

WISE MONEY MOVES PODCAST
Episode 10: Common Investment Mistakes



Kamal Basra: Hello, I'm Kamal Basra.

Tracy Theemes: I am Tracy Theemes.

Kamal Basra: Welcome back to Wise Money Moves. This is Podcast 10 and it's about common investment mistakes.

In the last podcast, Tracy and I talked about money strategies. And in this one what we're going to talk about is some scenarios. What we see most often, some of the mistakes that people run into when they're doing their financial planning. So the first one, Tracy, that I see and I always, it's an easy one, but it seems to be missed by people and that is that the time horizon is not matched to the investment that's in their account. And so the way we see this is somebody will bring in a statement and they'll say, "well this is what I'm holding".

And I'll ask, "okay, so what do you, what, what are you trying to do?"

What's the goal?"

And they'll say, "Oh, this is for, I'm going to buy a car next year."

And the portfolio is invested in stocks. And, so, there's a mismatch between when they need the money and the type of instrument they're using. Which in this case, stocks are a long-term horizon type of investment.

You need to have a long time period of investing in order so that the volatility in the market does not affect your return, so that you end up with net positive returns. If you mismatch it to a short time horizon, your odds of getting a negative return in those, one to two years, are really, really high. And that's, that is always eye-opening for, for people as well.

Tracy Theemes: Right. So that's back to that Disney trip

Kamal Basra: Absolutely,

Tracy Theemes: "We've saved up our money, but we put it in the stock market."

Kamal Basra: And it did not quite work out.

Tracy Theemes: It did not quite work out.

Kamal Basra: "And I will never invest in the stock market again". Right?

Tracy Theemes: Well, that leads to the second common investment mistake that we see, which is letting emotions control you. The thing is, everywhere you look in the media with here at family dinners, we are exposed to people's fear. I sometimes think

that fear now is in the air that we breathe. Like sometimes I feel like just walking outside. I just take a [deep breath,] and I'm like, "Oh my gosh, I'm freaked out."

And certainly if you're on social media or you're, you're at all involved in the digital world, you are being exposed to.. we talk about volatility of the, of the capital markets. You're, you're exposed to the volatility of emotion.

And as we are moving into election seasons in two or three major countries, we're being barraged by the world is going to go to hell.

And you had somebody yesterday which is like, I think we should go to cash because of the next recession. Okay, well that's like why should I even bother to make my bed in the morning because I'm going to sleep in it tonight anyways.

and that works when you're 13 or 14 years old. But, ultimately, if you're just.. if you are letting yourself be influenced by everybody's nay-saying and negativity, then you're going to be one of the people that has to climb under a rock basically. And you're going to have to keep everything in cash.

Emotions, primarily, what we see is fear and anxiety. I know that the traditional, the traditional second emotion that is referred to as greed. I don't see much greed, personally in our clients and the people I, that's, that's not who attract is attracted to us. But, fear definitely.

And what fear does, and we talked about this before, is it contracts your ability to make a solid decision and fear can lead us to taking riskier behaviors than our objectives would dictate. And fear can have us take far more conservative decisions than the needs of our long-term objectives.

So trying to settle out inside of yourself. "Is this my head talking, or is this my heart talking?" I think is very, very tricky. I think that's one of the hardest calls and the biggest mistakes that we see is when people let emotions control.

Kamal Basra: And, the other piece that emotions... we, I see a lot of is it leads to paralysis, which does no action.

Tracy Theemes: Right.

Kamal Basra: So how do we move from that emotional piece to action that's appropriate and this is the next common mistake is the mismatch of the objective to the investment.

So, what happens is, somebody reads something in the newspaper or they see it on the media or they, you know, a neighbor is talking to them about an opportunity and an investment opportunity and they dive right in without remembering what it is that I'm trying to accomplish? And what type an investment should I be in? What should my asset allocation be without asking those questions?

We see this over and over again is that they're buying the flavor of the day, which is whatever is being talked about, whatever, whatever's being marketed out there in this time. Right? And one of the common ones right now is ETFs or exchange traded funds. And everyone's talking about the benefits of that and, the great qualities that they possess as investments. But again, you go back and you check back to what is it that I'm trying to achieve.

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- Tracy Theemes: I think that that lends itself to the human tendency to want to skip steps.
- Kamal Basra: Oh yeah, We want to get there faster.
- Tracy Theemes: I do too. This morning I was talking with somebody and you know, should I do this? Should I do that? And I said, "well, I think before we make this decision you have to do a couple scenarios. We need to do an ROI."
And she says, "well that's too hard."
And then as she was talking, I was saying, "have you noticed that you put, you know.. Your emotions are often getting in the way of you making some really well thought out and rational decisions? I think we need to pull everything back and we need to talk about your personal power."
And she's like, "no, no, I just want to do this and do this."
And I'm like, "But you're already 59 and you're showing here in front of me a pattern that will continue to disrupt your ability to get to where you want to go. So no, we've got to pull this thing back, and we can't skip the steps. We have to build a solid foundation."
Yesterday I was making Turkey soup. Now, I've known my whole life that if you, if you just do a quick sauté of your carrots and celery in your leeks, it makes for a better soup over and over.
- Kamal Basra: Now I've learned this.
- Tracy Theemes: It takes about 45 minutes to do the darn soup then and every year I'm like, "I'm just going to skip this and throw the darn stuff right into the broth. Right. And just go."
And every year that I do it, I taste the soup and I go, "that soup isn't as good as if I want to take them to 45 minutes and done the two steps before that actually lead to better flavor and a nicer soup." It's always our tendency, and I have to make the decision every Turkey season.
- Kamal Basra: ... and it's human nature to want to skip steps, especially if we find we're now 48 years old and we were so caught up in life and our career and raising children and paying off the mortgage, now we realize, Oh my gosh, retirement is just over the horizon and I haven't started saving. And so then there's this, again, back to the emotions. There's this emotional need to get there really fast and that's where we end up skipping steps or having a mismatch of the investment.
- Tracy Theemes: Yes. Well I think, you know, we're humans, we're built for efficiency, right? Like it's, it's, we're, we're primed and I don't like to think of us as lazy. Like I don't think I would prefer not to think that me skipping sautéing carrots as lazy. Perhaps.

I just like.. There's things I want to spend my time on and it's not bad. And unfortunately when it comes to money, skipping those steps, is a much larger consequence than whether the turkey soup tastes as good. It's whether or not

you're actually going to hit your objectives, whether or not you're going to have enough money to last.

I think that is also one of the other psychological pieces is missing the forest for the trees. So, this comes back, we're talking about this in so many different ways, is getting stuck on details.

So, they're skipping steps. But there's also, where is your attention? And it's very common for people to come in here and say, "what's your fees?"

I'm like, "and your name is?"

"Like, what's the fees?"

"Well the fees are completely dependent on what the investment is. And the investments are dependent on your goals and your goals are dependent on your financial planning context and your financial planning context is dependent on, and it goes, it goes on and on."

And, and it's like, I think there's a natural tendency to want to focus on things that are understandable. So, it's a lot easier to see a tree, and to focus on a tree, than it is to take a look and do forest management.

So, I think there's a natural, a natural inclination for humans to want to split off. And split off and look at a detail that they can manage.

It's one of my pet peeves, about fees and I can already hear the feedback. "Well, your pet peeve about fees is because you're one of those fancy huge money-making advisers."

Well, no, it's because that's another one where it's a tree you're looking at instead of looking at the forest. And I often equate that to, you know, if you're going to say, "I want a black skirt"

"You know, what type of skirt for what purpose? How long does it need to last? Is it just for Halloween tonight or is this going to be a solid piece in your wardrobe for the next twenty-five years?"

So, it's important to continue as much as you can to look at the overview and to see what the overall context of your decisions are and not to perseverate and get stuck on a detail.

You can ask yourself, "is this really relevant to what I'm trying to achieve?"

Kamal Basra: But it's hard. It's hard to go big picture of what am I really, what do I want to life and making me scared to then figure out what's in my portfolio. That's a big leap. It's a big, that's hard to do and it takes time and I, and I understand why it's easy to miss steps and it's not that you're doing it wrong, it's human nature, and we all do it, but it's really important with your finances.

To have that bigger framework of this is exactly what it is I'm trying to do. Here's the three steps that are going to get me there and then to be able to check in.

Tracy Theemes: Yes.

Kamal Basra: So it's not systematic..knowing the emotions and then being aware logically of what it is and then implementing and it's different parts of your brain that's being engaged and that's where, I mean that's what's fun for me. That's what I love doing with clients is putting those pieces together because it's really hard to do. I find it's hard to do for somebody who's not in our world.

Where they don't see that and where the articles and the stories that are captured that are told in the media, they don't reflect that same way of thinking.

And that framework needs to be in place first before you can talk about just fees. What are you paying?

Well, yeah, what are you getting for the fees? What's the service? Where are you getting financial planning? Or is it just a salesperson is selling you something? Like what is the value and do you value that?

It's kind of like, you know, you can buy a basic car or you can buy a luxury car. Well there's a whole range in between and it depends on what you, what you want. Do you want somebody to guide you along the way to be there as an Advisor and then to take that advice or do you want somebody who just transactional? Who says who you could go to and say, I want to buy a hundred shares of this stock? You know, and that's not what we do here. And so there's a difference as a full range of that.

Sort of moving on from that mistake is the other one that we, I see a lot of is, listening to unqualified advice. And back to, you know, we all have our workplaces, we have our friends, we have our social media, we have reporters and everyone's got an opinion about something and whether it's at the Thanksgiving dinner table, Oh, did you hear about such and such marijuana stuff? You got to get some. It's, well the only way that sort of a polite way to respond to when you get tips like that is, "thank you".

Tracy Theemes: "Thank you for sharing."

Kamal Basra: Thank you for sharing and trying to help." And then you go to your advisor and you go through the five-step financial planning process and you ask your advisors, does this fit? Does this make sense for me?

And the other piece that we is that when somebody tells us that they've made money on a certain activity that they've done or that they've made money on a specific investment, a stock tip or an investment type or they save taxes, well they're telling you a piece of the puzzle. They're not.. what's missing there is back to the context. You know, how long was their time horizon? How much did they invest? How is their, the rest of their financial picture? Is this money that

was just used as... are they a speculator? Are they trying to grow their wealth? Are they trying to save for that Disneyland trip? So, all of those pieces are missing. So, it's, they're trying to help you, but understand always bring it back to yourself as it has to meet, and it has to fit into my framework of goals and needs.

Tracy Theemes:

So, a contrary of that is that I say is, "everybody's full of crap."

Like, nobody that you're going to talk to about your money who isn't sitting behind a desk with a bunch of diplomas behind them is going to actually tell you the whole truth about what is going on with them financially. They're going to say, are going to skip steps in their story. They're going to make themselves look good. They're going to tell you about the one stock that succeeded and not tell you about their nineteen losers.

I remember a few years back at a party, and this was before I even moved back to Vancouver BC and I'd had one of my best clients and this woman just had a weird life. She was inheriting one or two million dollars from lost relatives every couple of years and she'd been managing it for like ten or fifteen years. She created, she was so good at managing these portfolios for a person who'd worked a very simple life that she actually was able to save several species of birds in New Orleans. If you can imagine.

Okay, this is a very, she didn't look like what she was, which is a very sophisticated, very values-based, took great advice, responsibly managed her portfolio, knew what her long-term objectives were. And then some guy who'd come in, you know, off after the Seattle sort of a rush of high tech stocks. And I watched him approach her, and he was a man in his mid forties pretty tall. But I knew what his portfolio was, which was about eleven thousand dollars in equity and about eighty thousand dollars in capital losses. because he was such a crappy investor. Well who's giving who advice? I couldn't believe it.

And she's like, ""Oh, interesting, interesting.""

And here's someone who knows nothing about anything, who has had terrible track record trying to tell somebody who is so much more sophisticated and she's listening as if he's credible. And, that's what we mean. They're not telling the whole story. People are they're just not going to tell you. So taking advice, and that's one of my mistakes also is everybody's kind of full of themselves and needs to tell a good story. And it's not the place where you want to get your advice from.

Kamal Basra: I'm just waiting for somebody. I'm just waiting for that story of somebody standing up and saying, yes, I lost thirty-five thousand dollars on such and such a stock. Never going to happen.

Tracy Theemes: Yeah, no, no, it's not.

Kamal Basra: And so there's bias there.

Tracy Theemes: Definitely! Another mistake, I think, is the opposite, which is abdicating responsibility to an expert without actually moving into a collaborative process. So, when I take my car into the garage, I don't understand the mechanics of the engine or the computer software anymore. But, I do my homework on what garage I'm going to. I do some rudimentary homework on what the maintenance schedule is of my car. I do ask some big questions. I always ask for an estimate of what that work will be.

I will always ask for two or three alternatives, and I've learned over the years. Mostly because I've been ripped off with my cars. I've learned how to have a fuller discussion on how to be collaborative in the sense of owning my own responsibility. And, my job is to be listening, a curious- participatory consumer, but it's not me that's going to do the work.

And, I think that's a distinction that is really hard for people to make complete abdication, whether it's to a spouse or a parent or even to the pension plan at

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work or to an advisor. It's also not something we're really recommending here either.

Kamal Basra: And the solution to that is questions. Keep asking questions. If you don't understand why your portfolio looks a certain way or why you're using certain strategies, you're allowed to ask. "I don't understand this. Can you explain to me why we're using this specific investments?"

Tracy Theemes: Yes.

Kamal Basra: And so that as a investor though, you know the, the frustrating part Tracy, is that people are almost afraid to ask that question, I find because they feel like they're going to disrespect the advisor and it isn't about disrespecting the advisor. You are paying the advisor, you get to ask any question you want and it's up to that advisor to explain it in a way that you understand, whether it's pictures, whether it's Excel spreadsheets, whether it's words, whatever it takes. Keep asking over and over.

Tracy Theemes: It's weird isn't it? Because people think that shows vulnerability in an experience. But our wealthiest, most sophisticated clients ask us questions all the time. And even if they don't understand it, they're asking the question. And I, I think that's one of those is kind of weird. It's the opposite of what everybody thinks power is about asking and being curious and feeling that you're worth that time for them to answer it and not just that to answer it in a way that you can completely understand.

Kamal Basra: Yeah, I think we'll leave it there and end off for this podcast today. Podcast number ten - common investment mistakes and we hope you've taken away at least a few tips to avoid making these. We look forward to podcast. The next one.

Tracy Theemes: Yep.

Kamal Basra: And we'll say goodbye for now. Bye. Bye.

Thanks for listening!

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Data driven, fact checking, translator of complex economic info into understandable plans, champion for diversity and fairness ...“Numbers matter. People matter.”

Tracy Theemes, MA, CFP

Co- Founder, Sophia Financial, Financial Advisor

Motivator, truth seeker, wisdom sharer, protector of those who are vulnerable and champion for those who try...“It’s not about the numbers but the stories we tell ourselves about those numbers.”

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