



Grand Illusion

As you have probably guessed by now, many of these newsletters sprout from our anger or disgust at something we see or hear. In the dog days of summer, it is a great way to combat procrastination – turn on CNBC or read a popular financial magazine, get incensed and the newsletter almost writes itself. We will apologize in advance for this somewhat cranky message when we should be relaxing.

Our thesis is that advertising by financial companies tends to be misleading at best and destructive at worst, pandering to the worst instincts of prospective customers. For example, a current Merrill Lynch television ad shows a middle-aged couple petting a bull lying in their living room, smug and arrogant about their financial situation. Because of their Merrill Lynch broker, they are unconcerned about life's uncertainties. "We've done the proper planning," they intone, mentioning relatively conservative investments. The voiceover then talks about "total Merrill," in which the brokers expand their advice beyond stock touting. We do not mean to pick on Merrill, and we are sure they have a lot of thoughtful, virtuous salespeople. No, our nausea is induced by virtually all the large financial product firms, in chameleon-like fashion, now extolling the virtues of caution and avoiding volatility. Gone are previous exhortations regarding technology companies and the Internet, replaced with prudent utterances about investing in bonds and real estate investment trusts.

What seems to work is pretending to be prudent; prudence itself can be a bad marketing strategy for investment firms.

Where was all this concern about risk and volatility in 1999 and early 2000, before the Nasdaq Composite fell 78 percent? Was any major brokerage firm warning of risk and volatility in the late stages of the technology bubble? The answer is no, and we can tell you from personal experience that attempting to avoid undue risk in client portfolios was a bad marketing strategy in that period. It is rare for us to lose a client, but we lost some then for the sin of not owning enough overpriced technology stocks, for persisting in acting as advisers rather than enablers. Two former clients told us their sleep was disturbed by our refusal to join the mania. Another former client, a professional close to retirement, met a new adviser recommending a 100 percent allocation to technology and biotechnology stocks. The new adviser told her we were "unprofessional" to hold more conservative investments. Her portfolio transferred to the new adviser five days after the Nasdaq peak in March 2000.

Our Morningstar database tells us that there were 28 technology mutual funds at the end of 1995 and 328 at the end of 2001. Did the supply of savvy managers of technology stocks suddenly increase eleven-fold, or did investment firms rush out product they could sell to a credulous public? Come to think of it,

the chameleon analogy is too insulting to chameleons. The Wall Street firms are more like the liquid metal villain of Terminator II, constantly remaking their image into what we, the investing public, think we want them to be. In 1999, investors wanted to believe in the new era, so the brokerages became propaganda mills for a bubble-feeding euphoria. “The world is ten years old” proclaimed one Merrill Lynch ad, a new era mantra that should be put in a time capsule as a warning to future generations.

The changing financial ads, morphing into recommendations for whatever has done well in the recent past, remind us of a teasing owner playing with his dog. He occasionally throws the ball, but the real game is seeing how many times he can fake throwing the ball and still have the dog race off in chase. Brokerage firms will not remind us that they were flogging Internet companies a few years back, and they know we will forget the previous ads. How many times will we believe that they really would have invested our money in what they are now pushing at the appropriate time?

Using the new shampoo will not get you a prom invitation, and there are no infallible investment wizards making all the right decisions.

True, other product advertisements make unlikely claims as well. Using the new shampoo will not really lead to your being invited to the prom. Spraying your bald pate with flocking doesn't really fool anyone but you. Driving the new car will not really result in vast new popularity. Call us old-fashioned, but we believe that providing investment advice is a higher calling than selling shampoo. Financial firms should be held to a better standard than jamming whatever generates the highest profit margins (for the provider, not the investor) into the portfolios of innocents.

Why is there no accountability for the deceit of investment ads? Many people with great memories and reasoning ability still seem to be constant prey for the latest, greatest financial product *du jour*. Then it hits us – we aren't really that dumb, we just seem to need the illusion. There appears to be a strong natural urge to believe that investment experts somewhere are pushing all the right buttons and pulling all the right levers, perpetually buying exactly the right asset at exactly the right time. If only we could find those experts, our investing problems would be over! The seductiveness of the illusion trumps common sense. The all-knowing experts do not really exist. Even if they did, we would not be able to recognize them in the throngs of people claiming to be them. It is exceedingly unlikely that we would gain access to them via a product sold by a broker at the local office. The illusion of these omnipotent experts is so alluring that it diminishes the likelihood of following the effective, but less seductive, day in and day out discipline of investing.

The winsomeness of the illusion can interfere with the reality of needing to meet your retirement or other financial goals. If you would like a disciplined, rational approach to investing, call us at 503-419-3938. Among other things, you can read what we were saying in our newsletters in 1999. We feel no need to pretend something else now.