

Are you a Whack-a-Mole Investor?

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In This Letter

- Successful investing is the exact opposite of Whack-a-Mole.

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Whack-a-Mole is the hottest trend on Coney Island this year and certainly the most popular attraction this summer.

Have you ever played “Whack-a-Mole”? It is an arcade game where you take a whack at hitting a pretend mammal in the head with a mallet as it pops its head up out of a hole. In the short time it takes a mole to pop his head up and down out of a hole, you must strike quickly as not to miss out on the opportunity. The goal of the game is to see how many moles you can hit as they show their heads. What hole is the mole going to come out of? Whack it quick and look for the next mole to strike.

What is it about this game that makes it so fun? Is it because you love the feel of hitting something over the head and getting away with it? Maybe it is fun because you try to predict which hole the slippery animal will come out of. Maybe both... To be good at this game, you have to be alert, agile, and have quick reflexes. It is difficult to predict which hole the mole is going to come out of so it's best to stay flexible and be ready for any event.

“Be entertained with Whack-a-Mole if you must, but invest in the people who make the games.”

Successful investing is the exact opposite of Whack-a-Mole. Having the advantage of quick reflexes and the ability to pounce sometimes can lead an investor to buy stocks without the prudent thoughtfulness on how well it might fit in their portfolio over the long haul. If a stock hot for one day, is it a short term aberration or a long term buy?

Poor investment performance can also occur as bad news pops up for a company and its stock. We tend to sell a stock at the first sight of fear and get out rather than asking the tough questions and looking at the longer-term outlook. I do not know of any Whack-a-Mole day traders that are successful long term. I have met a few that have had patches of brilliance at times. These day traders are not stupid. These “gamblers” (not investors) are simply impaired by their decision-making and their aptitude to outsmart the market.

The other problem we face as investors is in being distracted while analyzing our next buy or sell decision. As investors and consumers, we are constantly bombarded by news media that accentuates and titillates on every front. The information highway via the web, social networking sites,

newspapers, magazines, and TV are all in the business of popping up moles for us to get excited over. That is how they gain subscribers.

Despite a sluggish stock market in September (-1.6%), the S&P 500 stock market index closed out the third quarter of 2014 on a positive level. The market was only up 0.6% for the quarter, but remember - a gain is a gain. The U.S. economic engine looks like it is continuing to grow little by little with the jobs report recovering each quarter.

Although the U.S. financial markets have been mostly positive, we are certainly in for some more Whack-a-Mole economic news that will confront us in the months ahead and create more volatility. Lower volatility generates more confidence and risk taking. Higher volatility produces anxiety and certainly makes us want to run for cover. The prudent investor reigns in his/her emotions at all times.

The first U.S. case of Ebola, civil unrest in Hong Kong, ISIS, the Middle East, slow European growth, strong U.S. dollar ramifications, and the Fed's stimulus unwind project are all variables that will be popping up in the media. These moles are nothing to ignore and could potentially cause harm. The one thing that I know for sure is that some surprise in the months ahead will unveil itself and will cause us all to worry. Economic and geo-political news will most certainly be the case in the years ahead.

My advice to anyone reading this newsletter and heading to Coney Island – be entertained with Whack-a-Mole if you must, but invest in the people who make the games. Business. People in business have always come up with creative ways to entertain, be productive, and come up with the next exciting idea.

Have we invented everything that is going to be invented? NO.
Are we going to continue to see productivity gains? YES.
Will the population grow thereby causing demand for products and services? YES.
Will the markets continue to climb over the next 20 years? YES.
Are we all going to worry in the process? YES!

Have a great October. Here's to hoping this month is not too spooky. May our only fright come from a little girl in a witch's costume, and not from a mole popping his head out and sticking around.

We hope to see and talk with you soon.