



Investment Pitfall #2: Building Portfolios Based on Predictions

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.

Keith: Welcome to episode four of the Empowered Investor. My name is Keith Matthews and I'm joined by my co-host Marcelo Taboada for today's episode. In today's show, we'll keep exploring common investment mistakes. Specifically, we'll talk about the dangers of building portfolios based on predictions. We will define market predictions and show you how to identify them. We will introduce you to two main characters in the prediction industry: financial media and the financial industry. We'll look at the potential consequences of building a portfolio based on predictions, review the accuracy of results from market predictions, and finally, show you how best to resist the temptation of using predictions in your investment portfolio. So Marcelo, this is going to be a great show.

Marcelo: I agree. I can't wait.

Keith: This is something dear to my heart. Investors fall prey to predictions all the time. We have to deal with listening to predictions coming through media and financial sources. Explain to the audience a little bit why we're actually taking the time to review an investment mistake.

Marcelo: We've been stressing over the last few episodes the importance of what we're all looking for, which is financial security forever, we hope. So we keep emphasizing what a mistake is. An investing mistake is simply a deliberate action that somebody can take which can turn into a misstep that can sabotage your financial portfolio and potentially jeopardize your long-term financial security.

Keith: While the show information is geared to try to help investors long-term on the positive aspects of investing, we're taking the time to make sure we really talk about some of these obstacles and roadblocks because we can't get to the positive stuff until we address the obstacles. Marcelo, why does the financial media love predictions?

Marcelo: I think that's a million-dollar question. So, I think there's a few things, Keith. I think the first one is they know that bold predictions get a lot of attention, especially in times like this. They also know that with this attention comes a lot of viewers, a lot of people tuning in. And lastly, it's the economics of it. A lot of viewers translates into advertising dollars, which is ultimately what they're trying to make—a lot of money from this.

Keith: In predictions here, we're going to make a distinction between a prediction that comes from media sources and a prediction that comes from an industry expert. We get predictions from both, but they're two very different sources. So right now, what you're speaking to is media. So that would be TV, radio, newspapers, magazines. So give us some examples. What are some of the ways financial media uses the prediction business to their advantage?



Marcelo: There are a few avenues they use. At the end of the day, this is a platform. And like we've said in previous episodes, we're all exposed to this. It's hard to find a person who doesn't use a media avenue to be informed about certain issues or anything in general. So what they will do is most financial media magazines, newspapers, blogs, TV channels—they love to showcase people talking about different issues. Again, this draws readers and views. They use this as leverage to attract advertisement. So that's easy to understand. If you have a lot of viewers, you can sell more advertisements. Another way they'll attract attention, Keith, is by having different journalists talk constantly about the current zeitgeist of the moment—that would be the coronavirus. For example, if you go through the list of headlines that we've come across in the last few days, I'll just list a few just so you can see a few examples of this. So some of the headlines we've come across are: "10 Stocks with 50+ Years of Dividend Growth," which implies that the stocks are must-buys at the moment. Then another headline we came across was "10 Sustainable Funds That Have Fared Well During the Pandemic Crisis," implying that these are funds that investors should be buying going forward. Then you have another headline that we saw from the Motley Fool, which is a very famous website. Most people who read about financial news will know this site. It says, "Three Top Dividend Stocks That Could Pay You for the Rest of Your Life," which implies if you buy these stocks today, you'll keep getting dividends for the rest of your life. Again, they're calling a prediction. Then the last one we saw, and this is from a very reputable site, which is Morningstar, was "10 Best Sustainable ETFs in Canada," again implying that this list of top 10 are must-buys and that investors should be looking at them. So those are some of the headlines we've come across in the last few days.

Keith: And to be clear, we're talking specifically about financial journalism here. All of the major newspapers tend to have one or maybe two really good journalists who do great work. They put good articles together to try to help investors on planning, saving, and investing. The Globe and Mail's got a really good writer. The Financial Post has a good writer. The Wall Street Journal has a good writer. And this is what gets a bit tricky. We want readers to read those types of articles. However, in those same newspapers, for every one good article, there's going to be three to four other articles which are going to be, just in the headline of the article, promising that if you read this article, we're going to show you the secret in terms of how to move forward. And those articles you've just spoken, and these were all in the last week, those are four or five taglines in the last week that spoke about, if you read this article, we'll give you the secret sauce, the secret to how to either pick stocks or what direction the market's going in. But either way, if you read this article, we'll be able to help you make more money. And that's part of the financial journalism that we need people to recognize that a lot of it is prediction-based and not good for your health.

Marcelo: Yeah. It's like we talked about in previous episodes—it's learning how to identify it and know exactly what it is. So let me ask you, in terms of the financial services industry, how do they benefit from this prediction?

Keith: A second ago we were talking about financial journalism and media. Now, I guess the question is more about financial experts within the financial industry. So whether it's a bank, whether it's an insurance company, whether it's a large mutual fund company, large investment businesses—all of these businesses have a tendency, some more than others, to create stories. And these stories often are built around a prediction. And unfortunately, in this particular case, we know that stories connect with individuals. Humans love stories. And at the core of how we sometimes do things, we want someone to tell us how things will turn out. We want someone to tell us where things are going. And throughout history, people that have given their tribes or their groups the indication that they can predict have grown in popularity. They gain internal power. And so we see this in financial services. We see it through bank economists. We see it through market strategists. We see it



through all sorts of individuals that position themselves as experts. The industry benefits from it because they can attract assets. They can attract dollars and cents. They can attract buyers. The more buyers, the more dollars and cents, the more money they make. And this often turns into flavor of the month. They market flavors of the month. So in the last two to three years, Marcelo, what have been some of the flavors of the month that have caught the attention of investors?

Marcelo: I mean, we've all seen in the news—weed stocks are a good example. They skyrocketed after the federal election in Canada and they took a tumble last year. Then we've seen cryptocurrency. That's a big one. So this started mostly with Bitcoin, but then it just exploded in a plethora of choices of different currencies and things like this.

Keith: Yeah. And we'll talk about this later in the show, but I remember going back to the mid-90s and following predictions and being disheartened by the inaccuracy and the confusion that it pushes investors into specific zones of, "I have hope that these predictions will work out," and they don't work out. Whether it be the mid-90s going into the tech bubble of 2000, whether it be post-tech bubble, whether it be the oil run-up in the 2003 to 2007 zone, whether it be pre-crash, pre-credit crisis, post-credit crisis—we've had predictions all the way through. And even just this week, I picked up the Globe and read a couple of articles, and you've got industry experts suggesting to investors, "Here's a way to play the VIX volatility strategy." What is the VIX for listeners?

Marcelo: The VIX is a gauge that measures the volatility of the stock market, and it's often called the fear index, but they've built derivative products that now can give you exposure to these things. And this is the last thing individual investors need or advisors mucking around with derivative products based on expert opinions in terms of how you can play the market. It just leads to danger. Other articles this week were talking about why you need to have 30 to 40 percent cash in your portfolio to wait for the buying opportunities. But at the end of the article, there's an inclination to stay on guard because you never know how things are going to work out. Most people can't manage money that way. Now is an opportunity in recessions. Usually, you have higher expected returns. So now is when you typically want to make sure that you have fully invested portfolios. We've talked about that last week in our investment philosophy. So there's these headlines that are created. Three or four years ago, in 2016, the Bank of Scotland came out. It hit the front page of every newspaper, and it was...

Marcelo: I remember this. What was the quote, Marcelo? What did they actually say?

Marcelo: "Sell everything."

Keith: Wow. That's a quote. So here you've got one of the largest banks in the world coming out and saying, "Sell everything." That's powerful. And 2016, 2017—and I don't think they saw the coronavirus in 2016—but clearly those that acted on that advice were kicking themselves a year or two later. So that's sort of financial services. I think it's really important that individuals learn and train themselves to try to identify this in advance. There are other times where individuals make predictions. They may not work in the financial services industry, but they may be in the prediction business, if you will. Boom, bust, echo—we'll refer to that quickly. Marcelo, there are a couple of points you want to mention there. Can you tell us about the book first?

Marcelo: So this book was written when, Keith?

Keith: The book came out in '96. I remember it because I remember in the book, it was about demographics and trying to track where the demographics are going. And if you can identify where



the demographics are going, you can make savvy investment decisions. And I remember people saying, "Oh, it's obvious. This just makes total sense."

Marcelo: It's a powerful narrative when you think about it.

Keith: Yeah. If the baby boomers were the biggest group of people going through the demographic cycle, if you can figure out what baby boomers want to buy, if you can figure out how they want to conduct themselves, it's almost like a license to print money and you can figure out how to invest. Sounds appealing, Marcelo? So the biggest prediction in that book, which is remarkable considering what we've seen in the last 15 years in Canada, is that the real estate market was going to continue to take a downturn. So his logic was that because boomers had already acquired a lot of houses and the office space they needed, the baby bust generation, so the one that comes after, would not have the same number of individuals. Therefore, the demand for houses was going to be low. So his prediction was that housing was going to be a bad investment in Canada. And the last 15 years have proved so wrong.

Keith: It just goes to show you how tough it is to predict. One of the basic principles found in the message was the boomers are going to start to downsize their house. From the year 2000 to 2010, they're going to downsize, they're going to sell, and residential property will be under pressure. They're going to take their money and put it in the stock market, and the stock market will do better. So if you look at that trade, if you read that book, you would have sold residential property and you would have bought diversified equities. And so if we look back in time now, what you would have done was sell an asset, residential property in Canada, which has now gone through arguably the best 20 years of the last 100 years. So you'd be short that, and you'd be buying into equities that then were about to go into, at least in the U.S. market anyway, the period of which is historically known as the lost decade, which was a tough time to be investing in U.S. stocks. Now, to be fair to the book, there were other predictions that did come true based on some of the demographics. And we're not here to suggest that it all didn't make any sense, but to make money in a portfolio, to follow an investment strategy based on predictions—that's an example of how dangerous that can be. The logic made sense. Yes, looking at boomers, you would think that should happen, but it actually didn't happen. And if anything, the reverse happened. So this all kind of fits into the sort of this financial services industry, which is trying to make predictions to help, arguably to help you do better, but invariably it's there to create more wins for the industry than it is necessarily for the investor. Marcelo, what are some of the consequences for people if they fall into these predictions? How can that derail long-term financial plans?

Marcelo: I think there's a few things here, and just by your previous point, it's so hard to know because the narratives are so compelling. So if investors fall for these predictions, one of the things is they can lose direction of where they're going with their plan and with their portfolio. Then that jeopardizes the long-term financial plan, which is you work so hard for your money, and then a bad decision can derail it. Then if you make bold moves in your portfolio, you may have some regret down the line if they don't turn out the way you want. Then you can end up retiring with a hundred, two hundred thousand dollars less, which could be a disaster for your long-term financial security. Then I think the other thing is, if you end up looking at the details of the portfolio, if you're falling for these predictions, you may end up with just a random portfolio filled with many different funds. I remember a few years ago, actually not last year, my jaw almost dropped when I saw this. We were onboarding a client, and when I did the portfolio proposal and I go through the analysis of the current portfolio, I come up with the portfolio filled with about 45 different mutual funds.



Keith: 45. That's the worst I've seen in my four years. I'm sure you've seen your fair share of portfolios filled with random investments, Keith, but it's safe to assume that's not a proper portfolio when you have 45 different mutual funds. How does that relate to predictions?

Marcelo: Imagine, I remember when I was talking to this person we were talking to at the time. I asked him, "So how did you end up with all these funds?" And it's every year it would be something different. So initially he was onboarded by this firm. They built a portfolio, and then every year it was like, "Okay, this year the trade is oil," and they would buy a few funds regarding that. And then the next year they would meet again and then come up with a different investing thesis.

Keith: Oh, I see. Okay.

Marcelo: And then it just kept happening. And that's a really extreme example, but you'll see mild cases of this as well.

Keith: So that's almost like predictions on steroids.

Marcelo: Oh yeah, oh yeah.

Keith: So how did this person feel? Were they confident in where they were going, or how did they feel?

Marcelo: Yeah, that's an excellent question, because all that pattern of behavior around the portfolio and prediction just ends up being stress, anxiety, worry, and concern, which is exactly the type of—I remember I asked him a really good question. The first thing I asked him is, after you meet with your advisor, after knowing that he had 45 different mutual funds, I asked him, "How do you feel at the end of every meeting with your advisor? Do you feel more confident? Do you feel more stressed? Do you feel anxiety?" And he said, "I feel more anxious because I don't know what's going on." So just to answer your question, I think it can turn into this spiral of negative emotions.

Keith: So that's interesting. So if you think about this for a second, it's twisted. You may buy into or follow a prediction because you're looking for hope, you're looking for direction. But what might end up happening is a few years later, you end up just being more anxious and more stressed. So it's interesting how an investor's emotions can follow that predictive pattern.

Marcelo: I guess it could give this false sense of, "Oh, I'm chasing something every year when it makes sense," but it just ends up being really bad. So Keith, let me ask you something. What does the track record show when it comes to experts? Are they right in presenting themselves as experts? Are they worth listening to?

Keith: That's a tough question when you think about it. However, there are ways to try to open up and see how accurate predictions are. And I spent a lot of time over the years trying to think that through. One example that we did come up with, other than just literally tracking predictions, which we will show the listeners in a few moments, but one exercise that we did in 2014 is we looked back and we said, "Okay, imagine if you could be an investment fund that could follow and change direction anytime you wanted to." In other words, you could follow any prediction. You were free to move your portfolio around whenever you wanted. You could capitalize on trends and new initiatives that were popping up. You were free to do whatever. And so I said, "Let's look at that group of managers and let's see how successful they were because they could follow any prediction



they want. They could follow any gut feeling they wanted—no restrictions." As it turns out, there's a couple of different groups of managers we've found, but one would have been called a tactical asset allocator. So tactical asset allocators were funds that were very popular in the 90s and all the way through the early 2000s, and you don't see them as much anymore. And I think people are realizing that it's not as worthwhile as they're marketed. But essentially, those strategies were permitted to change allocations quickly. So if they felt very bearish on Canada, they could make a change and go into emerging markets. Vice versa, if they felt the stock market was going to correct, they could reduce stock market exposure and go into fixed income. If they thought the stock market would appreciate quickly, they could reduce their fixed income and go buy more stocks. So they're really free to do anything they wanted. So in 2014, we wrote a report. We went in, we looked at the Canadian tactical asset allocation strategies, and we looked at U.S. tactical asset strategies. In Canada, what we found was the average tactical asset fund trailed a simple balanced fund by 50 basis points.

Marcelo: A simple balance for the listener would be what?

Keith: Typically 50 or 60 percent stocks, and they would maintain their exposure, and 40 to 50 percent bonds, let's say, whereas a tactical could move things around at their whim. Now, what's interesting about the period we looked at was a 10-year period that ended in 2013. In that period, it includes the credit crisis of 2007, '08, '09. So if there was a time where predictors could accurately predict that whole sort of downdraft and recovery, you would think that it would be one of those moments.

Marcelo: It's their big selling point. They always say that we can protect on the downside.

Keith: We can protect it, we can make extra money. So the Canadian tactical asset strategies ended up not being as good as a simple buy-and-hold balance strategy. And during that same period, Morningstar did a report. And what they did was looked at essentially all of the U.S. tactical asset strategies versus a simple buy-and-hold Vanguard balanced portfolio. And what they found during that very same period was not only did they not perform as well as the Vanguard portfolio, which is a simple buy-and-hold index portfolio, but during the market decrease of '07, '08, and the early part of '09, only one in five tactical strategies did better than the buy-and-hold. So four out of five couldn't do any better. In fact, they did worse. So there's many ways of looking at predictions and figuring out whether the predictive advice is worth it or not. We thought this was one decent way of trying to figure out whether you could actually buy into a strategy that could continually move whenever they wanted to move. Sounds like a great marketing story, but the reality is they just weren't adding value. Marcelo, you worked in the mutual fund industry in Canada. Do you have any examples of these types of strategies and how they were marketed?

Marcelo: Yeah, I actually have a very vivid example. My previous firm had this one-fund solution or fund of funds, which are very popular in the industry now because they have a lot of nice features. But these funds, they had a tactical aspect to them. So when I was there, they were growing in popularity. We were encouraged to promote this type of portfolio. And I remember in the last 12 months I was there, these funds, they lagged their comparable benchmark by almost 300 basis points. And if you look at the last 15 years of these funds, they've lagged the benchmark by about 200 basis points. Again, just to show an example of how the tactical model can be very appealing, but it may not end up in the results investors want.



Keith: So Marcelo, you've come across a website that tracks predictions. It tracks market strategists. Tell us a little bit about the general findings and what the survey is all about here.

Marcelo: Yeah. So this was an interesting study. So they looked at the dates from December 1998 up until December 2012. So they essentially were looking at the predictions from what we called industry experts or pundits, and they were grading. So, for example, if you said, or person A said that X was going to happen and X did happen, that's considered a correct prediction. If X didn't happen, that would be considered a wrong prediction or X, right? So wrong prediction, right prediction, very easy to understand. So they graded about 6,800 different predictions over that time span, and they have an accuracy ratio. So, for example, if you made four calls and you had two right, that's a 50 percent ratio, 50 percent rate of being right. The cumulative rate or accuracy of the 6,800 different predictions was 47.4 percent.

Keith: So what does that tell you?

Marcelo: It's flipping a coin then. Sometimes you're going to get it right. Sometimes you're going to get it wrong.

Keith: Exactly. You went through 2008. Didn't we get some very big names in this study? So let's take a deep dive here and look at some of the names and the predictions that were back in 2008. So you want to go ahead?

Marcelo: It's really 2007, '08, '09, and then the recovery '12. It was a very interesting time because you had a slow drop from '07 to the early fall of '08, a sudden drop in '08, September, October, a bit of a recovery in November, December, and then another sudden drop February and then a deep drop early March. And then that was it. But going into it, I looked through that list that you gave me, and there's a couple of names that popped up that I remember vividly. And I remember you end up having nuances. So there's two types of people that make a lot of predictions and they tend to be biased. So you have natural bulls, people who are typically very optimistic all the time. And if you listen to them, you can often be disappointed. And then you have those that are biased on the bearish side and they never really see the sun and it can nuance and it can affect predictions. Now, these groups are often partially correct and then often wrong. And so the difficulty becomes trying to figure out if you were going to follow predictions, which prediction is correct at what particular point in time. And I would argue that it's virtually impossible. So part of the show is going to suggest, stop listening to predictions. But pre-crisis, you had Goldman Sachs, and Goldman Sachs would be the preeminent top, what is everybody would know is the five-star, the gold standard. And their market strategist was Abby Joseph Cohen. And she went in literally as late as June of '08, so two months before the steep drop. This is already months after she said very specific things like the S&P 500 will end the year at 1,500, and we ended the year at 800. So she went into this whole thing being extraordinarily bullish, and individuals, if you listen to those types of predictions, you might actually start taking on way too much risk and start building portfolios that aren't properly balanced for your risk appetite. The flip side is you had bears that may have gotten a prediction correct going in, but they sure as heck didn't get anything right after that. So you've got individuals back in the day, like a Gary Shilling or John Mauldin, who would have been extremely bearish coming out of that recovery. And we've got what their comments were here. If you were to listen to their comments in a recovery, there's no way in heck that you would buy stocks. So you've got periods like April '09, which is the market low. Quotes, "Stocks will probably follow the same anemic path forward." Two months later, July of '09, "I don't see stocks overall sustaining the recent rally, so I'd sell equities. In general, stock market losses are going to devastate personal income and tax collections." Three



months later, "The stock market is exhausted, and I think investors are worrying again about the reality of a deepening worse economy, worldwide recession." Two months later, now during this entire period, this is the ultimate start of the recovery. This is when investors, if there's a time to own stocks, that was the time to own stocks. So you're listening to these predictions. Now, they continue. "I continue to recommend paring back stocks." So what you're supposed to be doing is owning stocks. And what the experts are telling you to do is get out of stocks. That was one of the bearish. The other bearish individual was saying things like the following. So the summer of '09, again, the market low, "I continue to think it's a bear market rally. This rally does not seem to have the basis for a sustained bull market." Now, this was mentioned at the beginning of what is now one of the best 10-year bull markets we've seen. Two months later, "There's a recession in our future." Two months later, "I firmly believe we will see a double-dip recession within 18 months." One month later, "If we go back into recession, the market will drop 40 percent. This is not a buy-and-hold market. This is a trader's market." One year later, "If we're heading into recession, and I think we are, then the stock market has a long way to go before reaching the bottom." Now, Marcelo, I remember that because that's what it was like to be an advisor with clients and encouraging clients not to listen to those predictions. Now think about that. These were people, and investors were saying, "Yeah, but they got the predictions right two years early." It goes to show you just how difficult it is to get predictions consistently correct. It is so hard. So you're an investor, you're trying to hold stocks, you're trying, if anything, to maybe buy more stocks, and you're being inundated with these predictions. And that's what makes it so incredibly difficult. So there's a reason why people like predictions. It's the stories. It's the ability to show me how things are going to be in the future. And this is where we have to resist. That was a very interesting time. And I suspect right now in a coronavirus environment, yes, times are difficult as an investor in addition to just having to deal with real-life issues. We've got health issues and we have real economy issues that most Canadians have not seen before. We've talked about this. Most Canadians haven't seen a tough recession since 1991. That's 30 years. So here we're going to find, we're going to see predictions coming at us, and it's going to be both positive and not so positive. And just a little walk down memory lane in 2008, we saw all these different predictions, and it didn't pay to follow them. This will get back into why we think having an investment philosophy is so critical to fight off these predictions. So Marcelo, if predictions are not great, why is it that predictions continue?

Marcelo: I think it's like you said. We're prone to fall for narratives. Stories are deeply ingrained in our DNA, and it's why we respond to them very positively, and they know that. But also, we tend to separate the pundits or the experts from actual average people. They're prone to the same biases as we are. So the pundits with the most faith in their own predictions are the least likely to be good predictors. And we look at the study. There's an effect called the Dunning-Kruger effect. And this is a study made in the 90s where two researchers were essentially trying to see this effect. And the study was so powerful that they had an effect named after it. So the study went like this. So they wanted to see the difference between how people perceive themselves and the actual scores of a test. So they were doing a logic and reasoning test, and they asked every participant before the test what was their perceived ability to deal with this type of logical and reasoning test. And they asked them, "How did they think their score was going to be?" So if you asked me, I would say, "I have a high reasoning ability, so I'm going to do really well in the test." So that was the two aspects of the study. And then they looked at the actual results of the test. So what ended up happening is, if you look at the graph, and we'll put it up in the show notes, the perceived test score and the perceived ability is very—it's a horizontal line up in the between 60 and 70 percent score. So people have a very high perception of their ability and their thoughts about doing really well in a test. And if you look at the actual test score, it's a positively sloped line, meaning that it has really low scores and



then it keeps going up and up, and then it ends up, obviously, with a percentage of the people who did the test at a very high score. So what do you think that tells us?

Keith: It tells us that people overestimate their capabilities about many different things, not only logic and reasoning. This happens in the markets. Overconfidence.

Marcelo: So Marcelo, you've talked about slopes and angles and whatnot. It's fairly technical. I'm a little bit more practical. I look at this graph here, and I divide it into four quartiles. Quartile one are the worst-performing, and quartile four are the best-performing. And what it shows is that individuals that get the best test scores, the best performers, they actually rate themselves below relative to their scores. And those that don't actually perform, ironically, they think they're actually good performers. That's problematic. And this always amazed when I saw this chart. When we wrote, I think, the second edition of *The Empowered Investor*, we included it. To me, this was so telling because I sat back and I said, "How can these forecasters continue to forecast?" Like, at some point, when you're wrong all the time, you've got to stop getting up and preaching about some direction that you have. And this chart helps explain that, and it helps explain why you can be so wrong so often and yet feel that you're actually better than you are.

Marcelo: There's a great quote by John Kenneth Galbraith, the great economist, that says, "There are two kinds of forecasters: those who don't know and those who don't know they don't know."

Keith: Yeah, so telling. This show's a little longer than our typical show. Part of it is because we're passionate about this idea that, first of all, we've got to understand predictions. We don't think predictions should be used in the management of portfolios. We think it's dangerous, and we want to explain that. We want to explain that to our listeners as to why we think it doesn't work in your favor.

Marcelo: So let me ask you before we wrap up, Keith. We've covered a lot of good stuff here, but let me ask you, how can an investor resist the temptation of predictions? How should he or she think about financial news?

Keith: First, it gets back to the way we started the show. First of all, I think people need to think—investors need to start to say predictions are obstacles. Predictions are noise. So if I succumb to them, it can derail me. So one of the best protections around this is to have a rock-solid investment philosophy. That's why we dedicated last week's show to having an investment philosophy. If you have a strong investment philosophy and you abide by it, a really good investment philosophy is not based on predictions. You will not let predictions come into your approach. It just simply doesn't fit the approach. So that's the best protection against having to succumb to predictions. What else, Marcelo? What else should investors do?

Marcelo: Again, we always stress the idea of education and awareness—the ability to identify the predictions. Like we discussed in the noise episode, once you learn how to identify it, you can protect yourself against this obstacle and just have better results. Just to finish my thought here is, if it doesn't fit your investment philosophy after you've set up one, it's noise.

Keith: What's in store for our next episode, Marcelo?

Marcelo: In our next episode, we're going to look at common investment obstacles. We have a couple more shows on that. We'll specifically be looking at chasing investment performance and



trying to outsmart the market. So everybody, thank you for tuning in to episode four of The Empowered Investor. Be well, stay safe, and we'll see you in two weeks for our next episode. Thank you, everybody.

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