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Hype, Hope and Glory

By admin

Advisors offer clients many value-added services, in addition to investment planning, insurance and risk management planning and general financial and Estate Planning advice. This often leads to a discussion by clients of what is hot in the market and what is actively being discussed in the media and whether the client should participate in the “action” or not. There are many times when these hot investment themes turn into financial duds over the longer periods of time. But sometimes clients get involved in something where they defy the odds and score a large investment return. Does that mean the Advisor should discourage all such “hot” investments? Does that mean the client who scores an improbable investment win is now an expert investor?

Since real life is messy at times, the answer to both questions is, not necessarily. A key criteria for judging investment success and competence is whether the result is reproducible over time. By assessing a specific result against a set of criteria before an investment is made, you, as an investor, can eliminate "luck" as a variable in the equation of investment returns.

In the past year, especially in the last few months, we have been getting calls about crypto-currencies, marijuana stocks and real estate, especially in hot markets like Toronto and Vancouver. While the prices of these assets have seen strong price appreciation, they have, for the most part, caused eye-brows to raise amongst most investment advisors.

The challenge is what to say to a specific client, who is excited about one of these hot investment themes that everyone in their bowling league is talking about, or that their colleagues are excitedly chatting about at the office or friends are discussing at social gatherings. They are excited, want to participate and are driven by that classic fever of FOMO – "fear of missing out"!

Advisors have seen this movie before, with stocks like Nortel, JDS Uniphase and Enron, etc. (all since gone out of business). We have seen this with our kids' Pokémon cards worth a few cents trading for \$50 or more and collapsing in price. And FOMO can be hard to resist!

There is a classic story about Beethoven resisting buying into a bogus investment scheme that everyone in his local coffee house was involved in. Beethoven was in and out of the scheme early but was continually teased and derided by the coffee house regulars, including his father, who were constantly bragging about how rich they were getting and he wasn't. Finally, bowing to unbearable peer pressure, he again invested in a scheme that he knew was a scam, only to watch the whole thing collapse with everyone losing all of their money. But at least he was accepted as being part of the crowd!

So what can an advisor do when a client calls about a hot investment idea? We can discourage dangerous investing behaviour by asking questions such as: Does it have any revenue? Does it have any profits? What is the business model? How expensive is it, using metrics such as P/E ratios? In the case of cryptos – what is the economic justification for this thing to double from current levels? We will also point out that if the answer is no or unknown to any of these questions, then you should stay away from it or treat it as a speculation and only use money you can 100% afford to lose. Do not borrow money or take a mortgage out on your house or line of credit to buy the "hot" investment.

We rarely say an outright "don't do it" because of the luck factor. There is an urban legend about a boy who received \$1,000 from his grandmother when he graduated from middle school. He used the money to buy Bitcoin and became a millionaire according to media reports. The catch of course is that it is never a real profit until you sell!

You can always try to use luck to build your assets, especially if you are in a rush, impatient or want to do it quickly. But we prefer to use process, research, a proven methodology and yes, boredom, to help you become wealthy over time. Call us today if you want [a proven and steady approach to building and keeping your wealth](#) [1]!

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