Make It Personal

Graham Byron

Personal investing should be just that—personal. After all, it's your goals you're trying to achieve. To succeed, investment gurus often tell us to "tune out the noise and focus on your goals," but that can be difficult. It's easy to get caught up in the noise, because it's everywhere—the morning news tells us what to expect from financial markets when they open, the noon news provides live updates, and the evening news recaps the day's price movements. Sometimes it seems like we can't even avoid the noise at social events: cocktail parties and golf courses are full of people discussing what "the market" did on any particular day. When discussing "the market," they are usually referring to a major stock index, such as the Dow Jones Industrial Average, S&P 500 or S&P/TSX Composite. The truth is that the movements of an index probably bear little relationship to the companies you own or the needs you have.

An index is simply a group of companies, and the value of the index at any point in time reflects the price buyers are willing to pay and sellers are willing to accept for that group of companies. The daily value of an index doesn't reflect what the companies themselves are worth to you or how they may benefit your circumstances. (This is true unless you are invested in a sole ETF that tracks an index. In that case, you should visit a financial advisor to discuss how you can reduce your risk by diversifying). For example, you may need to grow your capital and defer taxes in order to save for retirement, or you may need cash flow from dividends to pay your bills. If other investors have different needs, then the value of an index may reflect those needs rather than yours at a particular point in time.

The value of an index also does not reflect the combined intrinsic value of the companies that make it up. Consider the many factors involved in the value of a single company, including but not limited to operating expenses, market share, free cash flow, product demand, sales and marketing, research and development, etc. Now multiply by that by 300 or 500 to reflect the number of companies in an index and try to visualize an absolute point when the value of a stock market index accurately reflects the actual tangible value of all the underlying companies and the future income and growth they might provide. While an index may occasionally achieve this point of real tangible value at random, we will never actually be aware of the moment as it happens. In reality, the market expands and contracts above and below real value at varying rates of speed depending on a whole host of factors, which likely will not have anything to do with your personal circumstances and goals.

So let's look at why we get so caught up in the noise and follow stock market valuations too closely for our financial wellbeing, and in particular why you seize and accept any plausible explanation of an index's movements. The main reason that we fall into this trap is that we are all extremely uncomfortable with the sense of not knowing.

Take an example of someone heading home from work who hears on the radio that the S&P 500 has dropped during the day. At home, he goes online to find an article that purports to explain why the market went up or down and where it might go in the future. While the reasons given in the article for the decline likely have nothing to do with him or his portfolio, he would rather fall back on the habitual pattern of ruminating on the negative explanation rather than simply acknowledging that he doesn't know or even need to know what is happening. This rumination can lead to a further pattern of overreaction, with the person perhaps being driven to sell at a low. This is a very common pattern in the financial world. If you have exhibited this pattern in the past, be aware that you are likely prone to exhibit it again.

Readers of my latest book, *The Mindful Investor*, know they can use the techniques outlined in it to simply stop, find a quiet spot, and turn toward the feeling of worry that index movements create. By focusing on it, they become aware of and can perhaps dissolve an entrenched negative pattern of behaviour. Simple awareness can help to dampen your emotional reactions and break the cycle of reverting to a habitual pattern. (See the sidebar for a brief refresher on meditation technique.)

Once your mind is clear, you can set aside speculation and worry about what might happen to market indices, and instead focus on useful things, such as making decisions that can help you achieve your goals. Rather than worrying about fluctuations in the value of an index, consider factors that pertain to your personal situation, such as: your expenses, whether you should rent or buy, how much you need to save, how much you can safely spend, whether you need to work more, whether you can afford to work less, whether you could be saving on your taxes, whether your investments are diversified, whether the companies you own serve your goals and match your risk tolerance, etc. Focusing on these will help you to feel more in control of your finances, thus reducing worry.

It's not easy to break habitual reactions or behaviour patterns, in particular those that relate to accepting that you simply don't know. Do you now recognize that you may have patterns than could threaten your finances? If so, don't despair: the simple process of becoming aware of your patterns can help you to stop translating them into harmful actions.

Graham Byron, CFP, FCSI, Vice-President, Investment Advisor and Portfolio Manager with CIBC Wood Gundy, co-author of the bestselling The Mindful Investor (Wiley) and The CARP Financial Planning Guide (Stoddart). Toronto ON, 416 229-3314 www.grahambyron.com.

Meditation Technique

Begin by sitting comfortably upright and bring yourself to the present moment by focusing on your body—for example, the weight of your hands on your lap or the grounding sensation of the soles of your feet on the floor. When your mind wanders away, bring it gently back to the focus on your body. You may become aware of other sensations—just choose one at a time to focus on—everything else should be in the background.

Once you are comfortable doing this for a period of time, you can try changing your focus to other things, such as:

sounds around you

thought images

internal dialogue

emotional sensations in your body

relaxed sensations

Eventually with practice your mind will become clear and focused