E 134

A Peek into the PRIME QUADRANT®

Only a handful of seats for the Prime Quadrant Conference remain!

11.1.2017

Contact conference@primequadrant.com to reserve your spot!

We are pleased to announce Jon S. Corzine as one of our speakers.
Wall Street Titan and Former Governor of New Jersey

Jon S. Corzine served the State of New Jersey as a United States Senator and as its 54th Governor. Prior to entering public service, Mr. Corzine served as a Senior Partner of Goldman Sachs, and the Chairman and CEO of MF Global. He is currently the Chief Executive Officer of the JDC-JSC Opportunity Fund and active on a number of charitable boards, including the New Jersey Performing Arts Center and the New York Philharmonic.

Upcoming Investor IQ Workshops

November 1, 2017: Prime Quadrant Conference

December 6, 2017: A Primer on Investing in Real Estate

January 17, 2018: A Primer on Investing in Private Equity

What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which you achieve the highest return per unit of risk.

STORIES OF INTEREST

[The 6 Human Needs]
If we all have the same six needs, why do we behave differently?

[The Difference Between Amateurs and Professionals]
Substitute *professionals* in this article for “sophisticated investors” and substitute *amateurs* for "average investors." Remarkably, the message is the same.

[Tiny Changes Can Have Big Implications]
Some trends are destiny. Some are just noise. And others are mean reverting. For investors, knowing how to distinguish between them is crucial.

[The Most Dangerous Trap for Stock Pickers]
Even with thorough research, basic flaws in human decision-making can thwart our best efforts at logic.

THE WAY WE SEE IT

The following is an excerpt from Mo Lidsky's latest book, Partners in Preservation: How to Know your Advisor is Truly Protecting your Wealth.

Fighting Complacency

A simple way to combat portfolio complacency is to ask a simple question: If I had to recreate my portfolio today, would it look the same? If the answer is no, it is time to consider some changes. This is a tactic many Fortune 500 CEOs employ in their companies. When pressed with a difficult situation, shrewd CEOs imagine someone else taking over the company and ask themselves what their successor would do.

The beauty of being an investor is that answering this question does not require a meeting with human resources, a marketing department, or any board of directors. You can decide and execute expeditiously, especially with liquid assets.

In military terminology, the acronym VUCA came to connote the general conditions of most battle terrains. Those conditions

Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

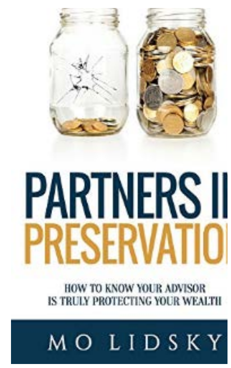
Prime Quadrant is an investment research and consulting firm that helps high-net-worth Canadians make better investment decisions.

Mo Lidsky's most recent book Partners in Preservation: How to Know your Advisor is Truly Protecting your Wealth is now available on Amazon!

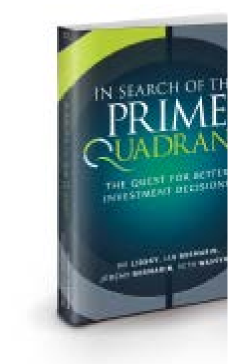
included volatility (the nature and dynamics of change), uncertainty (the ongoing possibility of the unknowable), complexity (the intertwining of many issues and forces), and ambiguity (the difficult assessment of reality or cause and effect). VUCA is a great analogy to the realities of investors, and the only way to approach VUCA is to be aware, to be ready for the unexpected, and to be nimble enough to change when facts on the ground warrant it.

In the realm of public markets, Wall Street analysts frequently reduce their research to one of three actionable decisions: buy, hold, or sell. The problem is one of these is almost irrelevant and meaningless. There should be no “hold” option. The market offers you a price every day, and it is either a good price or it is poor price. It’s hardly ever the perfect price and certainly not so for any sustained period of time. Thus, no one should hold investments they wouldn’t buy today. And even with other assets, if you’re not selling, you are effectively buying. If you own a fund that has had its net asset value catapult and you would never buy the same at today’s price, then you should consider selling it. Otherwise, acknowledge the fact that you essentially just bought it again.

I am not advocating for investors or even advisors to be trading securities every time the market moves. That comes at a hefty price (i.e., transaction costs) and is rather unhealthy (e.g., invites too many behavioral biases). I am simply suggesting that investors take a disciplined approach to buying and selling decisions and avoid irrationally forming emotional connections with their investments. Howard Lutnick, the chairman and chief executive officer of Cantor Fitzgerald, describes how often investors describe their holdings as if they are married to them: “You know, back when I bought that stock, things were really good. I paid 10, then it was 12, then 14—the honeymoon was great ... Then things got rough for a while. And now

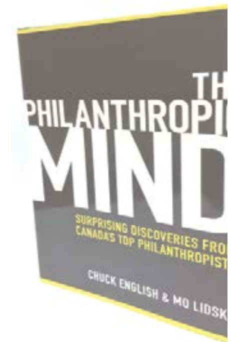


In Search of the Prime Quadrant: The Quest for Better Investment Decisions is available at Amazon, Barnes & Noble and Indigo.



The Philanthropic Mind is also available on Amazon, Indigo and Barnes & Noble.

it’s 6. But I’ve married this stock for better or worse, until death do we part so I’m hanging in there.”



This is something behavioral psychologists have referred to as the endowment effect, where value is ascribed to something simply because it is already owned. In one of the most famous studies on the endowment effect, test subjects received mugs as gifts after indicating what they would have been willing to pay for the mugs. After some time had passed and they had established ownership of the mugs, test subjects wouldn’t sell their mugs for less than double what they were originally willing to pay for them.

The phenomenon of the winner’s curse in auctions—where the auction winner is often the economic loser because the winner tends to overpay—is predicated on a similar principle. Once a person bids on an item, there is an element of the endowment effect in play, almost as if he or she already owns the item being auctioned. This is just one of the reasons that auctions rarely prompt intelligent decisions or offer compelling investment opportunities. Even if you’re excited about your bid, there should always be a defined point when you just let it go.

"The majority of life’s errors are caused by forgetting what o trying to do."

- Cha

PRIME QUADRANT

2 ST. CLAIR AVENUE WEST, SUITE 2101, TORONTO, ONTARIO CANADA M4V 1L5
TEL.+1 416 410 3648 FAX. +1 416 352 6116 INFO@PRIMEQUADRANT.COM
WWW.PRIMEQUADRANT.COM

but they have not necessarily been independently verified and they should not be relied upon in making investment decisions.