



## MCMURTRY INVESTMENT REPORT

### **Investor Biases - How do they affect our performance?**

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As human beings we all have phobias and biases that we try to hide under the carpet and forget they exist.

But it is much healthier admitting our weaknesses to ourselves. It may even make us richer financially.

I will devote this article exclusively to biases that can negatively affect our financial net worth. The following are only examples of a few. The list of biases is endless.

#### **Do not own common stocks for fear of losing money.**

I know many people who will not ever purchase a common stock. This is amusing to me as most of these individuals hold mutual funds that consist mainly of common stocks. One person I know bought one speculative stock years ago that was recommended by a friend. Unfortunately, she lost a sizeable amount of money and decided from that point on never to buy a stock again. In her case she does not even own equity mutual funds or etf's. Her rationale is that stocks are far too risky and she cannot afford to lose any capital. These seem like logical explanations, but her decision has negatively affected her net worth and financial well being. She prefers to invest exclusively in bank GIC's, savings accounts and money market funds that unfortunately provide her with very little return. I have told her on many occasions that her capital would have been far better invested purchasing her bank's common stock rather than the bank's products.

#### **Invest 100% of portfolio in stocks for fear of being left behind**

Many investors of all ages routinely invest all their assets in common stocks. Their logic is that market timing does not work and stocks always perform well over the long run.

Having cash in a volatile market is normally a good strategy and helps to significantly reduce portfolio volatility.

#### **Equity Sector Bias**

Many investors who either worked in high tech or simply invested in this sector, have developed an investor bias never to invest in this industry.

Once again, their explanation sounds rational, but it really is totally irrational. Technological innovations provide the growth engines for our global economy and investing in this sector over time has provided some of the best investment returns in the stock market.

Many investors prefer to restrict their investments to industries where they work. Once again this seems logical as their level of familiarity with industry best practices is the highest. However, investing in one industry lacks sufficient diversification and significantly increases portfolio volatility. Even Bill Gates, the co-founder of Microsoft, invests in a wide diverse group of industries.

### **Do not like a company's products**

Dollarama is a retailer that many of us do not really like the quality of their products. However, they remain one of Canada's best retailers and not investing in them has not proven to be a very good strategy.

### **Do not use the product or service**

Some investors do not like using social media. However, Facebook and Alphabet have been great investments and will continue to be despite their recent setbacks with data breaches.

### **Fear of triggering a taxable capital gain**

In my past working life as an investment portfolio manager, I came across many clients who absolutely refused to sell a stock with a large unrealized capital gain.

In many cases, this one stock may have represented a very high percentage of their total equity exposure and added much more portfolio volatility than appropriate.

One client owned a very large position in Nortel. Every time I suggested reducing the position he rejected my advice based solely on the tax consequences. We all know what happened to Nortel.

When Nortel was trading at its peak, this client had a sizeable net worth. Unfortunately, he chose to not sell the majority of his Nortel stock and this resulted in a material reduction in his family's financial well being.

### **Political Bias affecting your investment decisions**

In the ever-omnipresent world of politics, this type of bias is becoming more common.

Since the US election the population has never been more polarized over their political allegiances.

The US has always been more political than Canada but today it is even more apparent.

Many of us judge others by their political allegiances. This is crazy in my opinion. To judge someone negatively by who they vote for is very dangerous. This is a type of prejudice that harms society as a whole and pigeon holes specific groups to contrast with each other. In order to have a harmonized society it is important and necessary to find ways to co-operate with each other. This is the only way to make us better.

Some investors have sold all their equity investments as a result of political uncertainty with Trump. I do understand their anxieties but basing their whole financial net worth on a politician they do not approve of is not prudent business practice.

A much better approach is to manage your investments around whoever is in power no matter what your political views are. I am totally in agreement that taking some risk off the table with Trump as President makes a lot of financial sense. But that does not mean selling everything. The strategy of liquidating all your equities is rarely a good idea as markets have always rallied back over the long term.

### **Religious or Ethical Bias**

Some individuals prefer to invest only in areas that concur with their ethical and/ or religious beliefs.

In most cases this type of investing does not enhance your net worth. Investors should never restrict your investments in this way, but it is done all the time as evidenced by a whole new group of ethical funds.

### **Obtaining a second opinion on your overall investments**

It is never a bad idea getting a second opinion on your investment holdings. This will ensure that any ingrained investor biases that you may have are pointed out to you and corrected accordingly.



## MCMURTRY INVESTMENT REPORT

This will do a lot to improve your investment performance by having a more objective approach.

### **Personalized Portfolio Review Service**

My new [personalized portfolio review](#) service is designed for exactly this purpose. I am not trying to promote my services in any way, but really want to convey the importance of seeking out a second opinion from whoever you deem appropriate.

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