FIRST CAPITAL FINANCIAL

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Sponsoring Mutual Fund Dealer

Warren Buffett once said the "most important quality for an investor is temperament, not intellect". That has never been more true, given the fast-paced world in which we live. This requires avoiding the following five deadly sins investors make when emotion, not reason, is the basis for their decisions:

"He's angry about getting old."

Greed

This is a big one. Some of the most irrational behaviours we have seen in finance come from greed. In the world of investing, it's most evident when investors hang on to a winning position for too long in order to get the maximum value out of it. Before entering a given position it is important to have determined the exit strategy at a given price point. For example, if looking to capitalize on a resurgence in commodity prices as the global economy emerges from the Covid-19 shutdown, it is critical to define the point where you sell and crystallize your gains. Absent of this, your paper gains could disappear as quickly as they came, if commodity prices begin moving in the opposite direction.

Jealousy

Being envious of somebody's else's returns is likely the behaviour that affects people the most. The classic case can be described as follows: an investor goes to a family reunion at which his brother-in-law talks about the amazing returns he is making on a specific stock and good he is at managing his portfolio. That investors then goes and invests some of his money into that same stock, without considering if he has the same risk tolerance as his brother-in-law, or considering the number of times his brother-in-law has failed or lost money on an investment. Chances are that the people who brag about their strong performance never talk about the times they lost money on a stock.

Laziness

Yes, being lazy is a thing in investing. Specifically, that happens when investors repeatedly put off doing important financial things, like deferring making RRSP or TFSA contributions until the next year, or providing information for their financial plan later. Procrastination is the enemy of success and this is especially true when it comes to investing.

Revenge

This behaviour is not generally one that someone thinks about as it relates to investing, yet it does come up. For example, let's say an investor takes a position in a stock, which then drops heavily just a few weeks later. It is understandable that the investor will be disappointed by that turn of events, but some will take it to the next level by getting mad at the stock market because they think it owes them returns. These investors will often want to double down on their lost position to try and get their money back, regardless of whether this is suitable or consistent with their long term financial goals.

Recency Bias

This behaviour is the most difficult to detect. It's described as the tendency to place too much importance on experiences that are the freshest in our minds. For investors, it usually means that whatever just happened in the markets will be what they expect will be more likely to happen in the future. In reality, the opposite is the more probable outcome, and one only has to look at the so-called FAANG stocks -FaceBook, Apple, Amazon, Netflix and Google to see how their strong performance in 2020 is offset by negative returns this year. Past performance is not a guarantee of future results, and what has happened is more often a indicator of what is *not* likely to happen in the future.

Emotion is what defines the human experience, yet in the world of investing, being emotional is counterproductive. This is where I can help, by acting like a personal trainer, with defined specific tasks and accountability for you. I have found over the years that managing clients is as important as managing their investments, and the feedback from clients in this regard has been overwhelmingly positive. It's an art, and I'm often heard saying to clients that "providing good service and being a pain in the rear is a fine line -and I always want to stay on the right side of that line...". Financial education is key to maintaining investment discipline, so that short term events (like Covid-19) don't affect long term financial success. We are committed to helping you achieve a better investment outcome and one of the most effective ways of doing so, is through minimizing the risk that our human emotions represent to that. Click <here> for more.

Be safe, be well!

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