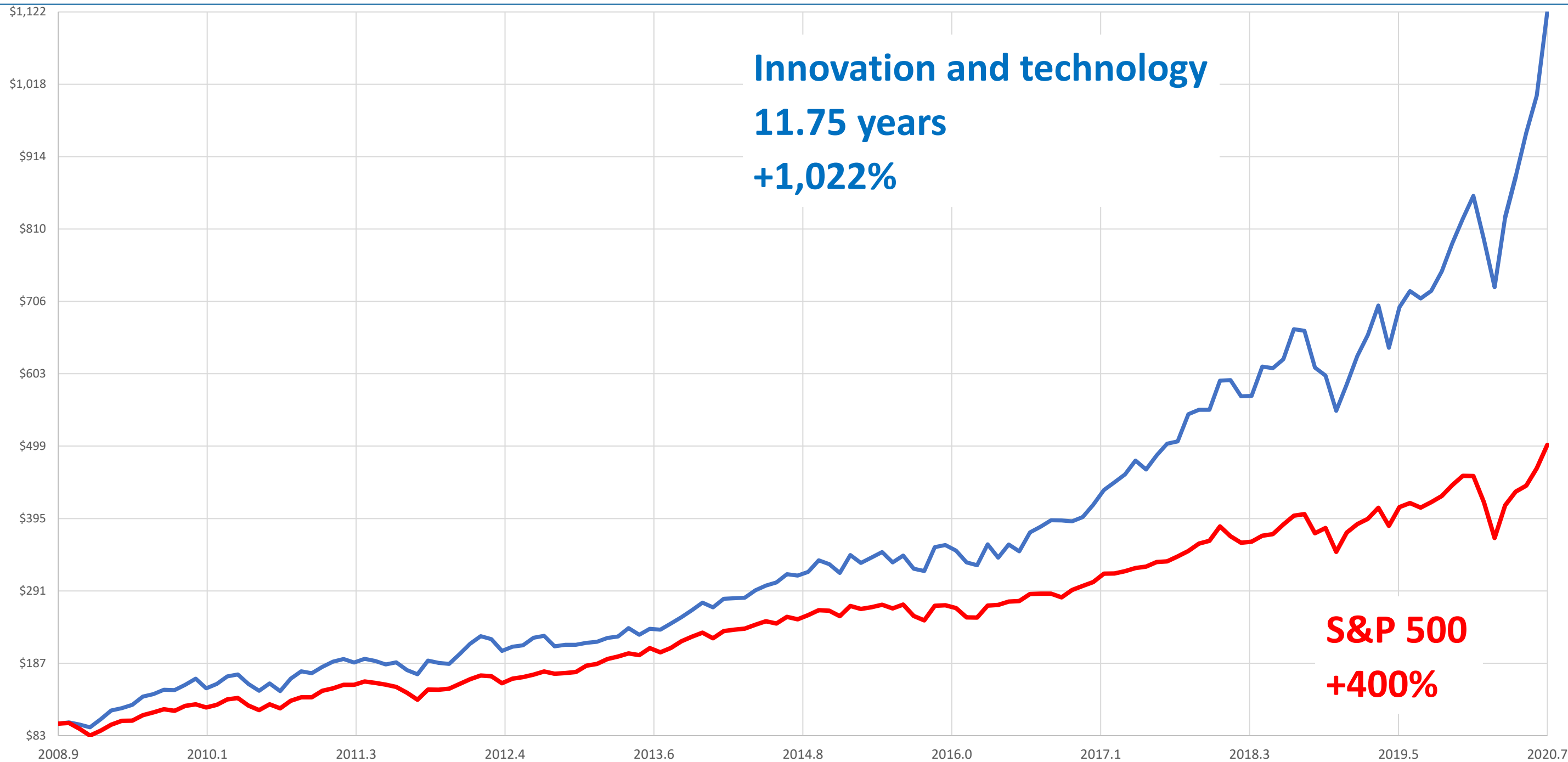
Energy boom and bust



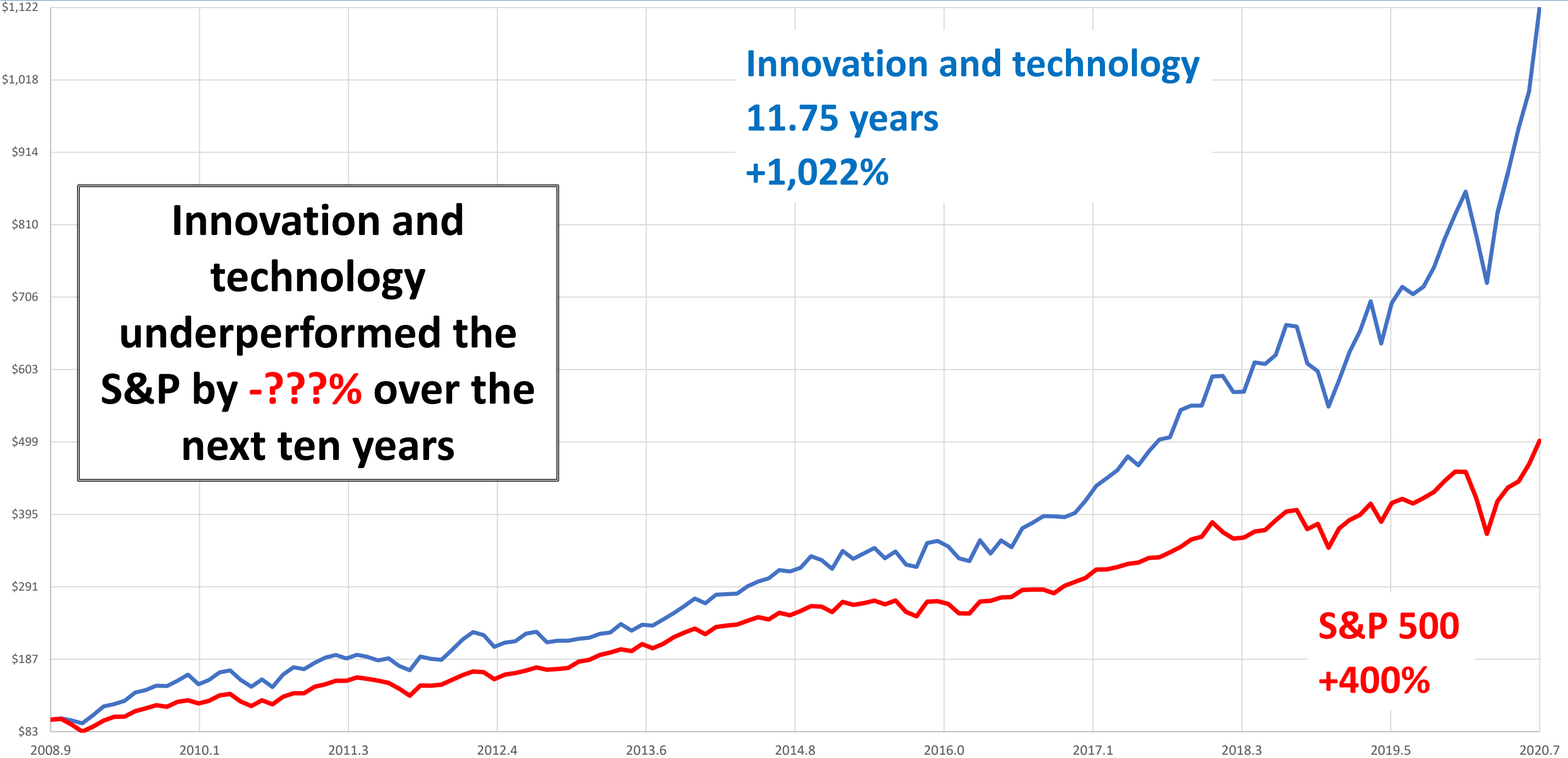
Steel and Iron boom and bust



Innovation and technology boom

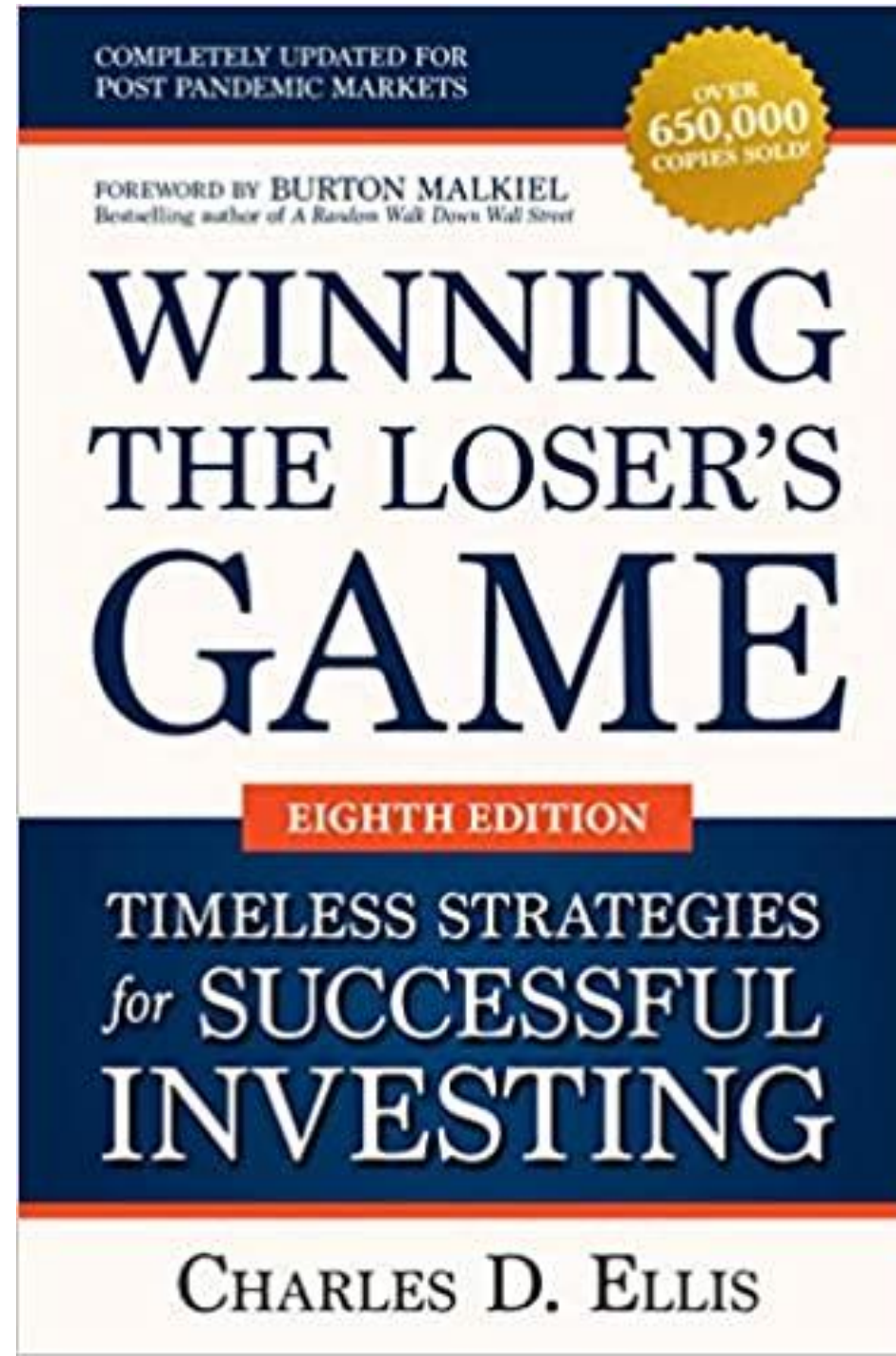


Innovation and technology boom



- “Most people seem to think outstanding performance to date presages outstanding future performance.
- Actually, it’s more likely that outstanding performance to date has borrowed from the future and thus presages subpar performance from here on out.”

- “Every trendy industry in one decade has a habit of destroying its backers in the next.”



- There two types of games
- WINNER'S game
- In a winner's game, the outcome is determined by the correct actions of the winner
- LOSER'S game
- In a loser's game, the outcome is determined by the mistakes made by the loser
- Investing . . . is a loser's game . . . one wins by avoiding making mistakes

Kenny Rogers - The Gambler

. . . . Said that If you're gonna play the game, boy, you gotta learn to play it right

You got to know when to hold 'em, know when to fold 'em

Know when to walk away and know when to run

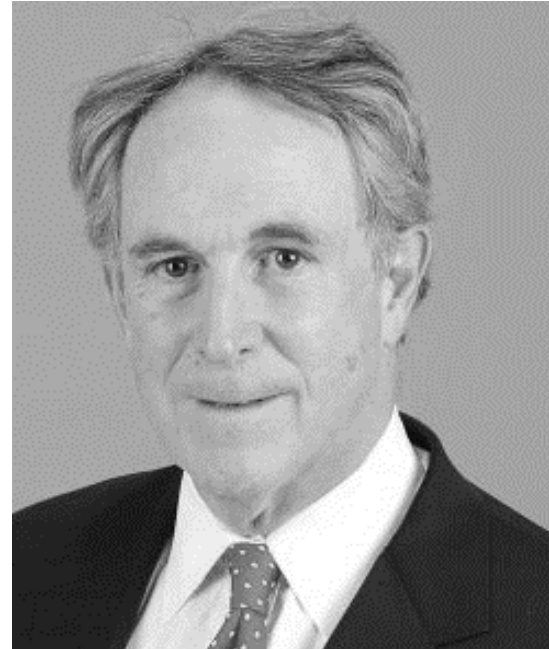
You never count your money when you're sittin' at the table

There'll be time enough for countin' when the dealin's done

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

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