The Importance of Patience and Time

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There was a quote in the Wall Street Journal recently that really caught my eye. It was from a wealth management executive who said a financial advisor's role "is kind of like becoming a psychologist."

So true. After all, psychology is defined as the study of mind and behaviour and those who don't understand how psychology informs markets are doomed to repeat the mistakes of the past. Our minds will drive us to flee perceived risk and to be part of the crowd. Often, that is not rational. A much quoted study (Matthews and Wells, University of Cincinnati) discovered that 85% of what we worry about doesn't actually occur.

So, what often happens in markets is investors flee into the crowds, selling into panic and buying euphoria. When they buy into euphoria, they're scared about missing future gains, and when they sell into panics they're scared about suffering future losses. It has little to do with calmly assessing the merits of individual securities while thinking long-term. It's the old story of the investor who confidently says they're feeling good when stocks are trading at all-time highs and will buy more when there's a correction, but then proceeds to sell every stock they own when the correction takes place.

The past few weeks and in particular the morning of August 24, 2015 have been a case study on this topic.

Without rehashing the news that everyone already knows, here are a few points to keep in mind as we travel through these market moves:

- Stocks are volatile. Always have been, always will be. Real time pricing tends to do that. If they went up a little every day with no bumps whatsoever, then they'd trade at 100x PE, or a 1% earnings yield, because there would be no risk. To earn a greater return than the risk free alternative, you must be willing to accept the inevitable volatility. Use the volatility to your advantage, and look past the daily noise, that's what the most successful investors have a knack for.

- Stick to the process. Stay calm and assess a security on its own merits, with the long term in mind. No one can predict the short term future, and that includes making market calls.

- Turn off the business news. It's a lot of noise and it doesn't do much for helping you stay calm and measured.

- Own businesses that have been around for many decades and offer services that you and I use every day. Get paid regular dividends. That's defence and defence wins in the end.

At the end of the day, investments are long term assets, just like your home and car. They're called long term because you plan to use them for many, many years, recognizing there will be bumps along the way in the journey. If you come home and your furnace isn't working, you wouldn't call a realtor in anger, saying you'll take the first bid on the house to be rid of it. So it makes little sense to do the same with investments.

As Tolstoy said, "The two most powerful warriors are patience and time."

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