5 'Tricks' for Better Investing - Transcript

Tom Mullooly: Some recent tips from a Barron's article. We're going to cover that in Episode 129. Stick around.

Welcome to the Mullooly Assets Show. I'm your host, Tom Mullooly, and this is episode number 129. Thanks for tuning in.

Recent article in Barron's talked about five mental tricks for better investing. I always cringe, I don't know about you, but I always cringe when I see the word trick or magic. That implies that there's something special going on. Really, what we're talking about, are mental approaches and habits that might make you a better investor.

I think the main thing that makes people better investors is time. Investing is, and I got this line from the article because it was pretty good, investing is an emotion laden act. It's probably the worst ingredient that you can throw into the soup, because emotions are what make us do really dumb things when you look back in hindsight.

Five things they talked about to make you a better investor. The first one is you hold your losers too long. I guess the question you have to ask yourself, "Are you afraid to admit that something is a loser, that something didn't work out?" Players get elected to the baseball hall of fame with a 300 batting average. That means that 7 out of 10 times they're making an out. They're not even making a hit, and they still wind up with a 300 average and they've got a plaque in Cooperstown.

Can you imagine what kind of pressure we put on ourselves trying to make 10 out of 10 successful investments? It just doesn't work that way. Incidentally, a tax loss, you know when you take a loss on something, a tax loss is an asset when you speak to your accountant. From their point of view they think it's a great thing to have and you can use them to shelter future gains that you have.

One thing that I learned to say from a sales guy way back in my career was, "Hey, you took the bus downtown and you lost on that ride. You can go home on the train or get a car ride home. You don't have to take it back the same way." So you don't have to go down in one investment and wait for it to come all the way back.

Second thing, a second trick that they referred to is you sell your winners too soon. The thing that I always get a little nervous about it, when clients call up and say, "Hey, we've made 10% in this investment, let's go. Let's book our profit and move." That tells me that this is someone who's thirsty for a profit. Maybe they haven't made a lot of money before in their past investments. It's very tempting to do that. Maybe they haven't had a win in a while, or maybe they're just not used to having things go for a long period of time. You have to really focus on what's relevant when you're making a decision about whether to continue in a different investment.

The thing that I try to stress to clients is the price that you paid when you put money into this investment, not relevant about the future of a company, or a future about the company stock, or an exchange traded fund, or any kind investment.

The third mental trick that they referred to in Barron's was you're overconfident and you're taking excessive risks. A lot of people just overestimate their skills. I think we can tie in, Time, we can tie in that piece about how 80% of drivers think they're above average. It works the same way in the stock market as well. In fact, there was a Fidelity trader that we were talking to yesterday who couldn't explain what happened to the bid price after the market closed. It's really scary to think that these people are trading big bucks and they don't really understand how markets work.

Point number four from the article, you tend to wing it and you focus on the wrong clues. That's actually a pretty good point to talk about. A lot of people aren't systematic when it comes to their investments but they should be. They should be dollar cost averaging or putting a regular amount of money away over a long period of time. A lot of people are looking for patterns but a lot of times there just isn't a pattern there, or they're trying to read the tea leaves and there's nothing there. As Americans, we spend more time planning a trip or a vacation than we do planning our retirements. That's really kind of screwed up.

The last point from the article is, stocks are tanking and you're itching to make a trade, or to sell your stocks. Okay. That happens a lot. A lot of people, 2008, still fresh in their minds. The thing you have to remember with 2008, is that not only did we have a recession that was driven by real estate but we also had a baking system collapse. A lot of people don't even talk about that. The banks themselves had to get bailed out, plus we were going through a recession. There's a lot of folks who will look back and say, "Hey, the market's down today. I don't want to go through what happened in November and December when the market went down nearly 20%."

Then there's that fear, and we can hear it in people's voices, the fear that this investment is going to zero. A lot of times we'll talk to clients, just to kind of keep things in perspective, if the market's been down a lot over a couple of days, I'll say, "You know, if it continues at this rate the market will be at zero in 35 days."

We have to keep these things in perspective.

Interesting article from Barron's. I know that we'll link to it in the show notes. Pretty good reminder that we're all human and we all make mistakes. That's why it's good to have someone else looking over your shoulder. That's why it's good to talk to an advisor.

Thanks for watching Episode 129. Catch you next time.