Storyline Investing

Aug 09 2021

The point of the headline is to distinguish what kind of investor you are. Do you follow storylines as described in the media headlines, or do you rely upon numbers and data to build your wealth and achieve financial independence?

Warren Buffett has made this point clearly by stating that in the short term, the stock market is a voting machine (governed by emotions and trading strategies) and in the long term is a counting machine as you count your wealth derived from investing in profitable and growing companies. Buffet's approach takes time and patience to achieve. Patience, however, is in short supply with today's get-rich-quick crowd.

Investors are too often affected by narrative (storylines) by daily media reports that authoritatively explain why market indexes went up or down. For example, when Barack Obama was first sworn in as US President, a CBC news anchor wondered aloud why the US markets dropped on Inauguration Day. Clearly the expectation was that the markets were going to go up in celebration of this historic and anticipated event.

What CBC and most other media outlets (and retail investors) forget time and again, is that the investment markets are discounting mechanisms that look to the future to drive current market values. They look to the effects of current developments on the anticipated future profits of various companies over time.

The advantage of math-based investing is that you can ignore most of the daily market moves as statistical noise. When a market drops significantly (more than 10%) in a short period of time, math-based investing focuses on the longer-term view of how current events impact the profitability, if at all, of investments. This is what investors pay their advisors and portfolio managers to do on their behalf.

As one investment manager noted:

> "You can steal an idea, but you cannot steal conviction!"

And conviction is driven by the math and the compounding wealth effect of growing profits over time.

If someone is an emotional investor, driven by story lines (such as the US Federal Reserve planning to raise/lower interest rates) and then make trades based upon these news items, then that person needs to be really good at psychology and outsmarting all the other story line investors. In this scenario, in order to succeed long-term, one must anticipate and outsmart the actions of other story driven investors. Which raises the question: what gives you a clear edge in this type of investing?

By being a story line type of investor, you are now competing with some very large and sophisticated investment groups. In the early 1990's Fidelity had one fund manager who spent $400 million per annum on computer and trading systems to drive superior returns for his fund holders. Today, the same effort is expended by hedge funds, high frequency traders etc. One group spent several hundred million dollars

to lay a fibre optic cable from Chicago to New York to get faster data processing by millionths of a second faster, to run high frequency trades ahead of their competitors. It took about a year of profits to repay this capital expense.

Clients will often say to their financial advisor, "But you don't understand this is going to the moon!" In response, most financial advisors may ask the following questions, "Okay, does it have profits? Do you understand their revenue and business model? What is their competitive edge?" These questions are often followed by silence.

Call us today to discuss your current approach to wealth building [1].

Copyright © 2021 AdvisorNet Communications Inc., under license from W.F.I. All rights reserved. This article is provided for informational purposes only and is based on the perspectives and opinions of the owners and writers only. The information provided is not intended to provide specific financial advice. It is strongly recommended that the reader seek qualified professional advice before making any financial decisions based on anything discussed in this article. This article is not to be copied or republished in any format for any reason without the written permission of the AdvisorNet Communications. The publisher does not guarantee the accuracy of the information and is not liable in any way for any error or omission.

Tags: investments [2]

Source URL:https://northstarwealth.ca/e-newsletter/2021/2021-08/article-1.htm

Links
[1] https://northstarwealth.ca/contact-us [2] https://northstarwealth.ca/taxonomy/term/17