CANADIAN INVESTORS' COURSE

Session 17: Psychology, You and Your Advisor

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Sometimes, in investing, we are all our own worst enemies!

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International Herald Tribune, October 27, 1989.
Kal, Cartoonists and Writers Syndicate, 1989.

Make sure you match your advisor with what you want

1. Hopefully, through this course you have learned about all the different instruments and investment styles available to investors.
2. Choose WHAT INVESTMENT STYLE YOU WANT.
3. Match yourself with an Advisor who can deliver that to you.
4. Advisors that have higher licensing can have many investment styles and a broader mandate.
5. Don't let the Advisor steer you to what they want to do or are restricted to do.
6. An IIROC Advisor has access to almost every type of investment. It doesn't mean they use everything they have access to. There is nothing wrong with an IIROC Advisor using one type of investment product. It's their style and, may reflect their abilities.
7. Not all advisors apply RULES BASED INVESTING. It is a discipline and requires effort, but nor is it extinct: you will probably find one or more advisors in your community who are willing to make the extra effort to maintain this discipline.
8. Go to the Locator on this site to find one.

You and Your Advisor

1. Create an IPS (Investment Policy Statement: Session 13)
2. Don't be afraid to ask questions regarding the market or your portfolio.
3. A good Advisor loves an educated client, he/she will help that happen.
4. Look at the whole portfolio. If you only want to discuss the stock(s) that are down and complain about them, do you really understand the concept of owning a portfolio of holdings? Discuss it with your Advisor. Even the DJIA has its Dogs.
5. If you are calling your Advisor 5 times per day (☺), it shows you are watching the markets too much and possibly 'not seeing' the longer term picture. It could be the relationship.
6. Don't be shy to ask your Advisor about an investment idea. Some of an Advisor's best ideas come from clients. A good Advisor will do research for you about these ideas.
7. A good Advisor MUST temper his/her client's emotions. At market extremes this can be difficult. They have research and tools that help them do this. Take this CIC course.
8. Remember that you have a certain level of risk. If you demand to match the return of the market index this may lead your Advisor to buy the Index itself just to keep you happy, but will also guarantee that you catch a Bear market.
9. Selling into a very expensive market is a sound policy over a stock market cycle. Discuss with your advisor about profit-taking, capital preservation and selling "too early"
10. Your Advisor WANTS to make money for you, but has be aware of your risk parameters.

Investor Psychology

1. People, generally, buy high and sell low.
2. Online investing and the investment media has caused more inexperienced investors to eventually fall into the buy high/sell low pattern.
3. More trading has occurred because of this.
4. The Investment Advisor community has gone the other way. Trading is rare among most Advisor's clients. Most accounts are not commission based.
5. Humans get bold and irrational at Market Tops and scared and irrational at the Market Bottoms.
6. The Bull market since 2009 has not been driven by large earnings growth. The bulk of profit in stocks come from accounting adjustments and large increases in market multiples. This creates huge emotion and irrational speculating. Investors are pouring billions everyday into Index ETFs, which benefit in this kind of market. This could present a problem when everyone tries to exit at once. Time will tell…
7. Usually, a good discipline for buying investments forces you to do the opposite of the crowd.
8. Investors hate holding Cash at the Market Top and want to be in cash at the Market Bottom.
9. Buy and Hold philosophy is most popular in long rising markets and market Tops.
10. Buy and Rule ® should be popular all the time!!

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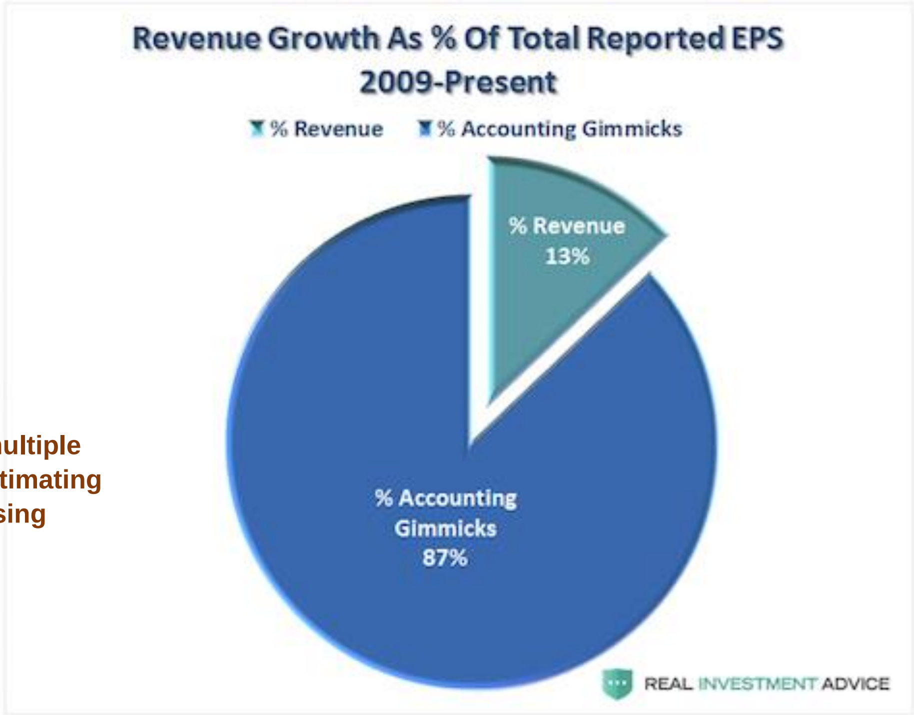

Stock buybacks, P/E multiple expansion and over estimating earnings (Banks not using FASB157 Rule)

Investor Psychology Cycle

Look at the next slide and the emotion roller coaster that investors go through. This goes for all types of investments.

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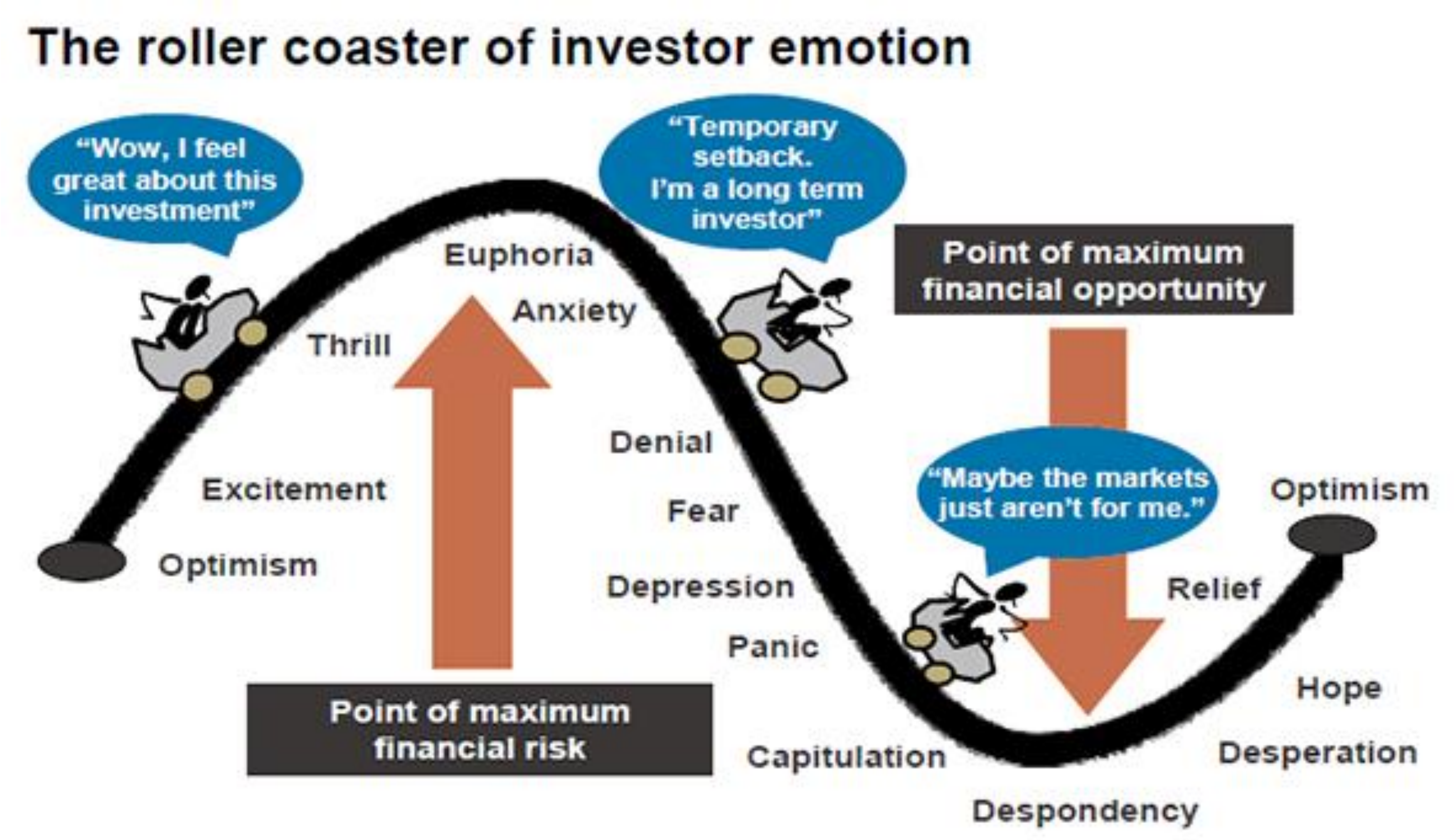

A few investor Sentiment indicators that measure psychology:

NYSE Bullish Percentage – This measures the percentage of stocks on the New York Stock Exchange (NYSE) that are in bullish technical patterns based on point and figure graphs. In a normal market we would expect this metric to range between 40 and 60%, as some strong stocks are offset by weaker ones. When the number travels too far to either extreme, it indicates markets are either overbought (greater than 80%) or oversold (less than 20%).

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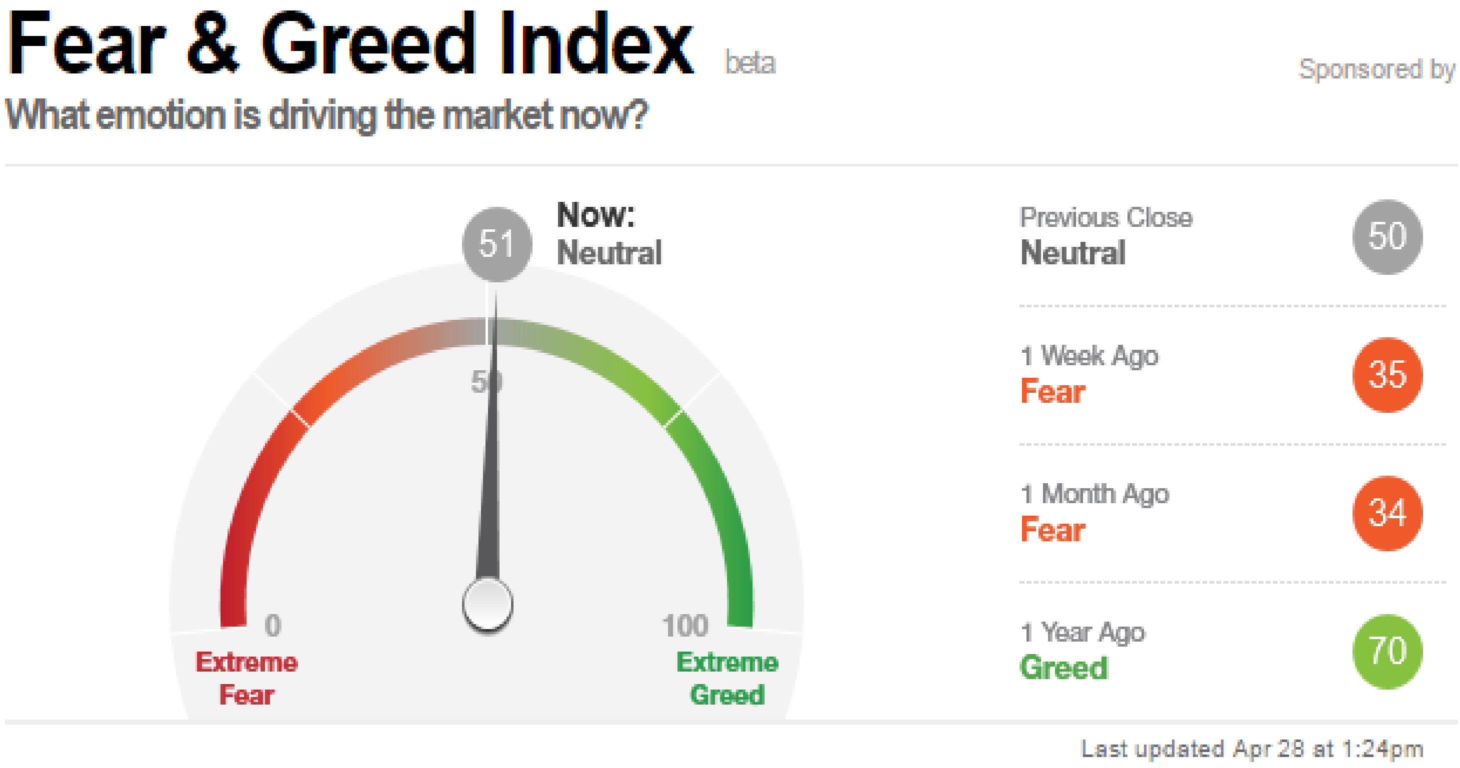
This indicator can be found on the CNN website



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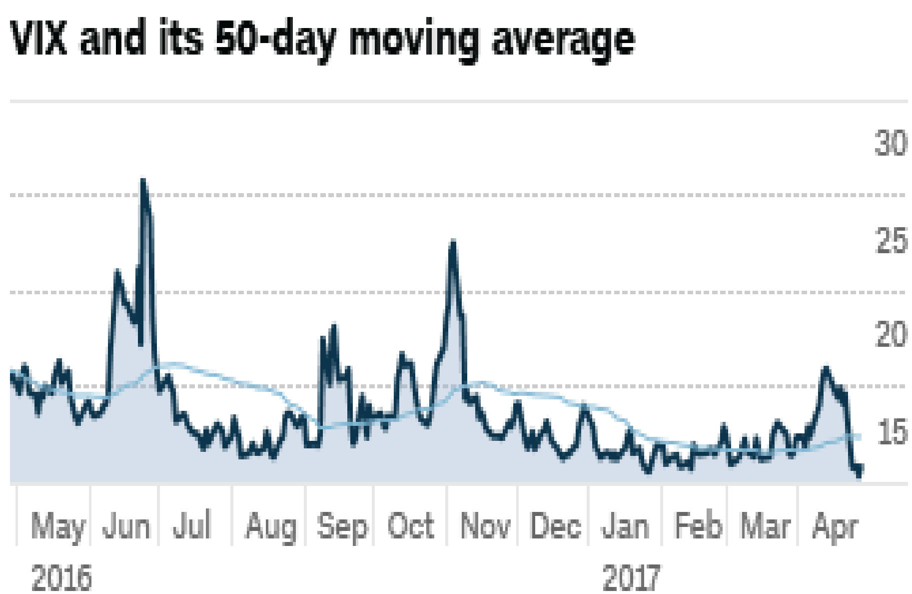
This index shows huge complacency. Portfolio managers buy this investment as a hedge in case of a stock market drop. The current level is one of the lowest in history!

Market Volatility | Neutral

The CBOE Volatility Index (VIX) is at 10.96. This is a neutral reading and indicates that market risks appear low.

Last changed Apr 21 from a Fear rating

Updated Apr 28 at 1:33pm



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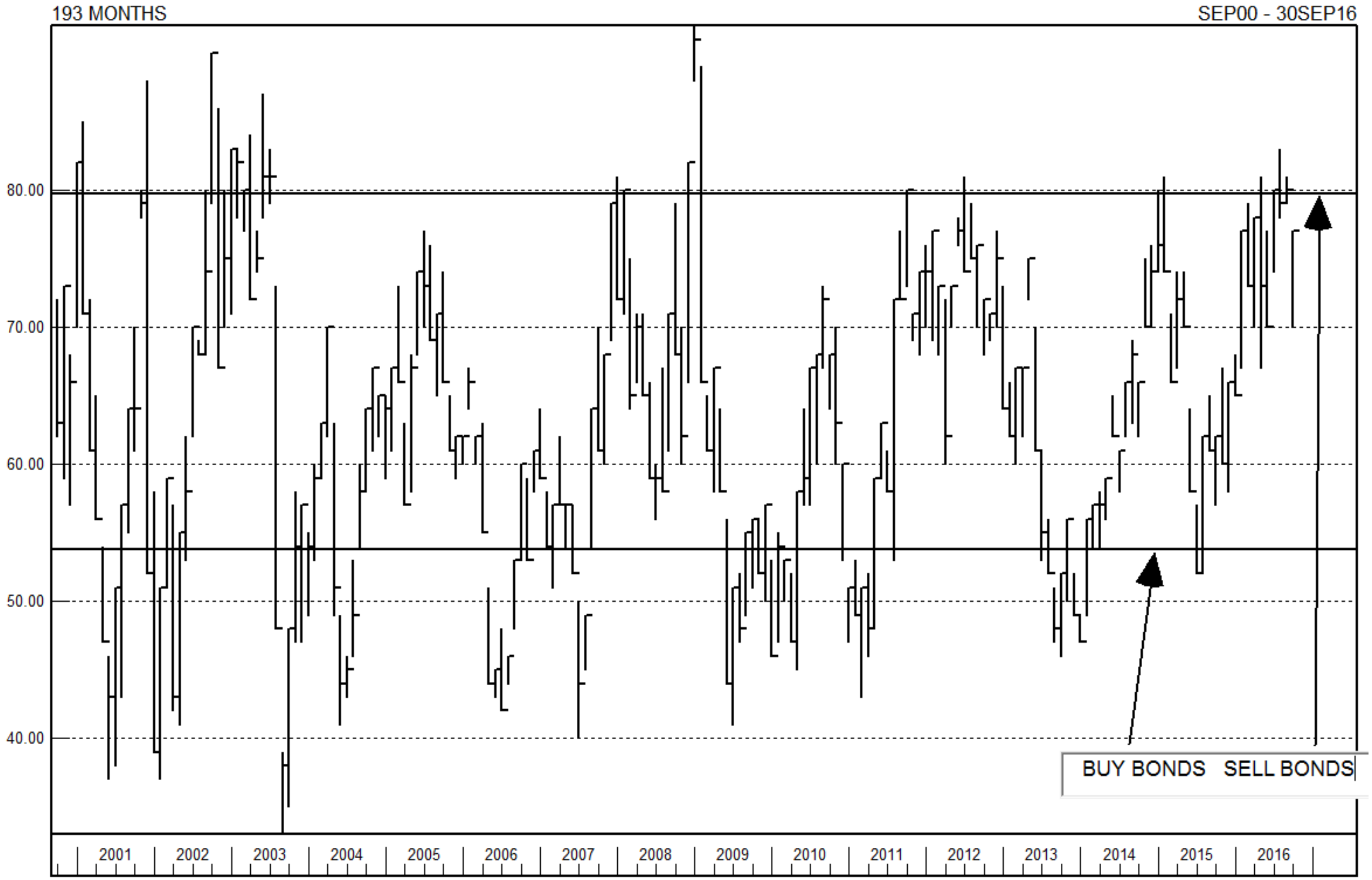
Percentage of Investors Bullish on the Bond Market



McClellan Volume Summation Index

Stock Price Breadth Fear

The McClellan Volume Summation Index measures advancing and declining volume on the NYSE. During the last month, approximately 0.88% more of each day's volume has traded in advancing issues than in declining issues. This indicates that market breadth is improving, though the McClellan Oscillator is still towards the lower end of its range for the last two years.

Last changed Apr 25 from an Extreme Fear rating

Updated Apr 28 at 1:34pm

McClellan Volume Summation Index

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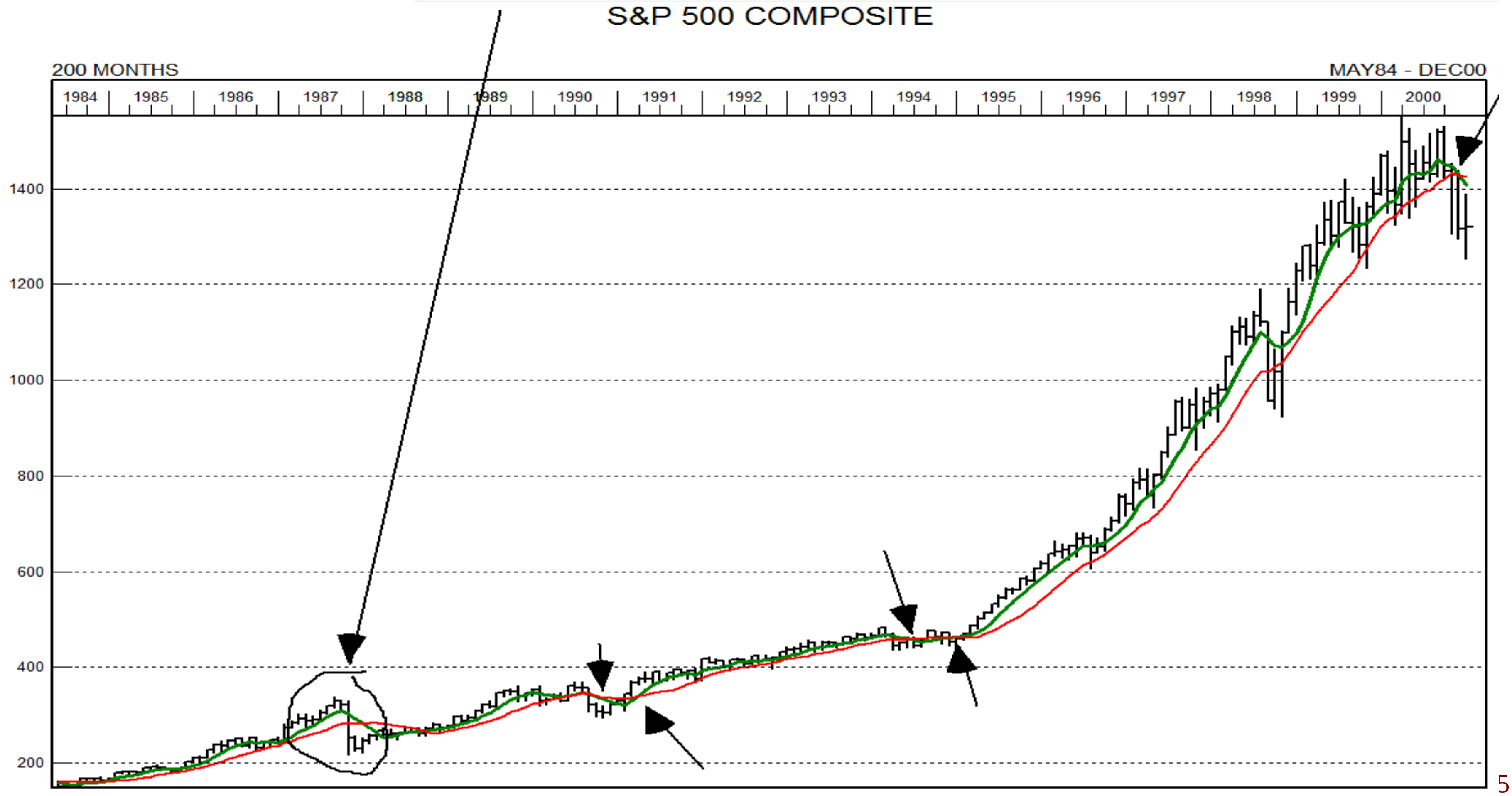
Sometimes you must do something 'mechanical' to help overcome emotions. Look at the Crosses that gave significant signals (some were not important), imagine what the News Headlines were saying at the time. Most likely it was very Bullish on a 'SELL' and vice versa.

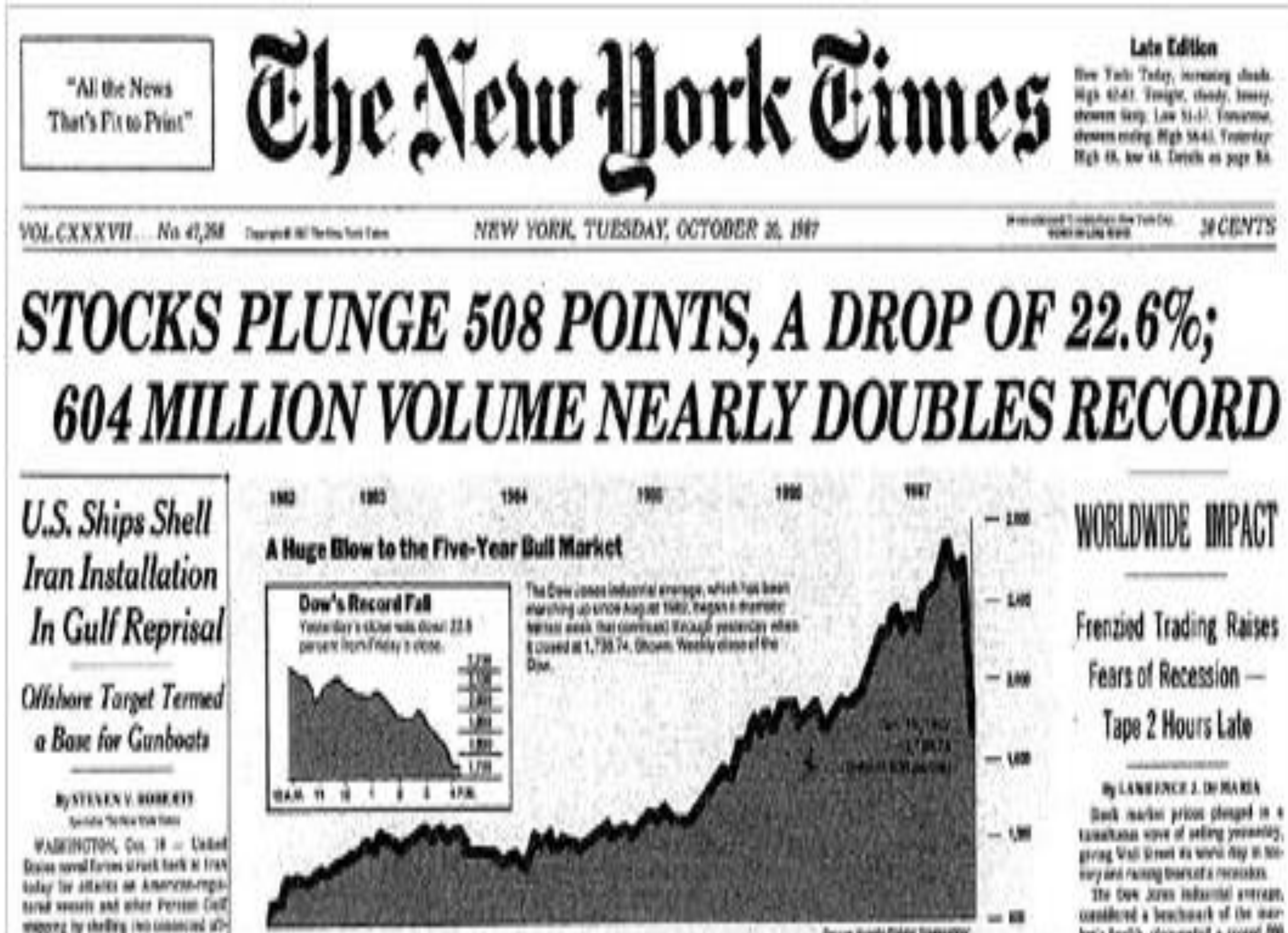
look at headlines during the area circled below



Investors should have bought stocks

October, 1987

STAY OUT!!!



"All the News That's Fit to Print"

The New York Times

Late Edition

VOL. CXXXVII ... No. 47,358 — NEW YORK, TUESDAY, OCTOBER 20, 1987 — 30 CENTS

STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

U.S. Ships Shell Iran Installation In Gulf Reprisal

Offshore Target Termed a Base for Gunboats

A Huge Blow to the Five-Year Bull Market

Dow's Record Fall

WORLDWIDE IMPACT

Frenzied Trading Raises Fears of Recession — Tape 2 Hours Late

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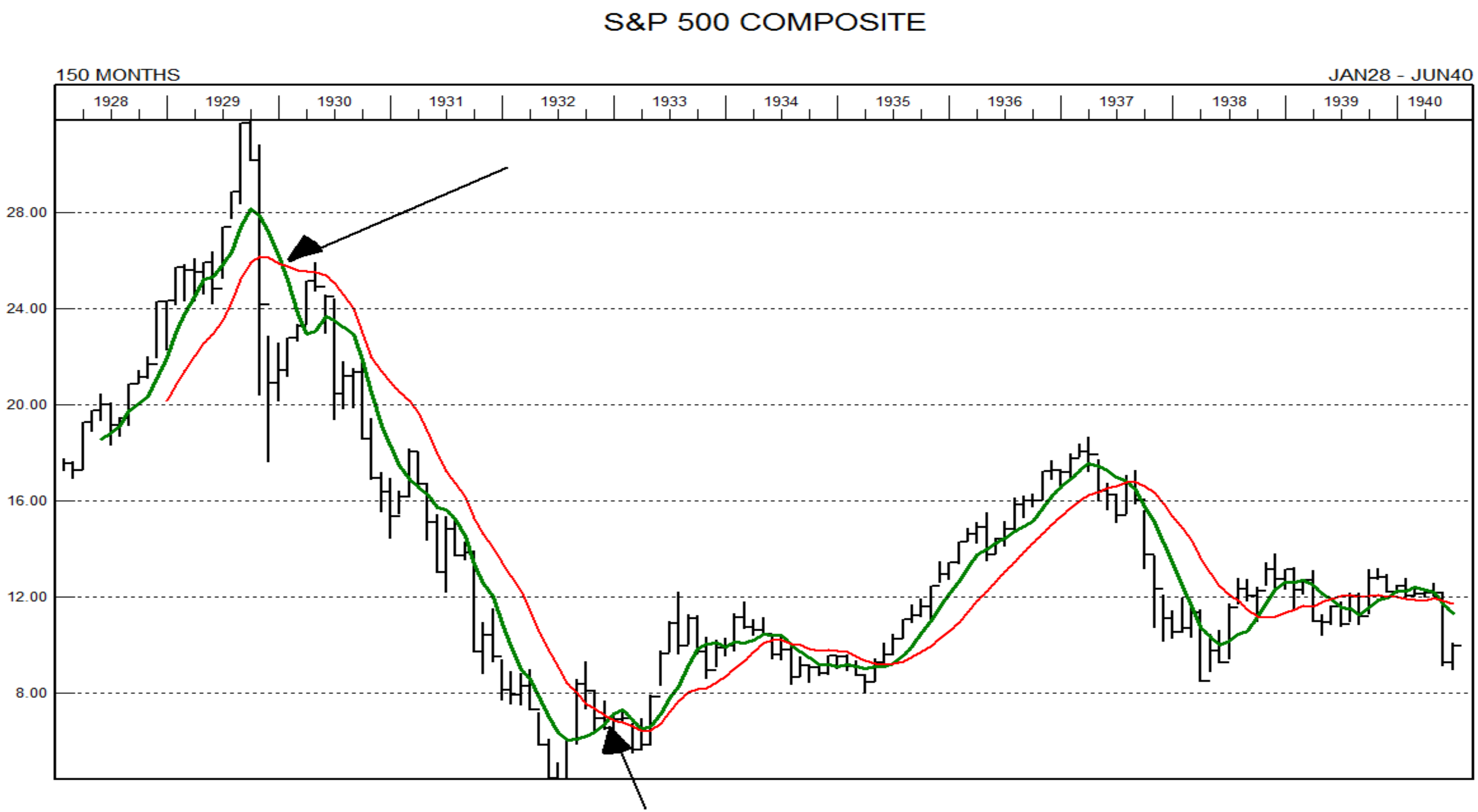
Let's look at the 1920s and 1930s (Depression). Here are a 1929 and early 1933 newspaper Headlines after this slide. Below is what the Cross indicated. The 'Buy' Cross in 1932 led to a 160% gain by the time the next 'Sell' Cross occurred in 1934! And the stock market went up 300% from the 1932 low!



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Investors should have sold

1929

FEED ME!!!

THE ONION

Stock Market Invincible

'Buy, Buy, Buy!' Experts Advis

all Street, pirits Soaring

New Brain-Surgery Technique Change Face of Modern Medici

New 'Easy Credit' Delays Financial Catastrophes until 1930s

The media, for the most part, reflects the Fear or Greed in the general public. It has been a great contrarian investment signal at the extremes, in other words, invest opposite to what is recommended.

There is a saying: "the reason why newspapers are not expensive is because they report history. I'll pay much more if you can give me next week's paper today".

Review the headlines below on your time to see what was said between 1920 and 1933. Remember, the stock market peaked in the Fall of 1929 and then fell 80% until late 1932. The stock market went up 300% from the 1932 low!

The Great Depression 1929-1932 Headlines:

September 1929
"There is no cause to worry. The high tide of prosperity will continue."
- Andrew W. Mellon, Secretary of the Treasury.

October 14, 1929
"Secretary Lamont and officials of the Commerce Department today denied rumors that a severe depression in business and industrial activity was impending, which had been based on a mistaken interpretation of a review of industrial and credit conditions issued earlier in the day by the Federal Reserve Board."
– New York Times

October 29 1929
Stock market crash

December 5, 1929
"The Government's business is in sound condition."
– Andrew W. Mellon, Secretary of the Treasury

December 28, 1929
"Maintenance of a general high level of business in the United States during December was reviewed today by Robert P. Lamont, Secretary of Commerce, as an indication that American industry had reached a point where a break in New York stock prices does not necessarily mean a national depression."
– Associated Press dispatch..

January 13, 1930
"Reports to the Department of Commerce indicate that business is in a satisfactory condition, Secretary Lamont said today."
– News item.

January 21, 1930
"Definite signs that business and industry have turned the corner from the temporary period of emergency that followed deflation of the speculative market were seen today by President Hoover. The President said the reports to the Cabinet showed the tide of employment had changed in the right direction."
– News dispatch from Washington.

January 24, 1930
"Trade recovery now complete President told. Business survey conference reports industry has progressed by own power. No Stimulants Needed! Progress in all lines by the early spring forecast."
– New York Herald Tribune.

March 8, 1930
"President Hoover predicted today that the worst effect of the crash upon unemployment will have been passed during the next sixty days."
– Washington dispatch.

May 1, 1930
"While the crash only took place six months ago, I am convinced we have now passed the worst and with continued unity of effort we shall rapidly recover. There is one certainty of the future of a people of the resources, intelligence and character of the people of the United States – that is, prosperity."
– President Hoover

June 29, 1930
"The worst is over without a doubt."
– James J. Davis, Secretary of Labor.

August 29, 1930
"American labor may now look to the future with confidence."
– James J. Davis, Secretary of Labor.

September 12, 1930
"We have hit bottom and are on the upswing."
– James J. Davis, Secretary of Labor.

October 16, 1930
"Looking to the future I see in the further acceleration of science continuous jobs for our workers. Science will cure unemployment."
– Charles M. Schwab.

October 20, 1930
"President Hoover today designated Robert W. Lamont, Secretary of Commerce, as chairman of the President's special committee on unemployment."
– Washington dispatch.

October 21, 1930
"President Hoover has summoned Colonel Arthur Woods to help place 2,500,000 persons back to work this winter."
– Washington dispatch.

November 1930
"I see no reason why 1931 should not be an extremely good year."
– Alfred P. Sloan, Jr., General Motors Co.

January 20, 1931
"The country is not in good condition."
– Calvin Coolidge.

June 9, 1931
"The depression has ended."
– Dr. Julius Klein, Assistant Secretary of Commerce.

August 12, 1931
"Henry Ford has shut down his Detroit automobile factories almost completely. At least 75,000 men have been thrown out of work."
– The Nation.

July 21, 1932
"I believe July 8, 1932 was the end of the great bear market."
– Dow Theorist, Robert Rhea.

March 12, 1933
Stock Market Comments by Joshua Kennon

We've talked about the 1929 period a lot lately, but what you need to remember is that it was a walk-in-the-park compared to 1933. It wasn't until then that everyone had gone broke, given up hope, and sworn off stocks for life, leaving great businesses trading at double-digit dividend yields and a fraction of book value. The crash of 1929 was a blip. The depths of 1933 were like a nuclear bomb going off and leaving nothing but wasteland.

Before we get into this, we've already established that stock prices in 1929 were absurdly high. No rational human being could have possibly acquired ownership stakes on those terms and thought to do well, with the typical issue trading at 30x earnings, representing a starting earnings yield of roughly half the yield that could have been attained by acquiring a long-term United States Treasury bond at the time.
Buying the nation's largest bank for 150x earnings is not a particularly intelligent thing to do when it should be trading at 10x earnings in a rationally priced world. Still, it's interesting to see how someone who bought in at the top of the market did, acquiring shares at the very apex of the speculative bacchanalia that overflew from Wall Street onto Main Street (or visa versa, depending on how you look at it). It was the bursting of this bubble that caused stocks to become an absolute steal, but most people were starving to death, waiting in breadlines. Feeding your family was a higher priority than buying a blue chip yielding more than 10%.

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