Speaker 1 0:24
All right. Well, we have a lot to cover, so we'll jump right in. Hello, and welcome to this evening's webinar, AAII and Better Investing. What's wrong with Wall Street Wisdom? Thank you so much for joining us. We're always happy to have you all here. My name is Jenna Brashear, and I will be your host for tonight. A few things to go over before we begin. I want to remind all of our webinar viewers that AAII is a nonprofit educational group and is not a financial advisor, and thus is not able to give personal advice. If you'd like to read our full disclaimer, you can visit aaii.com/privacy/dec. and then we have two wonderful speakers tonight: John Bygotsky from AAII and Doug Gerlach from Better Investing. Want to thank both of them for joining us this evening. And if you want to share where you're tuning in from, we always love to hear. You can drop a comment in the question section of your panel to let us know, and that should be located on the right-hand side of your screen, and then please be sure to keep an eye on the chat throughout the webinar. Those are two separate areas, and we'll be sharing helpful resources and links throughout the broadcast. And if you have any questions for our speakers during the presentation, please submit them using the question section of your GoToWebinar control panel. Once our presentation concludes, I'll select a few for John and Doug to answer, and then if your question isn't selected during the broadcast, you can email us at members@aaii.com. If you experience any issues with the audio or video of the webinar, please visit go2webinar.com, or you can message us in the chat for assistance, and we'll try to help. Just a friendly reminder that this presentation is recorded, and a replay of the webinar will be sent to all who attended today. The recording and handouts will be accessible at aaii.com/webinars later this week. And in this presentation, we will cover a few things such as why actively managed funds and complex products often cost you more than they're worth, why market timing and frequent trading usually hurt returns, not help them, how to spot conflicts and interests behind expert stock tips and media hype, and practical tools and habits for disciplined long-term investing success. And we always love that our webinars are interactive. So after our presentation, we'll host a live Q&A including two special promos from AAII and Better Investing. So please make sure to stay for the entire broadcast. And with that, I'd like to hand over the presentation to John to kick us off.

Speaker 2 2:44
Well, thank you so much, Jenna, and welcome, Doug. You know, I climbed a wall of worry that we wouldn't have enough stuff to cover as far as you know various forms of Wall Street wisdom. But I think you know Doug really came up with some wonderful elements to talk about, and hopefully added a couple things as well, and I'm really hoping that as an audience here, you'll you'll come away this evening with you know some some debunked Wall Street myths and perhaps some understanding as to how they came to be and and really what the proper actions for us to to do as investors going forward. With that, Doug, I'd like to you know feel free to introduce yourself and take away your presentation.

Speaker 3 3:25
Well, thank you, John, and and thank you, Jenna. Welcome everyone to our presentation. I am Doug Gerlock. I am a representative of Better Investing, and more specifically, the iClub Central Incorporated

subsidiary of Better investing. Better investing is, of course, a nonprofit investor education organization celebrating its 75th year this year. And iClub Central is the little division within the business that makes the investment club accounting and operation software. And we also publish a couple of newsletters: the Investor Advisory Service, the Dividend Informer, and the small cap informer, and I'm the editor of those three. That's where I spend a good chunk of my time, but I also spend a lot of time on the road helping chapters and for both AAII and Better Investing with their educational events, as well as doing lots of webinars like this, so I'm always happy to be able to talk about some of the topics that help individual investors to become better investors, to learn how to navigate the stock market with a sense of security and how to make sense out of the often complicated world of Wall Street. This is an educational presentation, and on behalf of Better Investing, I am a representative, but I don't speak for the organization. You know, I think one of the great reads of the about the market and about how investing works comes from this 1940 classic. Where are the customers' yachts? By Fred Schwedt Jr. It's a 19. It's a classic title. Comes from a visitor to New York City. He was proudly shown all the yachts of the bankers and the brokers at the at the port downtown at the yacht club, and then naively asked, "But where are the customers' yachts? If all these bankers and brokers are making money, what about their customers? This book is a great satirization of the world where the brokers get rich and the customers go broke, and that unfortunately is often a theme for Wall Street. Wall Street is often portrayed in the media as a sophisticated world where it requires specific expertise, where there's fast money to be made, where it's intimidating to beginners, and if you're not a professional, maybe you better sit on the sidelines and hire a pro to handle it for you. And likewise, all of us individual investors are portrayed as as not smart enough to figure out and manage our own portfolios. And there's been a long shift over time since the brokerage firms opened to many investors in the 1970s, and that change took a long time to kind of take hold. And even into the 80s and 90s, we we hear stories of brokers cold calling clients, and when a woman asked answered the phone, they'd be asked if the husband, the man of the house, was at home because they didn't want to talk to to women who were seen as not being able to manage their pers their personal portfolios or their family portfolios, and so there's a lot of distrust that has cropped up in many quarters where individuals recognize that there is a huge profit motive for brokers, the industry, financial advisors, which often doesn't serve customers, even though they have fiduciary roles or responsibilities to support their clients, often the overriding theme is that Wall Street exists for the wealthy, for the sophisticated, and average investors. Better stay away. So, who is this Wall Street wisdom designed to serve? These words of advice that are handed down from individual to individual over the time, and the media loves to run them as headlines. And it's a good thing to be a little bit skeptical about the media, skeptical about any investment opportunity, and make sure that you're working in your own interest. Often, these words of wisdom that we hear from Wall Street are really meant to instill fear and uncertainty and doubt in the minds of investors. They're not-they're not really intended to be reassurances that you're on the right track. Often, they support products that are just not really worth it for individuals, like a lot of actively managed funds or complex structured products that are so complicated that it takes a professional to even describe them, much less than individual coming in off the street trying to figure out if it's right or wrong. Market timing strategies in better investing.

Speaker 3 8:01
We often counsel against trying to time the market or guess the direction of the market in the near term. And often you'll see platforms that promise to use artificial intelligence these days, or robot training to trading techniques to figure out your entry and exit points, and all sorts of frequent trading platforms that are meant to, again, generate generate transactions, which even though may not be generating commissions, could still benefit brokers as part of fee payment schemes. And there's often always the case of the talking heads that you'll see on television who are preaching particular investment strategies or individual securities, and are hiding behind these adages and axioms as a way to prevent disclosing the conflicts of interest that often you see. So, a fun part of this this webinar is the opportunity to debunk myths and talk about alternatives and provide alternative translations for what might be a sounder approach from the perspective of an individual investor. Now, the the one commonality that much of Wall Street wisdom has is that it's often very general, not very specific. It's meant, it's intended to be that way, and it may not impact your particular approach. And if you have figured out a method of investing or trading that works for you, if you have the experience that gives you the license to break the rules and it's successful, then that's great. And this is not meant to dissuade you from that approach. But if you're entering the market for the first time, just getting started, if you're looking for guidance, and you've heard some of these rules about what you should and shouldn't do in the market. Maybe you should reconsider some of those. One of the the my my biggest pet peeves is the invest in what you know. In part, this was driven by Peter Lynch in the 1990s, who talked about going to the shopping mall with his wife and discovering legs pantyhose, famously at the very beginning of its of the legs product cycle, where this was something brand new, a new approach to marketing. He talks about other companies that he discovered from just the act of going about normal living, and was able to come back and do investing research. The Beardstown Ladies Investment Club in the 1990s famously discovered Walmart by driving by a newly developed location in Illinois and saw the the parking lot was always full. Started shopping there and then added to their to their portfolio and became very successful. So this this mantra is meant to offer confidence that your observations and your experience about products and services can aid you in the research and analysis, but the problem is that as individuals, we are human and we're susceptible to a number of cognitive biases. Many of those cognitive biases, those unconscious modes of thinking, cause us to be overconfident, support an inflated sense or an overinflated sense of expertise about familiar things. In other words, we assume we give ourselves an assumption that we are more of an expert because we shop at a particular store, and thus we're familiar with its business. We eat at a restaurant, so we're more familiar with its menu and operations, we work in a particular industry, so maybe we have expertise there that other individuals don't, and that can be a problem if we elevate our elevate our sense of of knowledge and experience to a point where we become the experts, then it's too easy to to to throw off the analysis that we discover, the research, the

contrarian points of view that might dissuade us from our particular particular set path that we embarked upon. I think it's better to instead think about know what you're investing in, know about that. You don't have to be a computer scientist to learn how to analyze semiconductor companies, and maybe it doesn't even help you to be a computer engineer to have that level of expertise. Yes, you will get ideas as an individual investor from all sorts of all all sorts of sources, so it doesn't depend on your particular knowledge. But we should be know what we invest in, taking time to research and understand securities before we we take action. The next tidbit is the adage that no one ever went broke by taking profits.

Speaker 3 13:05
This is meant to reassure you that if you have a little bit of profit, maybe you should sell it. You'll never go wrong if you always sell when you're ahead and get out quickly, and you always have some profits. And sure, this this is a great strategy if you're a broker advising clients, because their account statement is always going to be in the green, it's always going to be showing positive numbers. On the the counter argument to this is that most individual investors and most financial advisors are not all about calculating the actual investment returns of individuals, and so just being positive or negative doesn't mean that you beat the market or even approached the rate of return of the broader market, or that and that you can judge your investment strategy to be successful just because you were showing a plus sign at the bottom of your account statements. Selling merely to lock in profits, I think, is a misguided strategy because you're selling companies that have performed well, securities that have gone up over time, have appreciated. So now you're going to sell, you're going to lock in those profits. But what you're really doing is locking out any future profits. And if you sell all the winners out of your portfolio, or you sell big chunks of those positions. What are you left with? You're left with your losers. And so, in better investing's portfolio management techniques that we discuss with members, we suggest that instead of going out to your garden and cutting the blooms off all your flowers and letting the weeds grow, that you weed the worst offenders first. You take the the losers out, the underperformers out, and you act against those companies and let your winners ride. Surely, if you're carrying large appreciated capital gains. Unrealized in those big winners that consider using a trailing stop loss order or other strategy to minimize the downside if you're worried about it. But otherwise, in the better investing universe, we like to let our winners ride. We like to let our winners ride through overvaluation, overvalued, overvalued periods of the market. We like to let our winners ride when they are running at higher than average overvaluations. We don't know how long Bitcoin markets are going to last and carry those valuations. So we want to gain as much return as we can when we're right. There's going to be plenty of opportunities when we're wrong, and those are the the kinds of companies that we should be addressing. Another that you hear often is the buy the rumor, sell the news. I don't know anybody who actually does this, but this is when speculators are pricing in positive catalysts that are that are coming from the rumor mill, and then they they sell when the official announcements are come come out and take the profits there, and so this is why you'll often see companies that have very strong earnings reports. They come out and you'll you'll you'll be surprised when the

companies decline in price or when there's speculation that a company is going to be acquired. So the rumor mill is active, and when it actually happens, then the price, you know, might decline in value at that point again. But this is really helping investors to focus on the wrong things. You're focusing on the short-term noise in the market. Stocks are always going to fluctuate. They're going to fluctuate before their earnings announcements. They're going to fluctuate after their earnings announcements, and these types of buying and selling strategies potentially could be generating more tax liability. And again, we're in the situation where we're buying a company that has had a positive catalyst, that has good news. Maybe the fundamentals are strong and could drive another decade's worth of growth, but we're going to follow this little this little word of advice, and we're going to sell the stock and you know bank on that smaller short term gain. And those types of strategies, you know, can be effective, but you've got to have the right hundreds and hundreds of times as opposed to dozens of times in a well-structured long-term portfolio. If you're like like me and like our newsletters and like most Feder investing members, focusing on business quality is always good. Focusing on long-term valuation and don't try to capture relatively small market moves.

Speaker 3 17:37
Those strategies often require too much attention. You've got to be mindful and of where your stocks are on a daily basis or an hourly basis, and that can be great for some. But for the bulk of people, you have better things to do with your time. And so, stay away from those types of strategies. Following the smart money sounds like a great a great word of advice for investors. What it means is, let's look to institutional investors, large, successful, actively managed mutual funds. We'll look at and we'll try to figure out opportunities that those big investors are looking are are exploiting. We'll look for what companies have the biggest amounts of institutional dollars chasing after them, and again, seems like a great way to plumb the depths of the markets to potentially come up with a few good catches. But there's some problems with the approach in recent decades, the last 20 years, there's been some shifts in the timing of the reporting of holdings of institutions, and that you know, big actively successful, actively managed mutual funds may not be such a great source of ideas because of the delays. They're only reporting their holdings and then only their top holdings twice a year. Everyone knows when those reporting dates are. Typically, you know, June 30th and December 31st. And if a advisor or if a mutual funds manager doesn't want to disclose their strategies, they might actually dump some of those holdings and not be holding them on the report date, just so not to tip their hand to other people. And in other cases, the reporting delays are not getting mean that you're not getting real time information. If you look at the most recent holdings, once again, many mutual funds, actively managed or even passive will have different timeframes than yours, and this approach has a bias against small and mid-sized companies by virtue of the size of active managed, actively managed mutual funds and pension funds, institutional investors. They're just not interested in small company stocks or even mid midsize. Stocks. Many cases, they can't invest because they, you know, in order to take a meaningful position for a, you know, a multi-billion-dollar mutual fund, you would have to buy all of the float, the outstanding shares of

particular company, which again would probably go against the fund's investment policies and also require additional reporting, and also there are SEC regulations about maximum ownership. So as a result, this is one of the factors that causes small and mid-sized stocks to often be overlooked by the market because the big institutional investors can't can't be investing in those. So instead, create your own smart money research. Take advantage of opportunities where institutions can't can't compete with you. Individuals do have an edge in the smaller spectrums of publicly traded securities. So we can invest in small and mid-sized stocks, and as they get bigger and bigger, eventually they will start to attract that institutional attention, and that will help boost their values. But in the short term, you're better off doing your own research instead of trying to follow the big trends. Every time the the Fed is having a meeting, you'll hear some talking head on television who will bring up the guideline? Don't fight the Fed. This is meant to signal whether you should be aggressive or conservative, relatively speaking, in your portfolio. In other words, you should buy when rates are being cut, when we're in a rate tightening cycle, and you could move to cash or turn defensive when the Fed is raising rates, get out of stocks. So the trend is meant to indicate the general direction of your portfolio, but the problem is that macroeconomic policy lags the fundamentals of companies, and exceptional companies are going to perform well during the tightening cycle, just as they are during the easing cycle. So the rate moves don't really provide a good predictor for a lot of companies, and over the long term, the impact of following the Fed trend is really not going to lift up your portfolio too significantly. Yeah, you should definitely follow the Fed, understand the basics of Fed policy, understand the broader economic environment that the country's in.

Speaker 3 22:21
Let your fundamental analysis and your understanding of corporate balance sheets and individual valuations drive your stock selection, not the actions or predicted actions of the Federal Reserve, which, as we have seen, may or may not perform according to the expectations of Wall Street. I love this this approach to investing, characterized as buy from a sucker, sell to a sucker, which again I think elevates the investors' own sense of self worth who buy into this particular motto. It's meant to diminish one half of the participants in any particular stock trade. So whenever you're selling a stock, you're selling a stock because it's not worth it to you anymore, and so you're going to find some sucker to take it off your hands, and when you're buying a stock, it presumes that you're buying it from someone, from another investor who doesn't know the true worth of that particular security. And in both those scenarios, you're going to come out ahead because you are the only arbiter of true valuation in this particular formula. But once again, we're back to creating, stimulating, engendering overconfidence in our own investing approach when we should be a little more skeptical, when we should drive to be rational. There are relatively few investors that have any can get a real edge in the market, especially with respect to large caps and mega cap stocks that put you onto the smarter trade, the smarter side of your trade decisions. You know the market makers are in the middle; they're profiting whether you're buying or selling, and that's who you're going to be interacting with. And long-term success in the market doesn't come from outsmarting other investors. The best-performing companies are going

to have decades of growth, decades of opportunities where the prices may come down during a correction or bear market, and then provide opportunities to buy, and then the fundamentals will drive the company's progress, lift up their shares as a result. So, if you're focused on long-term compounders, if you're focusing on business fundamentals, then you can get over this particular characterization of how the market works. Market doesn't really depend on people coming in who don't have any experience, who are just going to, you know, walk onto the used car lot and pick up. The lemons that the salesmen will will sell to them. We have the opportunity to explore, to research, to experience many different types of companies and do our own, build our own portfolios. And then finally, pigs get fat and hogs get slaughtered. Meant again, once again, to restrain you from trying to focus on taking too much profits from your portfolio, seeking out perhaps you know the fact that you've got a small gain won't satisfy you, and so you're going to you know double down or overextend or leverage on using you know using the options to build up positions that because you're so confident, but again we're into this area where we're investors are being encouraged to sell their winners often too soon, which eliminates future gains and potentially you know these types of short-term types of short-term trading strategies will create higher short-term capital gains rates instead of long-term rates that are lower, more advantageous. And we've got the reinvestment risk. If you're constantly selling stocks because you're afraid of making too much money, because you're afraid of being a hog, what are you going to replace it with that could perform quite as well as the company that you just dumped because you were afraid of getting too far ahead of yourself. Holding well managed superior companies is almost always a rational investing approach. Focusing on valuation characteristics will help you develop that sell strategy that's reasonable and functional and works and driven by underlying fundamentals instead of arbitrary limits on the the high end. So it's always a good idea to revisit these behavioral biases that I mentioned that make you more susceptible to lapse into behaviors. That these types of Wall Street wisdom can create self-awareness. Often, is a good defense. I'd like to counsel, advise investors to be intentional in all your decisions, not just knee-jerk reactions, not taking these rules and extrapolating them into hard and fast portfolio drivers, but focus on the fundamentals. Discipline is more important than conviction.

Speaker 3 27:24
That's one bit of Wall Street wisdom that I can get around. That if you've got a system in place, if you've got a strategy in place, and an understanding, that will help you override the reactionary approach, the emotional side of investing. That having a feeling that the stock is going to perform well is much different than having a disciplined approach and sticking to it. So, John, I'll turn it over to you now, and you can tell us a little bit more.

Speaker 2 27:53
Oh, I very much like to do that, and let me go ahead and share my screen. And you know, I really appreciated your presentation there, Doug, and it's amazing how much the behavioral biases come into play as far as how we treat things, whether we chase yields or or go after you know our loss aversion as far as trying to take some quick profits. What I try to do

and build upon what what Doug has presented is take a look at some of the the common phrases that are out there, kind of common trading approaches that we hear about quite often, and they sound very good on the surface, and and in many cases even the rate to return are attractive. But the problem is they're not really practical for typical individuals to employ. One that is very common, of course, you you hear about this typically at the beginning of the year is you know as goes January so goes the year the notion that if you have a strong January the whole year is going to turn out well well the challenge with that part of it is first of all January is often a good part of the overall year so one has to really take a look at whether or not the performance of the whole year incorporates January but also does that really translate into a a type of action that we as individuals should go ahead and follow? And again, it may quote a good perhaps percentage of truism behind it. But the reality is, when it comes to actually applying it, what I did here, and we've covered this occasionally in the journal, is that we took a look at the model shadow stock portfolio, and also we look took a look at the S&P 500 and try to get a sense for you know if you had a given January, and then you went into the January market was up that year, you stayed in the market that the January was down that particular year, you then would go into cash and you'd only get that January return. Was that a a attractive strategy, and B, could you actually gain money doing so, and not even taking into account the taxes implications of that. What we found, at least for the last 33 years that we've been doing this with model share effect portfolio, is that while all in all, perhaps it tends to be you know somewhat appropriate or somewhat. Characteristic as far as the whole year goes, there are some exceptional years where you may have a positive January. You take 2008, started the financial crisis with the final channel type portfolio. Actually, was portfolio was up 1.9% in January. If you had stayed in market that whole year, you would have had a big loss. The next two years, the opposite was true, and this is true for the shadow stock portfolio as well as the as the S&P 500. In that context, both of those Januarys were quite low as far a greater return, but the overall year had returns approaching triple digits. So if you went ahead and simply followed this approach of getting out of the market because the January itself was bad, you would have missed out on that turn and the tremendous turn for that year. So long-term speaking, you're much better off simply staying invested in the market. In this case, would have had a rate of return of 13.6% for the model shadow stock portfolio being in the market the full year, whereas if we were skipped the rest of the year, when it was a down year, would have been actually have a lower rate of return. The same is true for the S&P 500. In that context, going ahead and and investing in the full year, over that 33-year time period, would have had an annual rate of return of 10.7% versus a 8.0% return if you happen to follow this approach. That's even ignoring all of the implications of timing, tax implications, rebalancing, and those kind of concerns.

Speaker 2 31:27
So on the surface, this is a situation where we hear these approaches, and they may have a good percentage truism as far as okay, yes, this this indicator has predicted been successful in terms of a percentage batting average, but as far as its impact of rate of return, it's actually not very good for you as an investor to follow. So again, it's and I wanted

to also highlight that in the case of you know a lot of these indicators are based upon the S&P 500, and what is true for the S&P 500 may not be true for other markets. Like small cap markets can move differently. International markets can move differently. Even mid caps and S&P 500 is is large cap weighted. So in some cases, an equally weighted version of that index may perform differently. So the challenge with these common sayings is that you know yes they sound good on the surface and and you know they even, on a statistical basis, may sound plausible, but when it comes to investing, may not be the best way to go. Another one that we hear a lot about is sell in May and go away. And again, there is in a lot of these cases there is a certain amount of truth to it. The market typically is stronger performing in the winter months, and statistically speaking, it typically is weaker when it comes to the summer months. But you know, every year is a little bit different, and different market indicators are different at different times of the year. So, but I went ahead and actually, you know, we've been covering the model shadow stock portfolio for over 33 years. I went ahead and calculated the average monthly return over the last 33 and a half years, and got a sense for which particular months were better than others. And interestingly enough, for the model shadow stock portfolio, again, sell in May and then go away. Buy in November and then hold it. You know there is truth to that. The best performing month on average in the market is November, and that's true for the shadow stock portfolio. It's true for the Vanguard total stock market. It's true for the S p5 100. But what about the rest of the months? Okay, November is the best month to be in the market, statistically speaking. When it comes to the shadow stock, the second best month is January, which again is within that range. But the third best month is July. So clearly, in this case, at least for the last 33 years, July would have been the third best month to be invested in the market, and actually was the fourth best month to be in the market for the S&P 500 and the overall Vanguard Total Stock Market. So, in the worst months, that typically have been around August and September. But interestingly enough, when it came to October, you know that was actually one of the better performing months for the S&P 500 over the last 33 years. So, different months have perhaps biases as far as rates of return, but can you make that into a a kind of approach that actually is followable? So this chart here highlights how that, in this case, the very first bar indicates the performance if we actually been in the market between November and April, and yes, you would have earned a higher rate of return than being in the market between the months of April and October. But those rates of return that you get in the summer months are still higher than what you'd have earned in T-bills, and you would have incurred capital gains. On those returns as well over the point of time. So on a tax basis, you probably are losing out. So again, this is one where yes, the market is statistically weaker in those middle months, but it's still better than being in cash. So it's one of those things where on the surface, this is a strategy that is true. Typically, the best months are in the winter. But again, is this something you should be following as an investor, long-term investor? It doesn't really pan out as an approach that most investors should follow.

Speaker 2 35:32
So again, this just highlights which are the best months for the model title stock portfolio, which is August, September, October, and versus

September, August, and January, February for the S&P 500. The weakest months, rather, and then the strongest months are in the winter, except for July. And again, it's it's the summer doldrums are there, but we get rewarded for being in the market as a whole. And kind of when I was thinking about this, I kind of was thinking about this is an old adage made famous by Mark Twain, and he reminded us that October is really one of the most particularly dangerous months to speculate in stocks. And then he goes on to list the other months of the year. And I think the point here is not so much that October is a bad month to be invested in. I think it's in general if you try to be truly speculative and not do your research in the markets. It's dangerous to be invested in the market. So I always get a kick out of this one saying. And again, the notion here is that do your research, take a long-term perspective on the market, and don't just simply follow a trading strategy without analyzing what's happening behind the companies that are involved there. One thing that I often see, and I experience this myself, especially we're in earnings season now. We're seeing companies come out with earnings. We're seeing big market moves after earnings surprise to the upside, potentially one to the downside. And there's this this this fear is that well, I can't invest in this company now because the stock price is up, it's gotten up, and or the stock price is is is down on a NAM a value investor. It's a good time to buy. I think price alone is is never a good reason to invest in a stock. Stock price movements may ask you to cause questions about company fundamentals, but really it's important to look at the fundamentals as far as why a particular stock price has moved up, why earnings surprises meaningful, why the guidance was up or down, and our investors reacting rationally to that news. Because as a long-term investor, that is our strength. Our strength is not chasing short-term profits. It's really being able to to to absorb some of the short-term market volatility to gain our long-term rates of return. One of the really best, I think, ideas that encompass that is our we have a earnings estimate revision screen that we've been tracking in the association, and the what this identifies is that this is the performance of the companies that have had upward revisions in earnings versus those that have downward. There's a big performance gap between those that have upward revisions versus down. But the key point here is that these rates of return would be assumed after that big initial spike on the earnings revision up or earnings revision down in the case of downwards. The notion here is that it's not if a company has the revision up, if it's had a positive earnings surprise, as long as the fundamentals are true, it's not too late to go ahead and buy into that company. And in the context of a company going down, don't just simply go ahead and and catch that falling knife or and and invest in the company just because the price is down and that you think it's a bargain. It's only a bargain if the fundamentals are true. And other things that we found is that at different times of the year and different times of the market cycle, even companies that have had downward revisions in some cases outperformed those that have upward. And it's typically in a market that there's a lot of transition going on. And this is a year with transition, especially with the Iran War that went on. We saw a similar reaction last year with the tariff situation. So there are special situations where the market is turning over. It's very difficult to to really just purely look at those companies that are doing best as a investment process. Look at the fundamentals. Look at the market reaction as far as that is concerned. So again, the markets are generally efficient, but they're not perfectly efficient.

Speaker 2 39:27
So as we as investors don't, you know, we know that not every bit of information is perfectly digested at a point in time, and we find that. And typically, when it comes to smaller companies, it takes more time for the market to adjust to that news, so it can take up to a year. They found in terms of studies for a market that truly reflects the value of a particular revision up, positive surprise. Don't fear buying a company that's had a positive earning surprise as long as its fundamentals are strong, even if the price has been up from that. It's often going to continue to outperform the market. It'll take some time for investors to really appreciate that the company is is changed to the positive side, and the same is true for the negative side. Don't you know? As a in this case, is actually perhaps a true true Wall Street saying here is that you know be wary of the dead cat bounce because you know many companies that are are truly dead will will bounce initially because if you drop a cat, that cat high enough, even though it'll have a small bounce before it actually stops and just lies there dead on the ground. So one more element that we often hear about is the cockroach effect when it comes to earning surprise. Often the chance of finding one and only one true surprise in a company is a bit like finding only one, only one cockroach in your house. If you have one, probably more around the corner. And a couple of summary things before we kind of wrap up for today is like, you know, too often we hear that high risk equals high return, and too often as investors we seek out the low-priced stock and don't equate it to its value. I mean, people have an aversion to buying a stock with a high price trading price because it's expensive. Well, things like that are a function to relate those kind of prices to what the fundamental values are underneath. A low-priced stock can be very speculative, and put a capital value below it, and it can go on to be even a cheaper stock. So it's important to understand that when it comes to investing, it's not gambling, and you know you don't make up one mistake by taking on a bigger risk and making a bigger mistake, and really, it makes sense to take a long-term, steady approach to investing. Don't chase after returns. Don't chase after yield. Understand that risk-adjusted is a method of looking at whether or not your returns are really justified by the risk, and whether or not the risk really makes sense as far as as a true value in that particular security is so strictly having high risk is not high return. We're not talking about it here right now, but you know when it comes to even IPOs, unless you can buy in at the opening price, often you're better off waiting six months for an IPO. Most studies indicate that again, if you still like the company, wait six months. It'll probably still be around as an attractive investment at that point in time. Don't necessarily go chasing after those initial high speculative IPOs when they come out. And on the counter to that is cash is king. I mean, and again, this ties into this whole issue of of market timing, being in cash at the right time, you want to move your cash into when the market is scary. But we often, you know, the markets move very quickly, and very often the big upturns in the market occur near market downturns. It's very difficult to time the market effectively. You're best off using your cash as a a a place where you want to put ahead your your your safety net, your planned expenses that you don't want to worry

about touching your equity in the case of a bear market because they will be coming. We know on average through every three to five years that market will have a bear market. So really treat cash as an emergency, restricted tool, maintain a balanced position when it comes to your equities, and and do a high quality investing.

Speaker 2 43:26
So cash is king, but you know cash by itself will typically be a losing proposition to your portfolio because inflation will eat away at that purchasing power over time. So with that, I know we've got 15 minutes still left for Q and A. I'd like to go ahead and open the floor to questions. Bring Doug back out, and I think you know Doug's points about the behavioral biases and overcoming those behavioral biases is a critical part of investing.

Speaker 1 43:58
Let's see if you want to. Let's see. If you have a question you want to have it answered live, feel free to put it in the chat. If you think of it later and you still want to ask it, you can email us at members@aaii.com. And if you can just put in the subject line that you were a webinar attendee or that you attended the last webinar, that'll help us prioritize your questions. Let me take a look to see. We have a lot of people from tuning in from across the country. It's great to see everybody. Appreciate that sharing that.

Speaker 2 44:33
So, Doc, what's the risk of chasing yield?

Speaker 3 44:35
The risk of chasing yield. You know, there is there is. I always feel like there's the rules of dividend investing. I mean, we covered this in a prior webinar. Have really changed, and there's so much conventional wisdom about how to buy dividend stocks, and that was developed 40, 50 years ago and doesn't apply. To the way the companies are using their capital these days, and they're not paying dividends. And if you, anytime you're looking at a yield that's 789, percent, either one, it's not dividends. You know, it's a distribution that's going to be a part of return of capital. It's going to be coming back to you, and I'm, you know, we don't count getting.

Speaker 2 45:30
Nope, we might have lost Doug.

Speaker 1 45:32
Oh no! Give him a few seconds.

Speaker 2 45:36
Doug is joining us from Sacramento. Oh, here we go. Oh, we're coming back now.

Speaker 3 45:40
I think the greater risk is the greater risk is that you end up chasing after companies that can't support those yields, and so you end up losing value on the value of the shares as the price comes down. And yeah, you

might have gotten a couple of dollars of dividends, but if you try to exit that position, you're going to be looking at a capital loss. I did like one of your one of your points, John. When you're talking about you know behavioral biases, you're talking about investor behavior. I like to remind people that often the best stock they could add to their portfolio is already in their portfolio, but we have this bias against you know increasing our basis, which would decrease our percentage return by if we add you know add to a position of a stock that's already gone up. We have a you know intellectually we say well we bought it at 10 and now it's 20, so that that you know that doesn't make sense. Why would I buy it when it's twice the price that I originally paid for it? But if the fundamentals support it, the growth supports it. The P/E ratio could be much lower today, and so that could be the your next biggest winner could be simply building up a position that you already have, but people find that very hard to implement in practice.

Speaker 2 47:05
But like many of these behavioral elements or these these sayings, they often have counterparts to them that are sort of you know like even like the one you mentioned about no one goes broke taking profits. Well, we know that as investors, we have risk aversion. The the the fear of of a loss brings us much more pain than the joy of ah of the profits, and we know that those kinds of things drive our our actions. So we we need rules to help us get past these behavioral biases and that play to our emotions, and I think you know, like you said, taking profits is one of those things that you know we're so quick to take those profits, and yet you know, with long term, you know, they they've done studies where very often overall market return is a function of just a few having some of the right companies in your portfolio over the long way to a long period of time, and and and there's nothing wrong with making a mistake and letting, you said pruning the weeds from your garden. Any other additional questions? Yeah, we

Speaker 1 48:14
actually we got a great some really great feedback. Just wanted to share as well. You know, we have some people who are saying that thank you so much for the charts and the good information that they've truly enjoyed the presentation tonight. Let's see, we've got a couple questions coming in now. A couple people have been talking about you know mutual funds versus ETFs. How do you apply these kinds of this kinds of suggestions and advice to those types of investments?

Speaker 2 48:42
Well, when it comes to like we were talking in terms of like the January effect, I mean, I think people are are using ETFs often now almost as trading tools because they do trade during the day and it's so easy to get in and out of them. And is that you know they'll they'll they'll they'll use them as trading instruments, so they'll look at perhaps certain indicators of the market, and they'll go ahead and try to buy into them, out of the market, out of the market. So if you're, I think the lesson here is that if you do find, and there's nothing wrong with investing. In fact, for many people, ETFs or funds are core part of their holdings, and and they should be. So if you're not investing individual stocks, you know, pick the right asset allocation that makes sense for

you, whether you know it's a proportion of large caps, small caps, international cash or bonds, and find that right allocation, rebalance on a regular basis, and and just hold true. Don't try to use that as a timing device. You know, I think you're going to incur short-term potential, short-term, hopefully short-term profits and taxable short-term profits. So when it comes to behavioral biases, if you're trying to use them as trading instruments, you know, using and looking at simply price of the market, certain short-term indicators, it's going to be challenging to to reach good long-term. Rates of return as individual investors, you know, our strength is not having to be judged on a quarterly basis. We know that the market will have a correction, 10% correction, three to 5% correction every year, just about a bear market through to you know every three to five years, we're down 20 percent, and we don't want to be selling at at at the market bottoms and and buying at the market tops. You know, and having a long-term perspective on that is the best way to get get get through that. I'm not sure, Doug, if you have anything to add to that.

Speaker 3 50:39
I think I think you've nailed it. Much of the work, if you're investing in ETFs and mutual funds, is really just determining your allocations and then sticking with it. And if you're in a position where you you you feel like you've done the research, but you're still thinking, oh, maybe I should be moving to the sidelines. Maybe I should be moving to cash. Maybe I should be doing a quarterly or a monthly reallocation. I think you need to go back to the research and figure out exactly what you're trying to do and how those those tools, those funds and ETFs, are going to deliver results for you. They're they're they're designed and built for long-term, you know, dollar-cost average them. Invest regularly. Set your allocation strategy, and then don't don't mess around with it. It's the messing around that often comes from a lack of confidence. And I feel like if you if you do the groundwork, do your homework, gain that level of confidence, and then don't sweat it. You know the difference between deploying a sound fundamental-based, you know, fund or ETF or even stock allocation strategy versus one that you're going to customize and tweak up, and you know, decide, set it, set in place all sorts of different rules and conditions. I don't think you're really going to gain anything, and if you do, it's going to be so nominal. Is it going to be worth the work and the effort that you put into crafting this highly, you know, this highly customized strategy based on you know stuff that you found on the internet-it doesn't have to be that complicated. And in fact, making it more complicated, I think, reduces your returns.

Speaker 1 52:30
Excellent. We got a comment in. So, is the lesson: don't trust your instinct, trust the numbers.

Speaker 2 52:38
I think yeah, there's some truth to that. I mean, I think well, you could trust your instincts if it's backed by numbers, perhaps. I mean, that's a different way to phrase that. You know, I think too often we'll we'll we'll have an opinion and we'll find the numbers to justify the opinion. So I think you're better off having your decision rules set up ahead of time so that you can stay true to those rules. You know, when you are

being tested, and and having a a strategy that you believe in is critical to that, because you will be tested over time.

Speaker 3 53:07
I I think 20 25 years ago, round about the time I was writing Investment Clubs for Dummies and the Complete Idiot's Guide to Online Investing, there was a Dummies or an Idiots Guide that was something like intuitive investing for dummies, and I thought, well, that's kind of perfect, but I don't think that's what they meant by publishing a dummy's guide on dummy's book on on intuitive investing. I think you know that whole emotional side. One of the benefits of investment clubs is that you get together a dozen people, and somebody who's anxious gets calmed by someone who's more confident. Somebody who's overly confident gets reined in, and you reach a consensus. And that consensus is what allows you, you know, you're less likely to say, well, let's see what happens, and jump off a cliff and put 20% of your assets into, you know, an IPA a month after it went public, forgetting, not realizing that when the lockup ends in six months, there all these shares are going to flood the market and the price is going to go down, you know. But you were so excited, you were so up to get into that IPO allocation that you you forgot all the rules that you had previously set for yourself. So I think you know a rational, reasonable approach is not hard to come by. And if you find yourself in that position of saying, well, let's see if we let's see what happens if we do that. Let's see what happens if we tweak. Let's see if we. I always I always give an example that the people investors who have a stock idea, but they're not fully confident in it, and so they say, well, let's see what happens. Let's let's buy 100 shares and see what happens. It's a terrible. Because if the price goes up, the reaction that you have as the investor is, "Well, yeah, I knew it. I should have bought more, but now it's gone up. So again, that other bias comes to play, and you say, "Ah, but now it's more expensive, so I don't want to buy more. But likewise, if the price goes down, you go, "Oh, I knew it. I knew the price was good. It was a good thing I didn't buy more. But now maybe it's more attractively valued, but because it's gone down, you're holding it as a loss. You're less likely to buy more shares. So in neither of those scenarios does let's see what happens lead you to the next step of adding to that asset within your portfolio. And again, same circumstance, same stock. It could go in either direction, and yet the emotional response overrides the rational way of approaching that particular scenario.

Speaker 1 55:48
Makes sense. And we have a lot of people commenting, you know, all the different types of biases that they've heard, common phrases and sayings. One of one somebody, one of our attendees said, "Follow the herd. But how do you deal with that when there's momentum investing?

Speaker 2 56:05
Well, well, there is again. I think for me, I think when you have think momentum investing, which is price based, I think it works best when it's coupled with fundamentals evaluation, because I think in that context, you have the the price momentum, and there is truth to that. As far as stocks that are going up tend to keep going up, or stocks that are going down that keep going down, but you need some other metric to understand whether or not that stock truly has legs. I mean, I think the best

combination is perhaps an undervalued asset that's undervalued based upon attractive earnings, good return on equity, and is is showing some price momentum, and it may have some legs to continue. I was just looking at a study just even today, where I was saying that even though the the market is is up, S and P market is up this this this year, the the forward price earnings ratio is actually down because we've had earnings growth help support some of that price change, so you know momentum I think is best when it is combined with elements of value, which then gives you the fundamental elements that that particular company has the wherewithal to stick it over time and keep going over time.

Speaker 1 57:22
And I think we'll take the last question. We have a lot of people asking questions. So again, if you would like an answer to your question, please email us at members@aaii.com, and we appreciate you joining today. Any thoughts on buying stocks that are down late in the year and may be being oversold due to investors seeking harvest tax losses, etc.

Speaker 2 57:43
I mean, there's there's some studies that point that that's actually the January, and I mentioned the January barometer in my presentation, which is different than January effect. Just so we're clear on that, the January effect is is that typically small cap stocks have one of their best periods of performance in January, and actually has been starting earlier and earlier in December, and there is some truth to that-that there is some tax loss harvesting. I think it's more pronounced with smaller cap companies, in which there's less liquidity than a larger company will be concerned. We do know there's some window dressing that goes on, so there is-if you could find a stock that has been broke, you know, has is down toward the end of the year, but still has strong fundamentals. That's a great approach to to buying some some assets that are attractively priced. The issue is, are the fundamentals still there? And it's probably going to be more pronounced with smaller companies. I think you're not going to find that that that that January tax loss selling being as big a factor when it comes to larger cap companies. The other challenge I think with that is that anytime you look back in time, as far as performance either very strong or very weak, I mean, looking back at the performance of energy stocks isn't going to help me unless I know where the price of oil will be going forward. So looking just historically on how some sectors have performed may not be predictive of the future, and that could be true of some of the stocks that are down at the end of the year. So yeah, there is truth to January effect. It's more pronounced with small cap companies, and it's it's best if there's some strong fundamentals behind those companies that they're going to come and bounce back. I'm sure if you want to add anything to that, Doug. Yeah,

Speaker 3 59:28
I would agree. I think the the January effect has been also decreasing over time. You know, it's it's not as pronounced as it once was. Having said that, I think it makes a lot of sense to start your tax harvesting thinking and planning in November. You know, I say use that Thanksgiving long weekend and take a good hard look at your portfolio. If there are, you know, if you have gains that you want to offset with losses. I think that's a good time, you know, early December, be taking a look at some of

those tax sales, and maybe you want to capture a loss, but you still are interested in holding the company. Well, after the wash sale period, you know, that puts you in early January to get back into that stock if you wanted to throw some capital that way, if you were really committed over the long term and you were purely selling to take advantage of, you know, to offset some capital gain, sell at the loss, and then if the January effect does kind of come into effect, does happen, then you're going to, you know, gain a little bit of an extra edge. So, as from a timing perspective, you're not doing anything different than you would otherwise, but just you know thinking about well, if you can get an extra 123, percentage points in return because of this strategy, then I think it's worth it. But it's not worth it to to try to manufacture the scenario just to benefit, you know, to save up all your cash, and then on january 3, go in and start trying to buy up. Probably not going to work as you expect in in the current in the current situation in the current market environment. You know, we still have where a lot of that a lot of that selling or buying and selling around the end of quarters and then end of the year has to do with index funds and ETFs, you know, ramping up, taking you know whenever the the latest changes are to the indexes. But again, those we tend not to see big shifts in even in the the companies that get added to the big indexes as they used to be because of managed buying and selling and and the speculators who are out there, you know, laying odds on which companies are going to be added to the index. So again, there are a lot of factors that are suggesting that that January effect is something to be aware of, but not something that that you should use to drive significant market portfolio moves,

Speaker 2 1:02:05
and I love that they've even found now with the index effect. Like you're saying, the speculators are coming in; they're bidding up the prices of companies they anticipate being added to indexes. They often end up underperforming on a relative basis the stocks that have been kicked out of the index. They've now done some studies, and they found that actually you're better off in that once they're in, they're actually better off buying the ones that have been kicked out versus the ones that have been added because they've been bid up ahead of time.

Speaker 1 1:02:35
Excellent. Well, first off, I want to say you know they thank you to both John and Doug for challenging some of that conventional advice or that Wall Street wisdom we often hear being tossed around by fellow investors. I have friends who regularly quote the pigs get fat, hogs get slaughtered all the time. So that might be a personal favorite of mine, but that's always on the top of my mind when I'm investing.

Speaker 2 1:02:55
Well, and it's an expansion, or it's the it's the original form of the bears make money, bulls make money, ticks get slaughtered. Along that same line, yeah,

Speaker 1 1:03:04
that's true. And before we wrap up and share some of the special offers and also just some housekeeping items, I want to give John and Doug both a few minutes to just share some closing thoughts with the audience.

Speaker 2 1:03:20
Doug, please go. The

Speaker 3 1:03:21
well, the big theme right now is small caps that have, you know, really since last October and at the end of 2025, really started to take a leadership position, established it in the first half of 2026, and I've been doing some research and some work on looking into, you know, these long-term secular market cap trends, where you know periods where large caps outperform compared to small caps outperform, and you know it's in on a on a you know seven to 15-year basis where we go through these cycles where large caps are outperforming small caps, and then it shifts around. We've been waiting for this small cap cycle to kind of hit. It's been, you know, it's been a decade plus of a terrible time to be editing a small cap investing newsletter. I will tell you, but it's been very gratifying this year to see so many of those stocks performing well and valuations, you know, making it making my job much harder. Trying to find good opportunities in the small company space, but I am, you know, again, we're not trying to predict the market, but the the conditions are all in place for us to be seeing, you know, a couple years where small caps continue to extend their strength, where the the mega caps and magnificent seven still going to perform well, but they're just going to cool off, and it's the rest of the you know it's the the the normal 493 is that what you call them the. The stocks in the S&P 500 that aren't the Magnificent Seven, that some of those large caps are going to be experiencing some stresses. I think maybe from a valuation level, maybe from just being kind of pumped up for so long, and there's a little bit of fatigue and stress. I think for a lot of large caps. So I'm very, I'm very excited about the opportunities for a lot of small company, good sound fundamental, well valued small company stocks in the current in this current environment.

Speaker 2 1:05:31
And building upon that, it's interesting because I think small cap stocks are one of the segments, especially the that actually have what they call serial correlation when it comes to large company stocks, the rate of return one year doesn't have much predictive value of the rate of return the next year. But they found that when it comes to small cap stocks, they typically go in streaks, and if there there's a there is some value, some some a positive return one year often leads to another positive return, or is is is tied statistically to a positive return the next year. Zero correlation. So yeah, it is actually where it's been said 10 plus years where small caps have on a relative basis underperformed, but they've had a great comeback this year, and it's fascinating how the market moves quickly from one segment to another, and it doesn't take a lot of a lot of news to chase some big money. But as individual investors, I think it's important for us to kind of take that long-term perspective. You know, have the what our goals are financially, have cash set aside so that we don't have to worry about selling our equities if the market goes down, and and and work towards optimizing our investment portfolio to get get the best rate of rate of return long term, and know we can take some short term risk to benefit that long term rate of return. So that's I think as individual investors, whether it's investing

in less followed small cap companies, taking a longer-term perspective, not worrying about being judged in our quarterly performance. Those are all things that allow us to reach a strong rate of return long-term. That negative investors really, you know, long-term institutional investors really can't match.

Speaker 1 1:07:18
Excellent. Thank you so much. And if you have any questions about AAII's tools or services, such as the Model Shadow Stock portfolio or AAI Plus, you can feel free to email us at members@aaii.com. Also, if you just have any questions after the broadcast ends, and then if you have any questions for Better Investing about their tools or services, please direct your questions to service@betterinvesting.org. And if you email one over the other, we'll also forward them as well to the appropriate person. And then, as I mentioned earlier, we have two special offers for our audience tonight. So new subscribers can try AAII Plus, which is A Plus Investor and AAII membership, with our $97 one-year subscription, and you'll get access to our A plus stock grades, 50 pre-built stock screens, custom stock ETF, and mutual funds screening tools, plus member benefits like our AI journal, model shadow stock portfolio, investor guides, stock screens, and so much more. And then we also have another offer for our AI platinum. If you're someone who's looking for a more comprehensive investing service, has all of our access to all of our model portfolios, screening tools, and our newsletters, and that is for our attendees only 198 regular priced at 498, and both can be accessed at aaii.com/betterinvesting. And Better Investing also has a few has an offer for attendees. Better Investing is extending a special offer to AAII members, where you can join Better Investing as a Plus member for only $99 for the first year, which is regular regularly priced 145, and you can visit www.betterinvesting.org/aaii and use the promo code AAII at checkout to save. And then both offers will be included in our follow up email that'll go out later this week, our next partnered webinar will take place on September 22nd. That is a Tuesday at 7:30 p.m. Central Time, and the topic will be announced as we get closer to the event. So please keep an eye on your inboxes for more information. And then, lastly, this presentation was recorded, and replay will be available at aaii.com/webinars later this week, it'll also be available on our YouTube channel, and then webinar attendees will also receive an email with the link and other resources in the next few days as well. And with that, we wish all of you viewing good health, good fortune, and a great rest of your evening. So thank you so much for your time, and take care. Good night.

Speaker 3 1:09:37
Thank you. Good night.