

## What's in a Phrase: Slogans show us how human behavior influences investment decisions

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The stock market abounds with colorful sayings that reflect the collective wisdom of decades of investment experience. For professional investors, these time-worn adages are reminders of sometimes-painful past market episodes and the unending challenge of getting the future right. But at the end of the day, can these slogans actually be useful in making investment decisions?

Yes, in that what makes the stock market both so confounding and fascinating is how human behavior and emotion influence investment decisions. The wisdom in these sayings is that they remind us of this influence. Considering Mark Twain's famous quote that "history doesn't repeat itself, but it often rhymes," we believe it unwise to let this past wisdom go unheeded when investors are faced with important decisions.

Below is a list of some of the more intriguing slogans that professional investors often cite, and an explanation of their meanings.

Common slogan	What it means
"There is no such thing as one cockroach."	A quarterly earnings disappointment is usually followed by at least one more.
"It's different this time."	An ironic warning attributable to Sir John Templeton, the dangerous tendency for market observers to overlook past history when forecasting future performance.
"The market can stay irrational for longer than you can stay solvent."	Attributable to John Maynard Keynes, who warned investors to assume the market is always operating irrationally.
"Don't try to catch a falling knife."	The danger of trying to pick the bottom in a falling stock.
"Only when the tide goes out do you discover who's been swimming naked."	Attributable to Warren Buffett, it highlights how even bad investments can do well in a bull market.
"The easy money has been made."	A rationalization for market watchers who missed the bull market and have no idea what to do now.
"Buy on the cannons and sell on the bugles."	The best returns are made at the time of maximum uncertainty.
"The smart money is buying (fill the blank)."	The unfounded notion that there are some smart people who unfailingly pick stocks that never go down.

Some of these catchphrases are backward-looking and of little value ("the easy money has been made"). Some highlight the comfort that comes from following the talking heads on TV ("the smart money is buying. . . ."), while others remind us of the perils of ignoring history ("it's different this time"). But perhaps the best slogan that captures the real

influence that human behavior has on the market is the following quote from Sir John Templeton:

*Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.*

Fighting the impulse to do the exact opposite of this maxim is what is so difficult to do, and is what oftentimes separates the great investors from the rest.

Experience is what gives the good investors the fortitude to stick with this strategy while most of human behavior and impulse argues against. As advisors, our job is to recognize when these tendencies of human behavior are present, and do our best to avoid them. It's also our role to help our clients recognize these tendencies in their own behavior, so they can understand how easily they can become derailed from a plan to stick to a carefully-conceived investment strategy.

While these slogans are important to keep in mind, the best investment strategy is one that incorporates reasonable expectations for future market returns and establishes guardrails to avoid being swept up by the emotion that inhibits investment success.

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Bruce is a Managing Director and Director of Portfolio Research at the firm. Bruce rejoined Ballentine Partners in June 2016 after more than 5 years as Chief Investment Officer of City National Rochdale, LLC, in Los Angeles. City National Rochdale, a wholly owned subsidiary of City National Bank, serves family clients across the United States with a staff of nearly 100 investment professionals. Before moving to Los Angeles, Bruce served as Chief Investment Officer of Ballentine in our Waltham office for three years. Prior to that, Bruce spent four years with Morgan Stanley Private Wealth Management in New York and eight years with Glenmede in Philadelphia as Chief Investment Officer and Portfolio Manager. In addition to working directly with a number of family clients, Bruce serves on Ballentine's Investment Management Committee, which is responsible for the oversight of all of the investment activities for the firm. Bruce received an MBA with a concentration in Applied Economics from George Washington University and a BS degree in Business Administration from Penn State University. Bruce holds the Chartered Financial Analyst (CFA) and the Certified Private Wealth Advisor (CPWA®) designations. He lives with his wife in Palm Beach Gardens, Florida.

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