In last months Financial Planning Email Update, I began a series entitled “The Top 10 Reasons Why Investors are Successful” in which we reviewed the #10 reason is “The Successful Investor has a Positive Attitude” and the #9 reason is “The Successful Investor leads a Balanced Life”. This month we will discover what the #8 and #7 reasons are that investors are successful.

#8 The Successful Investor has a Sound Investment Philosophy

When I was in the Bank in 1980 and 1981, I observed a phenomenon which would be my earliest life lesson to do with investing. Some of you may recall from the headlines of the day the price of Gold was rushing towards $800 an ounce and, because the Scotiabank was a major commodities bank, we had people lining up all the way outside the bank to buy Gold. We had some very highly respected customers with the largest safety deposit boxes you can get, full of Gold. Well once all of these people finished buying the gold, it dropped almost overnight to around $300 an ounce where it remained for over 20 years.

It is the financial objective of literally millions of Canadians to achieve maximum profit with maximum safety with the funds they have available for investment. There is no more crucial time in a person’s financial life than the financial planning period, in which to successfully achieve their objective. This is demonstrated by labour statistics. They show us that at age 65, only 4% will retire financially independent, 20% will continue to work because they must, and the rest are dependent on friends, relatives and government.

The steps required are therefore not so obvious. The reason for this is that to achieve maximum safety the investor must place his funds into guaranteed interest bearing investments which because they are interest bearing, have no income tax benefits. Consequently, the safety is achieved, but the profits are eaten away by the twin evils of taxation and inflation.

On the other hand, the investor who decides to place his hard earned funds into stocks or even real estate, antiques or gold, finds that although his potential for growth is there, the margin for mistakes being made by him in the implementation of purchases and sales is very wide. The result often is that the investor makes far less than anticipated or loses far more than he thought possible. Look what happened to Nortel, a highly respected company stock at one time, now worth nothing.

The tried and proven solution to all this is to have your investment dollars placed under proven PROFESSIONAL MANAGEMENT, where the investment decisions are made by competent professional money managers, some of whom are the best in the world.

Furthermore the funds should be placed in accordance with a diversification of actual proven money managers, management styles (growth versus value) and asset allocation with a Buy and Hold strategy for the long run with a focus on creating and maintaining multi-generational wealth.

Why Buy and Hold?

Well Warren Buffett said it best of what will come next in the market:

<u>“No Body Knows”</u>.

History shows us, however, that investments do fluctuate and that declines are temporary and gains are permanent.

To emphasize the ‘stick to it’ approach Fidelity has created a chart entitled “Don’t Miss Out” which is attached. This chart displays the average annualized returns in the S&P/TSX Composite Index with an initial investment of $10,000 and a time period of January 1986 to December 2018. If this $10,000 stayed fully invested over this 32 year time period it would have grown to $116,080. If you had missed the 10 best days in the market this decreases to $49,798, if you missed the best 30 days your initial investment would have only grown to $14,927 and by missing only the best 60 days would result in a loss of $5,915 with your initial investment of $10,000 declining to $4,085.

#7 The Successful Investor has a “Contrarian Investor Behaviour”

Have you ever heard the old expression “Sometimes we are our own worst enemy”? When a client comes into the office concerned about their investments, when we get right down to it, they inevitably say, “the investment has been going down for a while, and well, I think it will keep going down until it’s not worth anything.”

That is called “extrapolation”. The opposite also occurs where, when an investment is going up by leaps and bounds, that a person may feel it will go up forever. Neither of these cases are true. Investments fluctuate on an Eb and Flow basis. Please be aware of one of our investor enemies, <u>Extrapolation</u>.

We should all be aware of “The cycle of Market Emotions”. During each business cycle an investor may feel optimism, then excitement, then thrill, then euphoria which is the point of maximum financial risk, followed by anxiety, denial, fear, desperation, panic, capitulation, despondency, and depression at which we are at the point of maximum financial opportunity. Then the cycle improves with hope and relief returning to optimism.

In August, 1991, I spoke with a couple who had just sold their home and wished to invest $100,000. By December, 1991, their investment was worth $92,000. And they were, of course, concerned. They did apply contrarian investor behaviour and were patient. Since then they have withdrawn over $153,000 and their investment is now worth over $80,000.

No discussion of Investor behaviour would be complete without noting the concept of chasing after the "hot investment" of the day with the usually phenomenal short term recent returns. Statistically, the funds with the best return last year will likely not be the best returning funds the next year. However, the funds with the worst returns have become the best performing fund the following year. More investors have eroded their long term returns by not being patient with their current diversified portfolio and wishing to invest in last years top performing funds.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns that you would like to discuss or review, please do not hesitate to email or call Amanda or I at 519-894-2661 or toll free 1-800-716-5538. Have a great day.

Respectfully Yours, Gary

Gary H. Attack, BBA,CFP®,RFP,RRC® | CERTIFIED FINANCIAL PLANNER® professional

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