Short-term thinker tries to take the long view

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GLOBE AND MAIL UPDATE
FEBRUARY 23, 2008 AT 6:00 AM EST

There are many different ways to categorize people: messy versus neat, positive versus negative, extraverts versus introverts, dog lovers versus crazy people.

In investing, there's the obvious contrast – risk takers versus the risk averse – but I'm starting to recognize another important distinction: long-term versus short-term thinkers. Long-term thinkers are planners, people who know where they want to be in five, 10 or 20 years and make plans to get there. Then, and this is crucial, they follow those plans. I think of these people as being great at commitment. They hang in there, for better or for worse.

Short-term thinkers are commitment phobes like me, people who think of investing in terms of months or maybe a year but not much longer.

My theory has always been that long-term thinkers were more likely to invest in mutual funds while short-term thinkers invested directly in stocks, but figures out this week put that theory to the test. Mutual fund investors, it turns out, are pretty jittery in their own right.

First of all, when times are bad, they buy less. On Wednesday, this paper ran a graphic that compared the net asset sales in Canadian mutual funds to the S&P/TSX composite index over the past two years. The graphic clearly shows high investing during good times, and falling numbers when the markets sour.

Not only are investors not buying mutual funds – even though it's RRSP season – but according to figures released by the Investment Funds Institute of Canada, huge numbers of investors are pulling out from equity mutual funds altogether and moving their money to safer money market funds. Altogether, net redemptions from equity mutual funds in the month of January totalled $3.1-billion.

So much for patience and taking the long-term view.

I understand some reticence to sink more money into mutual funds during times when the markets are volatile – you can't help but to be a little scared when times are bad. But in so many ways, the actions of mutual fund investors seem counterintuitive. When you buy mutual funds, you buy for the long haul. No one promises or expects short-term gains. The time frame is always longer: three, five or 10 years.

Do these investors really believe that markets won't rebound over the long term? I have yet to read anything that backs such a pessimistic view. If investors believe that markets will rebound, isn't it best to invest when the cost to purchase is at its lowest?

On the same day that mutual fund redemption numbers came out for non-bank companies, I attended an annual information session hosted by one of those firms – AGF Management Ltd. (which had net redemptions in January of $263.3-million). The tone of the stakeholders' meeting was both sympathetic and relentlessly positive: We feel your pain but don't worry, the market turmoil will be short term and the stock choices we make will withstand that turmoil.

The only really surprising statement from the six senior portfolio managers who held court was that they don't see the U.S. economy heading into recession this year.

Much more interesting to me were the descriptions of how they put their funds together, everything from rules on how high a stock's price/earnings ratio should be to how long, ideally, they want to hold an individual stock.

These portfolio managers are professionals so it's hardly shocking that they have detailed strategies about picking stocks. For me, though, hearing them speak was like going to a conference of people who work in your field – you may not learn that much new, but it helps you to stop and think about how and why you do the things you do.

The AGF session reinforced something I heard from Karin Mizgala, one of two women who run Vancouver's Women's Financial Learning Centre, which teaches women how to become investing savvy.

Ms. Mizgala says the approach that works best with her students is to start with a woman's goals and work backward. Decide what you want to achieve and then figure out how to get there. No matter what students learn – from budgeting to deciphering stock listings – "we always bring it back to the [woman's] goal."

Setting goals. Taking the long view. Both are behaviours that appear contrary to the actions of mutual fund investors in these volatile markets. The kind of behaviours that Boston-based Dalbar Inc., in a study of U.S. investors over 20 years, termed as "emotional" – feeling good and buying when times are good, feeling low and selling when they're bad.

The study, released last fall, made me laugh because it made me think of people I know who are "emotional," whose outbursts seem always to be followed by contrition.

The conclusion of the Dalbar survey was that emotional investors never fared as well, because they were buying and selling at the wrong time. Who's sorry now?

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