Don't Check Your Account Daily - Transcript

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Tom Mullooly: Welcome back to the podcast. This is episode number 302, the Wilmington, Delaware episode. Here with me again this week, Tim Mullooly.

Tim Mullooly: Hello everybody.

Tom Mullooly: And Brendan Mullooly.

Brendan M: Let's get rocking, what are we talking about?

Tom Mullooly: Let's do it. Ned Davis Research came out with a report just in the last couple of days.

Tim Mullooly: Yeah, there was an article we saw on CNBC and the headline said how eight out of 10 advisors see markets diving lower, and then they said in the article, it was 81% of the advisors that said they surveyed 750 US based advisors. In line with that, eight out of 10 who see the market diving lower, they said that may drive those advisors to move to cash on behalf of their clients. I thought it was just interesting about how we talk here on a weekly basis about individual investors and people doing it on their own, making these decisions to go all in, all out or sell into the panic of what's going on, trying to pick the bottom. And then this article said eight out of 10 advisors are doing the same thing.

Brendan M: Yeah, I had a different take on it, in the sense that I think as advisors, we, I think mentally have to prepare for the worst situations that might ensue, and we may not necessarily act or position clients based on that. This survey, again, I don't know who they surveyed or what they're actually doing with their money, but we always try to think about what could be the worst. And so, advisers may just be mentally preparing for the fact that they think we may have another leg down to go before we ultimately resolve this.

But it doesn't necessarily mean that they're pulling people's money out of the market or tinkering with their portfolios as a result. It may in some cases, but I also think that it's important to just put yourself in the headspace of these other people, and I don't think it's irresponsible to be planning or thinking about the future that way.

Tom Mullooly: Well, to steal a phrase, that's fascinating because I actually got a completely different take from this. The thought that I had after reading that was, how many advisors are playing with the client's safety money, that they have money at risk that really shouldn't be? And maybe what they're really looking at is, okay, we've got a little exposed or a little overexposed into equities, and now we've got to figure a way to get this back and balance, that it needs to be a 60/40 account, or it needs to be some other mix where there's money that's available in cash. Now, I don't know if that's because of a breakdown in communication between client and advisor, or just blind faith in the advisor, he or she is going to take care of this. I saw that as maybe they've got too much of their client portfolios at risk, and they're looking for an opportunity to raise some cash before another leg down.

Tim Mullooly: I understand what you're saying Bren, and I think that it's a small sample size for what they were surveying and talking about. They only quoted a few advisers in the article. They were saying using the phrases like until the dust settles, we're to remain in less risky cash investments and then try and get back in. It said to me that there are advisors out there who will tell you that they can pick the bottom and try and get in, get out and they can see what's coming in the future. We've talked about on previous podcasts how if someone tells you that they can do that, you should run away from them.

Brendan M: Yeah. Unfortunately, I think there will always be a market for that because people want to believe that somebody can nail it for them time after time, and definitely not the case. I've always just ... This doesn't even just apply to the survey though, my previous point, I think it would be a lot more telling too, if people being interviewed on financial television instead of doing bullet points next to their face on the TV while they're talking, if they just showed their portfolio.

Tom Mullooly: Right. What transactions have you made in your own account?

Brendan M: People will talk all the time about things that they do in an interview or answer questions in a survey. It doesn't necessarily mean that that's what they're doing with their money or with their investors money. I think it's important to remember that because you read these things and it makes it seem like people are acting in a certain way, and I don't necessarily buy into that idea.

Tim Mullooly: Yeah.

Tom Mullooly: I also would view that information that eight out of 10 advisors are expecting another move lower in markets as a contraindicator. It's probably an indicator that things may move the other way, and that ties in nicely with Nick Maggiulli’s post from a few days ago about the dash to cash and the American association of individual investors. This has always been a contrary indicator. They seem to raise cash at the worst possible times when they really should be putting cash to work.

Brendan M: He also brought up a good point in the article though that just naturally, if investors haven't been rebalancing or doing ... If you're doing nothing, which I think is better than panic selling, if you haven't rebalanced, then you just by the nature of how things work, have less money in stocks than you used to, because they went down and you got more money in cash or bonds because they've held up or even appreciate it a little as you've collected interest. But generally, I agree, it's usually a contrarian indicator, but not in the sense that I wouldn't back up the truck and invest my money based on that as my decision making tool. But it usually is like a decent signal.

Tom Mullooly: American Association of Individual Investors, they started serving their members in 1987, peak cash in early fall of 1990, that was right at the depth of the recession, 2002, 2008 and now. I mean, the amount of cash readings that they posted or that Nick posted in his article, it's not even close to where the readings were in 2008.

Tim Mullooly: Just going back to like the consensus of when everyone seems to believe one thing, it's not a surefire indicator that the opposite is going to happen, but I mean, we talked about it on the video this week for the Mullooly Asset Show and brought up the more relatable analogy of when the Patriots were losing to the Falcons 28 to three.

Consensus was at the end of the third quarter, the Falcons were going to win the Superbowl and we all know that they didn't. I think it's just important to remember that even when majority or consensus says one thing's going to happen, it doesn't necessarily mean it's going to happen. It doesn't mean that the opposite is definitely going to happen, there's always just a range of outcomes that are out there. No one can predict the future.

Brendan M: I wouldn't necessarily, like you said, I'm not telling anybody to just automatically take the opposite of consensus every time because that's just a dumb thing to do when people do it just for the sake of it. Because then, if they're taking the other side and it's a low probability event and then it happens, they get to trot around like the champion who called it when they just do that every time, and then all the other times where the low probability event doesn't occur, they just don't say anything and we all forget about it and we move on. I think it's important to just stick to your plan, and you should have had a plan before this and you should stick to it, and I don't think you should be acting either way based on sentiment surveys. Because again, we don't know how people taking these surveys are actually positioning their money.

Tom Mullooly: Right. One last thing, I just want to throw in, before we move on to an article that we saw in the Wall Street Journal. Helene Meisler was on the TD Ameritrade Network this morning and she raised a really good point because all of these technicians are now being asked about the retest of the bottom. It seems to be everybody talking about it lately. The market's going to retest the lows. We don't know for sure, but one thing that she pointed out and she's a great follow on Twitter, by the way, many times, if a market does retest its lows, it is weeks and weeks and weeks and sometimes months after the initial low. It's not going to happen tomorrow. I think people take these beliefs or these things that happened in the past and they just extrapolate them into happening by 3:15.

Brendan M: Well, when you look on a chart, it looks like the retest occurs nearby the bottom, but it doesn't account for the passage of time in between, especially when we shrink these charts to show 20, 30 years of market history. I would also add to that, just because you think a retest is going to occur, it doesn't mean that you're going to have the fortitude to then buy in if it occurs, if we're back at the lows or God forbid, through them, are people really going to want to invest? I mean, I just know-

Tom Mullooly: No, it's the end of the world.

Tim Mullooly: They double down on their decision from the first time it hit the lows in my opinion.

Brendan M: Day-to-day lately, we've seen incredible daily swings just over the last month or two now, and I know that my mood has been impacted by what happens that day in the market. It's natural. If you're watching this, how could it not be? If you're down 10% one day and then up 10% the next, you feel a little bit different based on what's going on in the tape that day. I think that if we're retesting the lows to not bake in the fact that you're going to be fearful and upset at that point in time, I think that's naïve, because I'm just not sure you're going to be ready to pull the trigger if that happens.

Tim Mullooly: I think it was a few episodes ago when you were saying what we're taking away from this time right now, and you said it's important to remember how you're feeling right now, and if you remember how you felt when we got to the low the first time, just remember that when it comes to the low the second time. I feel like a lot of people, they're going to feel the same way and it might even enhance that feeling of feeling scared or feeling nervous because it's happening again.

Brendan M: Yeah. I just think a more sensible thing to do if you're concerned about a potential retest of the lows or the survey that came out, you think that we're going lower, and for whatever reason you have money to invest and you have been paralyzed because you think, maybe it's over, maybe I should put everything in, or I think we're going to retest, so I'm going to hang onto my cash. I think a much more sensible thing to do is just to admit that you're not going to nail the bottom and say, you know what, these prices are probably going to be pretty low in hindsight, three, five, 10 years down the road, I'm going to be happy I bought at all, not necessarily that I bought on this specific day, so to just say, hey, over the next one to two months, every week, I'm going to buy X dollar amount until the money that I have to invest is invested. I think that you'll be happy you did in hindsight, and you won't care that you didn't nail the bottom or that you didn't wait for the retest.

Tom Mullooly: I think that's good advice, and for the real fraidy cats out there, you could, instead of doing it over weeks, you could spread out over months and still be okay.

Brendan M: Yeah, you could do whatever you want.

Tom Mullooly: You could have bought throughout 2009, through the whole year, even in 2010, you would have been happy, a year later with these purchases.

Brendan M: Yeah. I think ultimately, if you're going to do it, just set percentage of whatever money you have to invest forward or a dollar amount and just stick to the script. And whatever that is, like you said, if it takes you a whole year to get invested in, that's fine, but get something in motion and then stick with it. Don't rip it up based on what the market did yesterday.

Tom Mullooly: That's the hardest part. I can tell you early on in my career, I was setting people up to do dollar cost averaging, and everything would be working out great month, after month, after month, money would go into these mutual funds and then the market would start to go down, and people would call and they would actually stop. I'm like, this is exactly when you should be doing it. Yeah, but I'm losing money, I can't handle this, and I'm throwing more money after something that's already down. They just couldn't see it.

They just couldn't understand the picture. I guess I didn't do a good job showing them how that was going to benefit them to be continuing to buy throughout all of the downs and ups, it's unfortunate. Very good article in the Wall Street Journal by Dr. Bernartzi who is at UCLA talking about behavioral investing. Headline, Here's Why Some Investors Panic, and Here's How to Make Sure You Don't.

And he actually lead off with an old bet that was introduced by a Paul Samuelson who won a Nobel prize years ago, and it goes like this; I'm going to flip a coin, if it lands on heads, you'll win $200. However, if it lands on tails, you lose $100. Want to bet?

Brendan M: Most people don't because the point is that losses feel worse than gain feels good, and so people need more incentive than a double to feel comfortable. If you said that same bet, but I'm going to get $1,000 if it lands on heads, and then I lose $100 if it tails, I might be more enticed to do it. Everybody has a slightly different threshold in terms of what they're willing to risk to gain certain things.

Tim Mullooly: One of the points that he made in the article that I liked about how humans are wired to hate a portfolio full of red ink, a little side point that I think platforms and people would benefit if they would just stop reporting positive or negative gains and losses in red and green, didn't Dan Egan and Betterment look into doing that and they've changed how they report, just because I agree with what he's saying. You see red and your emotions change.

Brendan M: Yeah, you assume danger, like I have to do something. This is bad, I better act. But they're showing you a daily move on a portfolio that was constructed. Even if you're 70 years old, you ... I mean, the way that we build our financial plans here, if you're 70 and you have an investment portfolio, you still have a 20 plus year time horizon, obviously nobody knows exactly how long any given person is going to live for, but we plan for multi-decade even at that point in life for people. And so, if you constructed something that's set on a 10, 20, 30 year horizon depending on how old you are, why in the world would you be afraid of what's happening on a daily basis?

Tom Mullooly: I think they see the instant reaction, and they say, I feel like I have to do something.

Brendan M: Right. I understand that, but the way that these like platforms are created and the way the news is reported, it doesn't help anybody because it's giving them the wrong information. The article talked about different ways that you could combat this, and one of them is literally just not looking at this thing daily. You don't need to check your portfolio daily. I know that a lot of people do, I know some people check in once or twice a year. Obviously, you have to find what is right for you, but if it's causing you anxiety, the first thing I would do is maybe try to move from daily to weekly or something like that because I have some numbers. If you're just looking at what the market does measured by the S&P 500, if you're looking daily, your odds of seeing losses are about 50%. It's a coin toss on a day to day basis if the market is going to be up or down, but if you're looking on a quarterly basis, it's about 70/30. Meaning most quarters about 70% of the time, they're up, 30% are down. So, if you're checking in once every three months, the odds of you seeing something higher than what you saw before have improved dramatically from the daily check in.

And then yearly, you're up to like 75% of the time. Markets are up 75% of the time on a yearly basis. Five-year, we're up to 86% of the time, not that anybody is going to not check it for five years, and then on a decade basis, you're up to 95% of the time, 20 years, you're up to 100% of the time, market's up. So, if you can just cut out the daily check-in, you can shape the nature of your own reality in the sense that if you check every day, you're going to see red half of the time at least. If you could just move to quarterly, you'd see a lot less red. So if the red makes you sad, then that's a way to stop seeing as much of it. It doesn't involve you tinkering with anything in your portfolio.

Tim Mullooly: He said in the article how we are wired to be nearsighted in terms of the news. So, it makes sense that if you log in every day, you're going to be hyper focused on what's happening that day versus the next day. He said it's tough because a lot of people tend to only focus on the short term news when they're making decisions, they can't see the benefits or the consequences of what they're doing five 10 years down the road. They're going to act on what's happening right now in front of them on the screen and what they read in the news over the last week. And that's what makes it really tough.

Brendan M: Yeah. Whether it's, whether it's a website or the article mentioned like apps too, the fact that you can pull up your phone and check on your portfolio and then potentially do trades if you want to in an instant.

Tim Mullooly: Right.

Tom Mullooly: Holy crap, why would you ever need to do that?

Brendan M: I don't know.

Tom Mullooly: Great question, but-

Tim Mullooly: A lot of people do.

Brendan M: ... but it's available to us, so I don't know. I mean, technology is great, I'm just not sure that that's adding anything to the longterm investor's benefit.

Tim Mullooly: It just adds the opportunity for you to make a mistake.

Brendan M: And so again, another way that this stuff is reported to us, whether it's an app or a website or even account statements that go out, another idea that was floated in the article that I think is a good one is to think of market moves and the ramifications on your future like stream of income that you're going to take from the portfolio as opposed to the daily account balance. Because the daily account balance, unless you have a date in the future where you plan to take the entirety of the investment account in a lump sum and spend it on something, then that's the wrong way to think about it because you're going to, while you're working, make periodic contributions to a portfolio. And then for most people, when they retire and they want to live off their money, they're going to take periodic distributions from their portfolios. That means pieces of this money in the account have longer and shorter time horizons than others. There could be X amount of dollars that you are going to spend in the next year, and then there's what you'll spend in year two and three and four.

So, if you think about your portfolio and troches like that, you have a good portion of your money that has multi decade if not just multi year time horizon. And so, to treat that all as the same pile of money, I think it's missing like an integral part of the conversation there.

Tim Mullooly: In terms of focusing on the short term, it reminded me of an article that I linked to in my daily links this week from Ashby Daniels who wrote about the four stages of a bear market, and there were a couple of decision points along those four stages. The first one was, all right, you can either accept what's happening in the bear market or you can panic and sell out. But I think the more important thing that ties into this article was the second decision point where it was acceptance again versus permanent damage.

So, just because you made a short term mistake and you might've sold out while the market was going down, as a bear market progresses, we are eventually going to hit a bottom and you're going to come to that decision point where, okay, I need to accept that the market is moving back up and things might begin to look better and we might move towards a bull market, or you can choose permanent damage and never get back in.

I think that just not compounding your short term mistakes into longterm permanent damage, is like the saying, it's okay to be wrong, but it's not okay to stay wrong when those things change. You can make a short term mistake, that happens, but don't let it completely ruin the rest of your financial future.

Brendan M: I think an important point to add on top of that, which is good advice, is that if you freaked out of your portfolio on the way down, do not put the same portfolio back into place because it is obviously not a fit for you. You need to go back into something more conservative that takes into account the fact that you freaked out. You can't just say, I made a mistake and what I was doing was right and I'm going to go back, because I think that's ignoring the fact that you couldn't stick with it last time, so why in the world would you be able to stick with it again the next time. And to say that you will now in hindsight, when you know the future and you know how it unfolds, is-

Tom Mullooly: You can't do that. Yeah, you're setting yourself up for failure, don't do that. And it's fine if you, like you said, instead of taking on permanent damage, you're accepting the fact that a mistake was made and that you're going to move forward from this, but just learn the lesson from what happened. Don't just ignore it completely and dive right back in. I cannot stress that enough. That's a mistake.

Okay. That's going to wrap up the Wilmington, Delaware episode number 302. Our next podcast will be from Denver, Colorado 303.

Tim Mullooly: Nice.

Tom Mullooly: And after that, we'll be going to Wheeling, West Virginia 304, followed by a quick trip to Miami in 305. Thanks for tuning in.