Tom Mullooly: In this episode we're going to talk about peer-to-peer lending. What's that? We're going to talk about being an aggressive investor, and since I know this much about technology we'll talk about technology too.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 8. 8 is great. We're making our last episode for 2015. We're getting ready to put party hats on. Tomorrow is New Year's Eve, and we're all looking forward to a great 2016. Hope you are too.

Now the topics that we're going to cover today came up in conversations that we had with our clients or calls, conversations, emails that we had with other folks interested in learning more about investments or learning about things that are going on in the market or financial planning.

Casey, why don't you hit us with the first one.

Casey: First question is, peer-to-peer lending was mentioned on a MarketWatch article. Do you think it's worth it to get yield instead of a CD?

Tom Mullooly: Is it worth it if you're looking for income? Do you remember when you lent money to a friend of yours a few years back and then all of a sudden he stopped like calling and coming around, and then when he would see you on the street he would kind of switch to the other side of the street or go around the corner and he'd just start ditching you, because he didn't want to pay you back. That's peer-to-peer lending. It sounds really sexy, peer-to-peer lending, what's that?

What you're doing is you're throwing money in a pot and it gets split up $25 in a million different directions. What they do is they grade people who need to borrow money, and you can pretty much borrow money for any reason in a peer-to-peer lending deal. If you have top credit scores you are going to have a rate of ... The MarketWatch article talked about, if you're group A you get like a 7% or 7.5% interest rate. If you're all the way down at the bottom group G, you pay something like 25%.

I can't really see how if you're in the lower scores, how that's really going to help you. You're going to be paying some really high rates of interest. I've got to believe that the default rate on this is off the charts high. I can't really see this as being an income alternative. You're taking a massive risk, at least with lending money to uncle Charley, you know uncle Charley, and you know where he lives, but here you're lending money to strangers, you're taking a heck of a risk, and I think it's inappropriate that this even be mentioned as a potential income alternative. Because it is nowhere near the relative degree of safety that you're going to get from fixed income investments.

Everybody is in the same boat when it comes to low yield. The problem now is that folks are really starting to stretch, they're taking on way more risk than they even realize they're doing by getting involved in some of these deals that have higher yields, you're really just asking for trouble. Be very, very careful. Read the fine print. Talk to an advisor before you jump into something like peer-to-peer lending.

It's not necessarily worrying about getting what kind of interest you're going to get, it's getting your money back. I think Mark Twain said, "I'm more interested in the return of my principle than the return on my principle." That's what I have to say about that. Casey, what's next?

Casey: Next question is, "If I'm aggressive investor, shouldn't I be looking to take small profits and keep piling them up?

Tom Mullooly: That's a really good question, and I want to spend a couple of minutes talking about this, because we have clients who tell us they're aggressive. We line up their account in aggressive investments. Some folks think that being aggressive means like you're a Wall Street trader, you're day trading, or you're making a lot of buys and sells, and that just seems like a recipe, in my opinion after 30 years, it seems like a recipe for disaster, and an ulcer. Let's talk about this.

When I hear someone say, "Hey, we made a percent on this." Or, "We made 10% on this investment, why don't we just sell it?" That kind of paints a picture in my mind of someone who maybe never made a lot of money in the market, or maybe never made a lot of money in their investments and they're not used to making 10% on an investment, so they can't handle it, they just want to, "Let's just take the 10% and go." How much money are you potentially leaving on the table by selling something where you made a 10% profit? It's impossible to tell, only time's going to tell.

If you got into an investment because of all the right reasons, you had good reasons and good intentions when you got into it, just because it's up 10% doesn't really necessarily mean the story has changed, it means that your feelings about the story have changed.

Likewise, if the same investment went down 10% what would you do? Would you think about just cutting your loses and moving on, or would you say, "Hey, wait a second, I bought this for this, this, this reason." You want to think about writing down the reasons why you bought something when you buy something, because that's going to keep you in an investment over the long haul. It also tells me that if you're making a series of rapid trades buys and sells, number 1, sooner or later you're going to step on a bomb. You're going to land on something that's going to totally melt, and it's going to kill all of your short term performance. You're going to be paying fees for doing something like that. You're going to get a 10.99 at the end of the year, that's going to be a mile and a half long. There's a lot of work to be done with that.

Like I said, you don't necessarily know how much money you're leaving on the table, so aggressive to us doesn't necessarily mean that we're making rapid fire transactions buy and sell, it means that we want to line up your investments in the most aggressive areas of the market. Hope that makes sense. Casey, what do you got that's next?

Casey: Next question is, technology (and especially internet) did pretty well in 2015, why didn't my investment (a technology fund) do better?

Tom Mullooly: The hardest part about answering this kind of question is we don't know what you own. You own a technology fund. That's a huge umbrella. Do you own a technology mutual fund? Or do you own a technology ETF? Do you own hardware makers? Do you own software stocks? Do you own internet stocks? Do you own semi-conductor stocks? Or is it a fund that invests in all of those areas? Internet did really well this year. Semi-conductors had a really volatile year in 2015. It's really hard to tell where the money in your fund is invested. Not all technology funds are created the same. In fact, if you look at 2 technology funds, ETFs that have the same holdings, one could be equal weighted where they've got the exact same amount of money in each position, and another one could be cap-weighted where they've got a lot of money invested in just a few stocks.

It's really hard to tell. When folks come to us and they say, "Yeah, but my fund didn't do well." We really need to look under the hood and get to know what you own. Technology as a group had a decent year, but some areas did way better than others. We've got to spend some time in looking at the specific fund that you have and the holdings that you have. Keep in mind that now they can slice and dice pretty much any way you can think of. They've got, like I mentioned, equal-weighted versus cap-weighted. You've got all those different sub-sectors like hardware, software, internet. You've got emerging market funds that invest in technology, develop country funds that invest in technology. You've got global funds, you've got just US fund, you've got low-dividend, or low-volatility funds, you've got funds that are really designed for dividends. A lot of different ways to paint that picture. Get back to us with the exact fund that you own, and we'd be happy to spend some time talking about it.

That's true really for anybody watching this. If you've got a specific question about an exchange traded fund, or a mutual fund, or any kind of investment that you have, just give us a call or get in touch with us through the different addresses. Casey you're going to put up our ways to get in touch with us afterwards, but get in touch with us and we'd be happy to give you a free look and our opinion without any kind of cost or obligation.

That's all we've got for episode 8 as we wrap up 2015, we want to say, Happy New Year everybody. Don't forget to subscribe, and we'll see you in the New Year with episode 9. Thanks again.