



Investment Stories

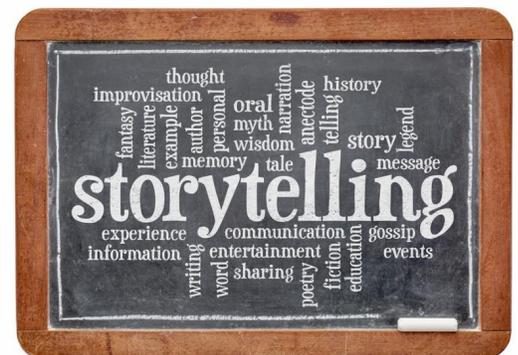
" Never let the truth get in the way of a good story" Mark Twain

" Markets go down because they went up" James Grant

Dear Valued Clients & Friends:

Much research has been done on humans and their love of stories. I am personally a big fan of stories. Concepts are easier for me to understand and remember if told through a story. However, stories also have their downsides. As the Mark Twain quote states, stories have a way of hiding truths. If not careful, narratives can lead people astray.

Stories can take unscientific observations and over time cause people to begin thinking these observations are facts. Stories need good endings and they usually are logically explained to the listener along the way. At the end of the story, the listener can look back and say "that makes sense". What good story ever ended with "I don't know why that happened"? Thus, some parts of our lives are enhanced with stories. Investing, unfortunately, is probably not one of those areas.



A typical investment narrative usually has a few important aspects to it:

a. Find a headline reason for the turn in the market. Some examples could be:

- Upcoming political election
- Federal Reserve meeting
- Weather related events
- Federal and state law changes
- Earnings Season

b. Find support for the reason from a friend or famous person on the internet.

- Talk to co-worker regarding recent headline
- Google: stock market change due to " _____ " (fill in reason listed above)

c. Ignore all other information

You can see how quickly we can form a new investment narrative. As you can imagine, there are many issues with this narrative format. The first being that due to complexities of the world, there is usually not one direct causation for the turn in the market. Could the headline reason be the truth? Potentially. Could the headline reason not be the truth and the market turn still happen? Potentially. This ability to predict an outcome may be caused by luck or skill, which is just one of the issues with stories.



The second issue with these types of stories is the power of regret. Let's say a good friend tells you a story that the stock market value is going to go down tomorrow. You choose to ignore him or her because you do not believe the narrative. However, the stock market does go down. How do you feel? The natural reaction is to be upset with yourself for not listening to the advice. Most people would not try (very difficult even if attempted) to determine if the stock market direction was due to the original narrative or due to something

else. Did the friend get it correct for the right reason or was it lucky? Your feeling of regret at that moment probably does not care about the answer.

It is this feeling of regret that usually causes investors the most damage to themselves.

"Everyone is telling me the stock market value is going to decrease. If it does decrease and I do not sell before it does, I will feel terrible. I should have known to sell. Thus, I better sell now because I do not want to have that feeling of regret." The flip side is also true when someone tells you to buy and values increase. It is at this moment that investors lose sight of their

original investment plan and begin to be persuaded by stories. Once someone boards the investment story train, it is difficult to get off.

What are investors to do?

The point of this newsletter is not to suggest that investors refrain from telling or listening to stories. However, it is important to understand that stories can be seductive. Stories can imply rationality where in fact only random noise exists. In addition, the more you surround yourself with storytellers, the harder it becomes to resist. The mind's shield against stories will start to weaken if frequently called into action. Recognizing these human tendencies can be very powerful.

In addition, very often these stories are meant to move people into short-term action. Remembering what your goals are will help cast doubt on these outsider short-term nudges to action. Also, recognizing that the longer your investment time horizon is, the less important these stories become. For instance, realizing you have planned for a range of outcomes and the importance of the stock market value much farther into the future is much more important than what happens tomorrow can be a powerful safeguard against reacting to investment stories (no matter how good the story is!).



Summary

Stories are powerful ways for humans to connect with each other. However, be careful to not let a good story get in the way of sound investment principles. Knowing our human desires for a good story, along with knowing our goals and time horizon, are important first steps.

Finally, for those that are interested, we have again posted on our website a more in-depth review of the second quarter stock and bond markets. This is a great resource showing specific market performance. To read that review, click [here](#).

We appreciate your business and look forward to talking with you soon.

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