Emotions, Patience, and Knowing What You Own

Regular readers of my monthly financial article may recognize I am fond of referring to famous quotes. These quotes, often originally said many decades in the past, are often as true today as they were back when they were originally spoken or written. This month’s column will explore some of my favorite quotes, from legendary investors, as they relate to money and emotions, and remind us how prudent long-term investors should react in difficult market environments.

Berkshire Hathaway’s Chairman and CEO, Warren Buffet, also known as “The Oracle of Omaha”, is a notorious long-term investor. Buffet is famed with saying:

* “Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy only when others are fearful”.
* “The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people.”

Sir John Templeton began his more than 50 year long career on Wall Street in 1937. Some of his insights include:

* “The one thing to remember is that Mr. Market is very emotional and so do not make the mistake of getting irrationally exuberant or utterly depressed along with him!”
* “Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”
* “*This time is different* are among the most costly four words in market history.”

Legendary investor Peter Lynch, who managed an equity fund with Fidelity Investments for over 20 years, is credited with saying, “Know what you own, and know why you own it”. Remember this the next time the market hit a rough patch. If your investment goals and objectives haven’t changed, don’t overreact. In a market downturn, knowing what you own and why you own it may reduce your level of anxiety and keep you focused on your long-term objectives.

Unfortunately, all investing involves some degree of risk. Realizing a loss in value can cause displeasure and anxiety. Markets dictate valuation and that value can change a lot over a short period of time. I believe one of my most important jobs as a Financial Advisor is to help remove emotions from financial decisions, help separate fact from fiction, and help clients focus on what they can control.

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