



## Investment Noise: Leads to Traps and Pitfalls for Investors

**Announcer:** Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With his straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at [TMA-invest.com](https://TMA-invest.com).

**Keith:** Welcome to episode two of the Empowered Investor. My name is Keith Matthews and I'll be your co-host for today's podcast show. I'm joined by my co-host Marcelo Taboada for today's episode. In today's episode, we will cover the following topics. We'll introduce you to what we believe is the biggest obstacle investors face in trying to achieve long-term investment success. This episode is dedicated to identifying this obstacle and learning how to protect yourself from it. We'll introduce you to various nuances within this obstacle. And finally, we'll show you how to protect yourself from this obstacle. So Marcelo, why are we talking about obstacles in an investment show?

**Marcelo:** That's a great question. By definition, an obstacle is something that stands in the way of or holds up progress. In the context of our show last week, we talked about what's the one thing that everybody wants, and that is financial security. People want to be financially secure forever. So when we look at obstacles, it would be anything that gets in the way of you reaching that goal of financial security. A good example of an obstacle is also nutrition. Think about the things that we do when we want to get in shape. We can have the best diet plan, we can have the best workout plan, but obstacles are those things that get in your way of achieving that goal. So I've never been a person who diets, but every January 1st, I always have this goal of eating healthier because there are so many obstacles in the holidays that you're just eating out and eating enormous amounts of food. And I always get into this groove of, "Okay, I got to go through this process of having a plan for the next three, four months," but all these obstacles always get in the way—going out with friends, temptations. I'm the worst when it comes to this. If I have cookies at home, I'll finish them all in one sitting even if I have this goal of getting healthy. Then other examples are people who are athletes or are involved in an athletic activity. You were involved in rugby, Keith. Can you think about any obstacles?

**Keith:** I'm the men's director of a rugby team in the summer and a junior coordinator. Summer in Canada is tough because as interesting as it is to run a competitive program, there's a ton of distractions for young people. The average age of our program would be between the age of 18 and say 24. So what do 18 and 24-year-olds want to do in the summer in Canada? There's distractions like cottages, festivals, parties, and you're trying to run very competitive high-intensity programs that require a tremendous amount of commitment to fitness. And then there's just a constant barrage of fun, exciting things that people want to do too. So distractions, obstacles—all this is something that we will be dedicating some time to because you can have a whole set of principles that make sense in investing, and in fact, we will be talking about them later in the show. There's a tremendous, really nice guide to, "If you follow the following seven or eight steps, you'll see long-term financial success." Easier said than done. Absolutely. It's just like a diet program. Easier said than done to say, "I'm going to lose X amount of pounds. I'm going to finally see stomach abs, muscles, and be ripped and cut." But the reality is there's a ton of things that get in the way, and investing is no different.



**Marcelo:** I want the abs, but when I see the cookies, forget it.

**Keith:** And we've spoken about the Empowered Investor—the audience, Canadians who want financial security forever, looking to unify investing and planning. And you can't do all that if you face obstacles. So enough with the definition of obstacles and how we see them in regular daily activities. Marcelo, what are we defining as our number one? What's the obstacle? What's the mystery here?

**Marcelo:** The obstacle is noise. Think about noise as the villain in this story.

**Keith:** So we've identified, and of course, I completely agree, we've identified four main types of noises. We're going to spend a bit of time in today's show on it. Clearly, we want individuals and listeners to grasp and understand where this noise comes from, what it looks like, how to identify it because it's camouflaged. These characters camouflage themselves and they don't look like noise. It looks like advice. It looks like helpful information, but it's really noise. So what are the four types of noises that we've identified?

**Marcelo:** Number one is general media. Number two is expert predictions. Number three, friends and family suggestions. Number four is internal noise or emotions and talking to yourself.

**Keith:** So let's start by—we'll go back and forth on a couple of these points—general media. What is that? I guess that would be newspapers, TV, radio, information that comes in general mainstream media.

**Marcelo:** I think it's fair to say that this is the one that most investors or the vast majority of investors will be exposed to on a day-to-day basis. Who doesn't read the news or watch the news? So think of this as the New York Times, the Globe and Mail, the Economist, CTV News—anything that covers broad media would be in this category. The way this could turn into noise is this will come in an array of different ways. But if you pick up the New York Times or the Globe and Mail today, I think it's fair to say that most of the news is negative. So what it does in the context of what we're discussing here as an investor is, it really doesn't help with what we're trying to achieve, which is financial security. Again, you look at what the noise is in this type of media now, and there's a lot of negative news and things about the economy going into a lot of bad places. Think about the stock market going into very bad places. So if you're trying to achieve and stay the course in your investments, these platforms are not telling you to do the proper thing. They're not helping you in the way that you should be thinking about these things.

**Keith:** So what you're saying is all this noise might incite worry, concern, and lead to actions which sometime later you will regret.

**Marcelo:** Like I've read headlines about, "This could be the next Great Depression." Even though it's a completely different stock market, it's a completely different economy. Think about the war chest governments have now to spend. That wasn't possible during the Great Depression. So that's just one example. But another thing would be, "Stocks are depressed. Get out of the market now," that type of thing.

**Keith:** Yeah. Which would be the worst thing to do. In fact, if anything, now's the time to be buying equities because historically, over just about every recession, if you've purchased equities or



securities during the lows, you've been very well rewarded because expected returns are high during those periods.

**Marcelo:** Absolutely.

**Keith:** So that's general media. We'll go back and forth on general media throughout the show. Let's talk a little bit about expert predictions. What does that mean? Let's define expert predictions, Marcelo.

**Marcelo:** So expert predictions would be economists, financial companies, banks—would be any sort of information that these experts or people in the industry are preparing in terms of forecast or any information that they put out there that has a call to action. So I think a good example of—when I worked as a wholesaler in the mutual fund industry—I remember...

**Keith:** Before you go any further, what is a wholesaler? What does a wholesaler do?

**Marcelo:** A wholesaler—there's two types. There's the outside wholesaler and inside wholesaler. The outside wholesaler is the one who goes to all the advisor's offices and, in a nutshell, tries to sell the mutual funds to the advisor. So if I was a wholesaler and I come to your office, I would try to pitch you my funds. So if I'm working for X company, I'm going to try to persuade you to buy the mutual funds that I'm selling. So typically, what that means is that you want to reach as many advisors as you can, and you want to sell as many mutual funds as you can. That's the name of the game.

**Keith:** So a wholesaler is a financial professional working for a mutual fund company whose target is financial advisors across the country. And you're trying to convince financial advisors that you have the solution that their clients need.

**Marcelo:** Exactly. So if you spend time in December, this is a good example, if you've spent time in December looking at their platform—so whether that's their website or any industry websites, blogs, anything like this—you will find that they all publish this outlook paper. So they'll say, "Outlook," if you're ending 2019, and they will cover things like, "These are the industries to look at, these are the stocks to be looking at, this is the economy to be looking at." And what that does is it's trying to position their funds towards what they believe will do better. So an example would be, if X company thinks that the Canadian economy will do better because of X and Y factors, they'll try to position that in the paper. And that's a call to action for the investor reading this, which is noise. Because if every year, imagine you go through this cycle of, "Okay, 2019 ends. I'm going to do this. 2020 ends. I'm going to do this until 2021." Where is the consistency there? You're shifting things around. And I remember seeing this all the time with the advisors I would cover. I would see switching from funds to funds. I remember in 2014, when oil took a beating, most advisors were getting out of oil and getting into other funds, getting into some dividends, and that's—the cycle just keeps going. So you can see, if you keep going like this, it can be really harmful for the investor.

**Keith:** So we think that understanding how predictions work is so important that we've dedicated a show in a couple of episodes from now just on predictions. Suffice it to say that when you read a newspaper or you read anything coming from a financial institution that talks about the direction of where things are going, that is in essence a sort of prediction. So let's talk about the next one. This is an interesting and easy one for people to understand—friends and family and the noise that comes from friends and family. What does that mean exactly? What do we mean by that?



**Marcelo:** I would think that this is the hardest one for people to deal with because I can't remember who said the quote, but somebody said that one of the most infuriating things in life is to see your friends getting rich when you could be in the action. I think a good example of that is what happened with cryptocurrencies or marijuana stocks. You would hear all the stories about people making millions of dollars with a little investment. And I remember I had friends in the industry who would tell me, "Oh, I made 120 percent last year with a few weed stocks." And here we are trying to talk about diversified portfolios that are returning anywhere between 8 to 10 or 12 percent, whatever it is depending on the year. So this is dangerous because you're going to hear this from your brother-in-law, you're going to hear this from your friends, you're going to hear this after you finish playing hockey or soccer. This is what we call locker room talk. And naturally, people will tell you about their winners. They will never tell you about their losers. And it's dangerous because it's very enticing to say, "Okay, why am I not in the action? Maybe I should get on the action."

**Keith:** And I'd go as far as saying it's not just locker room talk. It's Sunday night dinners. It's a cocktail party. And it's not just with individuals who you might say do not have tons of investment experience. You can even find individuals that have significant investment experience talking about concepts and ideas. And again, it influences everybody. Often individuals that are in this space don't really give people the full breadth and the full picture of their activities and their actions. They will talk about their winners. They talk about the things where they've had great success, and they don't talk about the mistakes, the errors, the things that didn't work out quite the way they would have liked it to work out. What about the next one, Marcelo? Emotions.

**Marcelo:** Hang on. Before we move on, have you heard the story about Sir Isaac Newton?

**Keith:** Oh no, I have, but go ahead. This is a great time to tell the story.

**Marcelo:** Yeah, I think that's a great example because here we're talking about one of the smartest persons in history, I would say. So the South Sea Bubble was this company created in the 18th century, and what it was created for—it was created by the British government to assume England's war debt. And in return, they were granted a monopoly over trade in South America and in a lot of the Caribbean islands that were in the new discovered world. So it became one of the hottest stocks in Europe. People were making tons of money. So if you look at the graph of that stock, it looks like an inverted U. So it starts very slowly, and then it just peaks, and then it just bottoms really bad. And so if you look at the graph where Sir Isaac Newton entered the investment and then where he got out—so he gets in at the very beginning, and then as it's going up, he gets out. And then there's the story about all his friends making money, so he gets back in right at the peak before it crashes. And he ends up losing everything and becoming bankrupt. This is a very good story because if it can happen to one of the smartest persons in the world, it can happen to anybody.

**Keith:** So you're saying that friends influenced Sir Isaac Newton?

**Marcelo:** Yeah, he couldn't stand his friends getting richer. Imagine what it does to a person with that level of intellect knowing that somebody else, who you know you're smarter than them, is making more money than you. It must be super infuriating.

**Keith:** It's a great example of human nature. And it's also a great example of when we talk about noise, this applies to everybody, regardless of intellect, regardless of capacity, regardless of financial knowledge, regardless of how much you know about how to invest. Noise can have an impact on



everybody. Okay, so we've identified some forms of noise. We'll spend a bit more time later. But why is there so much noise? Let's talk about media. Why is there so much noise in media?

**Marcelo:** How does media make money? They make money selling advertisements. And the more advertisements they sell—and what's the one determinant of this? It's how many readers they have. So when you talk about the media, obviously the more noise they have, the more they can sell their news. So I'll be hard-pressed to believe that before this coronavirus crisis—so for example, if you look at the readership of the Globe and Mail or the New York Times in December of 2019 and you look at the readership now that we're going through a pandemic, for sure now the readership has increased because people want to know more. So this sells. It's just the economics of the business. And it's in their best interest that there are bad things happening. They could publish a lot of good news, but they choose not to because that's not what attracts readership. Essentially, what happens is, if you have a lot of this noise, it ends up being beneficial for them.

**Keith:** And that's really the same for industry and predictions. It's clear that people want to be told a story. Investors at large want to be told, "This is the way things are going to evolve," and that inspires confidence. So storytelling and predictions, unfortunately, sell. It sells. People buy into the predictions, and they say, "I like the direction. I think that this forecast makes sense. So therefore, I will, A, invest my money that way. B, if the forecast tells me I should be making a change, then I'm actually going to make that change." And somehow, it encourages people to take action. Now, it's not the right action often, and that's what we're going to allude to because the more trades that are done to try to move portfolios around to tactically take advantage of these predictions have shown that really there's very little value added in making these shifts. We'll talk about that later in research, but storytelling and predictions sell in the investment business. And in the investment business, it's about getting assets. It's about getting people to follow your ideas. People follow your ideas, financial organizations make more money.

**Marcelo:** We love narratives. We love a good story. And when we can tie one to the other, it's almost very hard not to fall for these things. And if I bring it back to my experience in the mutual fund industry, every time a mutual fund company will release a fund, the company becomes a marketing machine, publishing all these papers about trying to position the narrative for that specific fund. So if you're trying to sell something, let's say an oil fund, they will start publishing all these papers and white papers telling you why oil will rebound and why it's a good investment now because it's just the way it works. Nobody wants a boring story, right?

**Keith:** And then finally, when we talk about either family, friends, contacts, society at large, at the end of the day, we're all humans, and humans like to express themselves, and humans like to talk. And so again, what we find is people have a tendency to talk about their winners and talk about their success stories, and that's human nature, and not talk about the areas that aren't doing so well in a portfolio. So I think that general emotional push to talk also helps understand why there's so much talk about investing. So Marcelo, how does it look when someone fails to tune out the noise? What are the outcomes if you do not take care of insulating oneself from these obstacles?

**Marcelo:** I think there's a few things there, and it's important to cover them. The first one would be they would make change to their long-term investment portfolio based on a current expert prediction. So to bring it back to the previous example, this would be anything from, "Get out of the Canadian economy because it's overvalued, and invest in these 10 stocks in Europe." That would be an expert prediction. And what happens there is that if the story has a good narrative and it's well-packaged, you as an investor will be very tempted to leave your long-term plan and fall for this. And



that could derail you from the plan. Now, if you look at what you would do on that, people would typically call their advisors and be like, "Can we make these changes?" And if you're in that type of relationship with the advisor, this is a cycle that almost has no end because what prevents you from a year from now hearing another good narrative and calling your advisor and doing the same thing all over again?

**Keith:** So basically, what we're talking about is trading, making a change in a portfolio. Predictions, noise leads to changing things in a portfolio, and this is what we believe is a slippery slope. What the Empowered Investor is about is long-term, playing the long game versus playing the short game, diversifying portfolios, multiple asset classes, letting the markets work for you long-term. And anything that will get you off that game can lead to results that will disappoint. So it's a fair statement to say that a lot of noise leads to changes that individuals may regret later.

**Marcelo:** Yeah, because if you engage in—you have way more experience than I do, Keith, but I think it's fair to say that if you engage in this type of cycle, there's no end to the cost because what tells you that, like I said, a year from now, you won't fall for the same short-term prediction and then do another change into your portfolio?

**Keith:** Yeah, and it's interesting because one thing I will throw in is that you don't need to succumb to a prediction every month to say, "Oh, this is a bad habit. I'm falling into it." You just need to fall into it at the wrong time. For example, in today's coronavirus markets are lower, we're going through enormous amounts of economic stress. If you succumb once a decade to a prediction that makes you move off your mark, that once-a-decade change will affect your long-term results.

**Marcelo:** A hundred percent.

**Keith:** So this is not about, "I've been pretty good for a decade, but I fell off the wagon for six months, but it's okay. It was only six months." If you fall off your long-term plan at the wrong point in time, it can have devastating consequences—results on your performance. So it's not just about the small trades that you might feel occur on a regular basis. It's about making dramatic moves at the wrong time too, infrequently.

**Marcelo:** So you and I, we've seen examples of that in the last few weeks where somebody will say, "I want to get out of the market. This is temporary. Once things get a bit better, I'll get back in." So can you tell people why that's very problematic?

**Keith:** Because that's time in the market, and individuals will masquerade within a narrative, and they'll say something like, "This time is different. I'm just going to try this now. I know I'm not supposed to be time in the market, and I'm not really time in the market, but I know this is different." And so the problem with, "I know this is different, so therefore I need to take an action," is every year there's some issue that will get in the way, and that will create an environment that feels like you need to take action. And you will internalize that and say, "I'll just make my change now, and then I'll get back to my plan later." But the problem is that requires two great trades—getting out of the market and getting back into the market. And you'll never get back into the market at the right point in time because a recovery will occur, and then when things look good in the newspapers, and then you're starting to feel affirmation within the noise, it will be too late. The recovery will have occurred.





**Marcelo:** I think also, if you look at the way people try to do this, every recession and every single market correction is different. But the common denominator is that we're humans, and this is the constant in all of the recessions and bad market turns. At the bottom of the crisis, there's always going to be someone that says, "You know what? Maybe things could and should be better." And that's the moment we get out. And when that happens, it's so hard to predict.

**Keith:** So we have data from the 2007-2008 market correction, and the data is from Morningstar. It refers to what individual investors did with their equity mutual funds. And it shows—Marcelo, we're both looking at the same graph. I want you to tell me when the market was high in early '07, so January, February, March. So obviously, there was positive news, positive noise. What were the equity funds showing?

**Marcelo:** So we were showing a lot of inflows. That means that new money was coming into these funds. And we'll post the graphs for the listeners because it's nice to see the pendulum swing of emotions in the graph. So you can see that at the height of the market in '07, around June and March, May, you saw the highest inflows in equity funds.

**Keith:** So people are buying stocks at the high.

**Marcelo:** Correct. Because if I look at what essentially is close to a year and a half later, and I go to the low of March 2009, and this would have been the recorded low of that recession, what we see in this chart, which is by the Investment Fund Institute of Canada, is that we actually have investors selling equities. So the live data shows that they're buying equities at the top when things look great, and they're selling equities at the bottom of the market, which unfortunately is exactly the opposite of what should be done.

**Keith:** Yes.

**Marcelo:** We don't know where we are in this market cycle right now, presently with coronavirus. Clearly, one should not be selling equities as we go through a selloff. In fact, one should be buying equities. And historically, over many recessions, buyers of equities do very well on a go-forward basis during recessions.

**Keith:** So there were some numbers last week that I was able to pull out from Morningstar as well. And there's these things in the industry called target date funds. So a good example is, if you are 20 years away from retirement, you will buy a target fund that has a date of 2040. So 2040, 20 years from now, right? So the data showed that during the first three weeks of March, people who were 15 years away from retirement invested in these target date funds...

**Marcelo:** Which probably are going to be more conservative.

**Keith:** So they withdrew or they took out \$9 billion in the United States. So granted, most of probably a part of that money is people who lost jobs and really need the money. But if I was a betting man, I would bet that the vast majority was people doing exactly what we just discussed, just taking the money out, thinking that this time is different, and taking it at the worst possible time and realizing their losses.



**Marcelo:** So let's think about wrapping up right now, Marcelo. Today's show was an introduction of what we define as the number one obstacle for Canadian investors, which is noise. How does one become empowered? How do you tune out the noise?

**Keith:** That's the end goal and it's the objective of the framework. And I think it's not an easy thing, but there's three key points here. So the first one would be increased education and awareness. Second would be practice and learn how to identify harmful noise. And the third one is it'll take time and effort. You think back about nutrition, for example, broadly speaking that a good diet and exercise are what lead to a healthy life. But how many times have you seen all this array of products in the supermarket that claim all these things, but then, for example, will say organic or a hundred percent natural, and you'll turn the label and you read the list of ingredients, and it's a bunch of preservatives and things that are not natural. So I think it's almost like the same thing. You have to train your instinct and you have to train your brain to say, "Okay, I'm reading this piece in the New York Times. It's good. It's informative, but it's noise."

**Marcelo:** It goes as far as saying, listen, you and I do a tremendous amount of reading. And we encourage our clients, contacts, friends to read. Reading is empowerment; it's good. However, there has to be a process for all of us to buy into as we go through articles, as we read, identifying what is a prediction and not necessarily being fooled by it, and staying committed to the long-term plan. I would actually challenge our listeners to, next time they're reading newspapers in the business section or just in general, try to identify predictions and see how good you can get at it. That's a nice exercise.

**Keith:** Yeah. And it's really—it's a combo effort here because once we start talking about the principles and how to actually build portfolios and how to build that positive investment long-term experience, you almost need to be aware of that. And then you need to also truly understand that you need to block out noise. You need to block out noise—that in essence will be the distraction and is an obstacle. So you need to do the combination of the two. Have the winning principles and the blocking out. And if you can do both of those together, that will definitely increase the odds of long-term success.

**Marcelo:** And even when you hear a friend talk about a winning stock, it's important to take a step back and say, we don't know if that person is investing his whole portfolio in that, just a bit of play money. There's a lot of things that are left out that just—they're not indicative of the reality. So Keith, as we're wrapping up the episode, I think it's important to mention that over the next few episodes, we're going to be covering a series of what we call the investing deadly sins. And these are just mistakes or obstacles, if you will, about the things that people are encountering when trying to get into financial security, which is the ultimate goal.

**Keith:** That's it. So what's in store for our next episode?

**Marcelo:** So the next episode, we start our series on deadly sins of investing, and we'll begin with not having an investment philosophy. So thank you to our audience. Be well, be safe. Thank you for tuning into episode two of the Empowered Investor. And we'll see you in two weeks from now. Thank you, everybody.

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