I Have Met the World's Worst Investor

Over the years, I have had many clients comment to me during our initial meeting claiming to be the worst investor. I have finally met the world's worst investor last week! He was an aeronautical engineer and he creates and runs very detailed spreadsheets on investments. He checks his investments at least two to three times a day. He handles 50% of his money and he has an advisor handles the other 50% of his money. His advisor who he has never met face to face has only been in the business less than 10 years and he just seemingly has no clear cut investment plan.

In my first interview I normally ask a discovery question - How would that person rate themselves as an investor on a scale of 1 to 10, with 1 being awful and 9 or 10 being Warren Buffet. (By the way, most people give themselves a rating around 4.) Well, this gentleman said that he wasn't even a 1, but a negative 10! He told me he sells at the low and he buys at the high. And during bad markets, his investment strategy is to hide the statements from his wife! Furthermore, during really bad markets, he doesn't even open his statements. He is continuously looking for hot tips from brokers and on the internet. He watches the news all the time and trades on world or political events with a gut feeling. He believes that he's close to coming up with the next great stock tip. He can feel it in his bones.

During this meeting he said, "Well, John, couldn't you just give me some basic investment advice?" I said, "Sure, after talking with you briefly there might be a couple areas you might want to alter…

1. It doesn't sound that you're doing very well on part of the money, so fire yourself (obviously, this is not your skill set).

2. If your advisor has not gotten you market-like returns in the last eight, nine, or ten years, during one of the best bull markets - Fire him.

3. Find an advisor with at least 20 years of experience and let him explain his investment process. If the advisor can't verbalize it in two or three sentences, keep looking."

Now, I believe these parameters are important because you want an advisor who has been around for at least two bear markets. Remember, it's possible that the next bear market could permanently affect your standard of living for the rest of your life. I'm not predicting the next bear market is around the corner, but I know it's sooner versus later.

It is important to understand your advisors investment process. What is the investment plan when things are going good? Even more importantly, what exactly is going to happen when things go bad? Now, I'm not asking you to understand the intricacies of efficient market theory and/or a Monte Carlo simulation, but an advisor should be able to get this out in three or four sentences.

Relative Strength

If you are a client, or have ever met me through a workshop, or have come to meet with me at the office, you know what I'm all about… It's relative strength. This is the investment process that I have been using for last couple of decades. It is a simple process of rotating money into asset classes that are outperforming other asset classes and going with the current winners.

It's about finding the winners/sectors and letting them run. It's also about getting rid of the losers. Ultimately, it is all performance based, rules based, and it allows you to ignore the 24/7 news cycle. So the key to investing in using *relative strength* is to find out what is working now and position your money into the asset classes that are outperforming the other asset classes. Now, these asset classes could be CDs, bonds, stocks, and even cash.

Relative Strength works in other areas, too

If you have ever bet on a sporting event, whether it is basketball, football, or even a horse race, there are always odds given out. The odds that are done by the book makers are based on performance on head to head competition against other competitors of that arena. Relative strength can also be applied to fishing as well. You can talk to many fishermen out there and a lot of them will say it's the equipment that matters, or how big your boat is, or how big your motor is, or it's the bait you're using that is what catches the most fish... But really, the key is to find where the fish are biting and go there! Even if you have lousy equipment and a slow boat, you have a higher probability of catching fish rather than if you had a fast boat, new fishing equipment, and there's no fish in the vicinity. Many of my readers know that I am an avid saltwater fisherman. You can follow my weekend fishing exploits on Facebook at https://www.facebook.com/john.romano.94801.

I've been fishing my whole life and I apply the concept of relative strength to fishing as well. Fishing is pretty simple and it mainly has one parameter. Some spots that I have used only work for a few trips and then some of the better honey holes I have seen work for decades. And if you already follow my fishing Facebook page, you know there is not a lot of narrative. It's all performance based! Posted during the week, there are either pictures of me catching fish or there's not. That tells you exactly how we did over the weekend.

Stay Retired

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John Romano, CERTIFIED FINANCIAL PLANNER™ has over 30 years experience in the financial field. John is a Registered Representative with Securities America, Inc. (member of the FINRA and SIPC), and an Investment Advisor Representative with Securities America Advisors. He has prepared hundreds of reports for retirees to assist in their retirement income planning needs. He is dedicated to providing portfolio analysis, dividend and income information, and investment management services to retirees (and those preparing to retire) in The Villages, Florida and surrounding areas. He is a member in good standing of the Financial Planning Association (FPA).

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