The Stan Clark Financial Team's

PERSPECTIVES

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Asset Allocation

Think – and act – for the long term

By Michael Chu, Investment Advisor

These days, with phone and tablet apps for just about everything, you can easily pull up the value of your portfolio. In an instant you can discover the daily price changes of your individual stocks. This seems like a huge advancement, compared to the old days of physically flipping through newspaper pages of painfully small print to find price changes. But does it *really* improve things for us? There are some downsides to having too much access.

When I started in the industry, I was amazed by live stock quotes. The screen would be constantly blinking, with stocks moving up and down, eliciting a wide range of emotional responses. But looking back, many of us soon realized the live quotes were in fact wasted energy.

Benjamin Graham, the father of value investing and mentor to Warren Buffett, discussed this in his book *The Intelligent Investor*:

"The true investor scarcely ever is forced to sell his shares, and at all other times he is free to disregard the current price quotation. He need pay attention to it and act upon it only to the extent that it suits his book, and no more. Thus the investor who permits himself to be stampeded or unduly worried by unjustified market declines in his holdings is perversely transforming his basic advantage into a basic disadvantage. That man would be better off if his stocks had no market quotation at all, for he would then be spared the mental anguish caused him by other persons' mistakes of judgment."

While some investors can benefit with real-time pricing, most probably get hurt. One reason is that we're all too human. The more we check on our portfolios, the more likely we are to catch losses for the day. Richard Thaler, economist and professor of behavioral science and economics at the University of Chicago, refers to this phenomenon as *myopic loss aversion.*

As we know, in the short term and especially daily, anything can happen to stock prices. Chances are, on any random day for any stock, we're equally likely to see gains or losses. The more often we see losses, the more likely we are to experience loss aversion. If you recall from previous articles, in experiencing loss aversion we regret losses twice as much as we feel good about gains.

So, the more often you look at your portfolio, the more likely you are going to feel bad about seeing short-term losses. On the other hand, the less often you evaluate your portfolio, the more likely you will see gains in your account. That's because the probability for gains increases with longer periods. Just imagine if someone came to you every day with a price to buy your house – you would find it very hard to be patient and wait, letting the investment of your home grow over time.

Paying close attention to the markets gives people an illusion of control. It's easy to assume that, since you're keeping up with everything, you have more control over the outcomes. But it's likely the opposite is true. The harder you try to keep track of your portfolio, the more mistakes you might make because you're succumbing to short-term thinking. As Graham suggested, the biggest advantage you have as an investor is the ability to think and act for the long term. That's probably more important than ever today, as society becomes more and more obsessed with the short term. ■

Michael Chu is a Portfolio Manager and Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Michael is a specialist in investment research and information technology.

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Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca

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