Investment Haiku

Saturday's With Jim

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
10/14/17

Dear Friends,

Last week, while reading *Becoming Wise* by Krista Tippett, I was moved when I encountered a mediator whose thought processes enabled him to distill complex issues into a few words. The product of this man's genius enabled him to not only grasp thorny differences between people, but to distill them in a few poetic words – Haiku. I decided to try my hand at investment Haiku which holds the promise of distilling eye glazing technical terms into word pictures readily understandable by and meaningful to most people. Here are the results of my first effort.

Describing How Investing Moves Our Emotions

The future becomes the present. Look past beautiful mirages in the heat of emotion.

Investing with emotions, whether it's fear of missing out or fear of losing everything, can turn a well thought investment plan into a disaster from which some people never recover. Chasing high flying speculation or selling out in high anxiety after months of losses is best avoided by having an investment plan well-grounded in needs and particular appetites for risk. We need to put a lock box on portfolios once we have developed a solid strategy and let the markets do with them what it will. Surely, what appears today will be overturned tomorrow. Not making large changes will ensure long term success – really!

A Bouncing Football Touches Few Hands

Oval shaped footballs can bounce on their ends, sides or some combination of the two. By the time you see the direction a football is bouncing, it's too late to react. Catching a bouncing football is a massive stroke of luck. Like footballs, securities and indexes comprised of them bounce this way and that, often retracing their movements and then some before striking out again. If we set an index (say the S&P 500) as our benchmark and try to adapt portfolio securities to every "bounce" the benchmark makes, we will end up enriching our brokers with commissions and likely lag the benchmark's performance anyway. If we need to mark our performance to a benchmark, we can check it over a full market cycle - not quarterly, annually over even every three to five years. Remember the story of the Vanguard Dividend Appreciation Fund (VIG) that we wrote about in our last two issues? It underperformed its benchmark index in SEVEN out of TEN years – and still gained more than the S&P 500 over a full ten years (the lion's share of a full market cycle). Why? VIG dropped far less in the 2008-2009 bear market than the S&P 500 did (-26% to -38%). The S&P 500 has yet to outperform VIG since the end of 2007.

We hope you have enjoyed today's post. Understanding the basic behavioral concepts we have presented is central to solid investment results. Successful investing must negate the quote by Walt Kelly's Pogo: "We have met the enemy and he is us."