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Steadyhand

It’s getting harder to be a long-term investor

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By Tom Bradley

We all have pet peeves, and one of mine is waiting for equipment at the gym while the person ahead of me is checking social media and texting. Eight reps ... three texts ... eight reps ... two tweets. It drives me crazy. Not only does the insatiable need to be connected cause logjam, it results in less intense workouts (mine and theirs).

I relate this to an investment problem. Constant information flow also makes it more difficult to be a long-term investor. It compels us to shorten our time horizon and lose sight of the prize — long-term returns.

Think about what we’re up against.

FOMO

Alerts on our phones are feeding us the latest news. The Dow and TSX are reported everywhere throughout the day. And headlines are designed to get our attention with words like ‘plummet’ and ‘soar.’

Business television brings an urgency to whatever is happening, whether it’s important or not. This month’s iPhone sales, Trump tweets and the Fed’s latest wink are elevated from the mundane to the seemingly significant.

Meanwhile, ads from discount brokers (offering hundreds of free trades) empower us to trade stocks and ETFs. It sounds fun and easy — “I picked Ovechkin in my hockey pool and Tilray for my investment account.” If we’re not playing the latest trend, we’re missing out.

In other words, the investment eco-system is bent on shortening our time frame.

Easier said than done

At this point you might ask, why not focus on the here and now? Isn’t long term just a series of short terms? What’s wrong with zigging and zagging, especially if trading commissions are low and information is at our fingertips. If we get the short terms right, won’t the long term take care of itself?

Unfortunately, predicting price movements is way harder than assessing long-term value. No amount of analysis will reliably tell you what a stock or market is going to do in the next week, month or even year. Securities will find their value, but the path is not determined.

But don’t believe me, test yourself. On Christmas eve last year after stocks had fallen 20% (since Thanksgiving), what did you think would happen in 2019? After President Trump was elected, were you buying or selling? And going further back to the summer of 2011, were you thinking the 20% market decline was the beginning of another 2008 or just a pause in the bull market?

The shorter your time horizon, the more you’re speculating and the less you’re investing.

Long-term loneliness

Catching the latest trend is tough but so is acting long term. You’re not getting much help, so some structure is needed.

Be clear about the purpose and time frame of the money. This will go a long way to determining what your portfolio looks like and what risk means to you. For multi-decade goals such as retirement, you shouldn’t care what route your portfolio takes. Time ensures that your chart will be up and to the right. For shorter time frames, the path is more important.

Measure your progress against your goal. We’re all curious about what happened in the last quarter, but the number is only useful when put in context of the longer journey. Train your adviser to focus on long-term returns (if she’s not already) and ask her to put your plan at the forefront of all recommendations.

Set realistic expectations. I’m not only referring to the level of future returns, but also their volatility. It’s not a matter of 'if' the market goes down, but 'when.' Armed with appropriate expectations, you can prepare for the time when markets really plummet.

Fit your passions and hunches into the overall portfolio. If you want to own a cannabis or gold stock, it should complement your other holdings. For instance, when buying Tilray, the money should come from another high-potential, high-risk stock, not your GIC's.

And make investing as automatic as possible. Take the noise and emotion out of the process by developing a routine. Pre-authorized contributions to your TFSA and RRSP are an excellent way to put your portfolio in self-driving mode.

At the gym, having people around can inspire you to work harder. Unfortunately, successful investing is a lonely endeavour.

Tom Bradley is the President of Steadyhand. A version of this article was published on June 15, 2019, in the National Post.