

The past shapes the present

My Uncle David wasn't really my uncle I don't think, but he was at least someone my father wanted his children to meet. Real uncle or not, David was the only relative on my fathers' side I ever met. As a small boy I remember Uncle David at a few holiday dinners and at the odd family function. We didn't see him often, but I do remember thinking he was a nice man. He didn't speak much, but he was polite, and kind, and I liked him. I remember his gentle disposition. I also remember his reaction when I clumsily asked him about his most memorable job. Because I was young, I didn't know what I was asking him; I was simply engaging in 8-year-old small talk. When I had finished my question, his face darkened and there was a long pause. Then he looked at me squarely and said, "I was in the war." As a child, I had only a vague understanding of what that meant. He told me his job was "to collect injured men off the field." That was all he said, and then he was quiet for some time. Since that day, anytime I hear or read anything about war, my Uncle David's face immediately comes to mind and I think about the memories he must have relived upon hearing my question. That 30 second interaction has had more impact on my feelings about war, than all the books, movies, and media I have ever been exposed to, combined.

I do not know how many memorable events took place in Uncle David's life, but clearly living through a war coloured his entire world. I can only imagine how these experiences shaped his view of everything.

Thankfully, not everyone endures such severe events as war, but we are all aggregates of our life experiences. And our individual experiences rub off on each other. I have never been anywhere near an actual war, but I have been influenced by Uncle David's experiences. This happens with positive events as well. So perhaps the most accurate statement we can make about the human condition is that we are all products of our own life experiences, plus parts of the life experiences of our families and friends. In this way we are all family trees of experiences; the experience originator is the root, and the branches are the people who have been influenced.

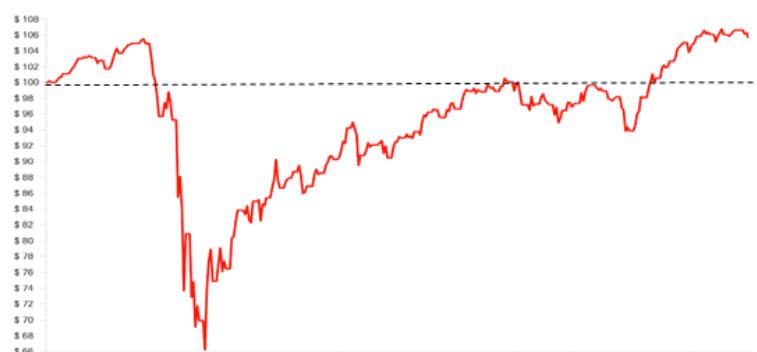
I see this phenomenon extending to the investing world all the time. An investor's first investing experience will have an outsized impact over their entire investing future. I started my investing career in the dot.com investing bubble of the late 1990's; a period marked by wild market swings. Investors were pulled and pushed by huge gains followed by major losses, and I became well versed in the risk taking I saw people (often unwittingly) assuming. If I had started my career a few years later, I would not have had the benefit of learning the important real-world lessons of risk management that period provided. Life experience is a valuable supplement to knowledge gleaned from a textbook.

Borrowing a quote about history, investing can generally be described as 'years where nothing happens, followed by days when years happen'. Investing can be boring, uneventful, and rote and then all the sudden chaotic. This process happens repeatedly, and as long as humans are around, will persist indefinitely. Typically, developed economies experience a recession every 5 to 7 years. This means someone with a 30-year investing history will experience on average 25 years of reasonably stable returns and 5 major upheavals. The upheavals will be far more impactful than the years of stability, even though they occur far less frequently. These 5 tumultuous life experiences are typically what defines our investing temperaments.

The year 2020 was a showcase of this life experience principal. There were a lot of narratives to follow this past year; politics and Covid-19 would be at the top of most lists. The investment markets had some profound reactions to events as they unfolded, causing heightened volatility. Or did they?

Did investment markets experience profound movements over the past year? This may sound like a bizarre question. Is it not obvious? The graph to the right displays the daily return path of the Canadian stock market during 2020. What does this graph say to you? Here is the interesting part; every person will have a different answer to this question.

The Canadian Stock market, 2020



From a return perspective, some investors will only look at the beginning and ending values (fans of Seinfeld would say 'the year started, yada yada yada, the year ended with a small gain'). Others ignore the end points and look only at the drop that occurred in the spring. Some choose to focus their attention on the rebound through the middle of the year and others will look at the graph and shrug, not reaching any conclusion at all.

From a risk perspective, some people look at this picture and think 'wow, I'd never want to be a part of that', others see a huge opportunity and ask, 'how can I leverage this situation', while a third group doesn't know what to think.

Every one of these reactions is a legitimate response, but each of these groups will have great difficulty reconciling any perspective incongruent with their own view. A significant reason for this is the unconscious influence of an individual's family tree of experiences. It is important to understand your own family tree because it colours your world. The impact of this phenomenon cannot be overstated; individuals with different life experiences don't just have slightly different points of view, they can have an entirely different understanding about the nature of the world. Like a Fox News devotee watching a CNN program (and vice versa); their life experiences blind them from others frame of reference.

Some people looking at the picture of the stock market on the previous page will see a short-lived correction followed by a rebound. Others don't see a picture at all, instead they recall their mothers voice telling them about having to reuse tea bags during The Great Depression because the economy was destroyed. Both perspectives have merit, but it can be hard to reconcile an alternative view to your own. This is the investment version of walking a mile in another person's shoes. This is not easy to do because these things are rooted in who we are as individuals. This is where a well thought out, intentional portfolio finds its greatest power; its ability to offer a tailored solution that speaks to an individual's primary concerns and unique goals. For some, that means 'beating the market', for others it means avoiding having to go back to work after retiring.

Our reactions to the stories we read and hear are interpreted through a filter made up of our family tree of experiences. Each decade offers new anecdotes which will affect our future investment temperaments. Simple things like childhood conversations with parents, the health of the community you grew up, and your first job can be as impactful to your view of the future as recessions and pandemics. Sometimes this is helpful, sometimes it is not, but it is always relevant.

The practical implications of this are twofold:

First, when consuming any media (written, video or anything else) it is critical to acknowledge that the author very likely occupies a different life experience group than you. This is true with business and investment analysis as well and is why generic investment advice is so often problematic. There is a universe of difference between the amount of risk investors think they can tolerate and the amount they can. It is critical to know your personal delineation between this 'risk capacity' and 'risk preference', and no one writing or speaking generically can do this for you.

Second, whatever your investing temperament, one essential truth is that patience is an asset. In 2020, a patient investor recovered in a few months. This is not always the case, and it is always important to be allocated appropriately before a crisis hits to limit downside, but being patient allows us to partially break free from the limiting affect of our own personal family tree of experiences. As Aristotle said, "patience is bitter, but its fruit is sweet".

This upcoming year offers some big changes right out of the gate. An ending pandemic, a shift in government leadership in some of the biggest economies (US, Germany) and government spending continuing its torrid pace, point towards medium term economic benefits. Our portfolios are positioned to generate the highest possible return at a level of risk which reinforces investors ability to stay the course. Our goal is to achieve investment performance that adds positively to our client's life experience.

Your looking forward to hearing about all our clients receiving the Covid vaccine in 2021 portfolio manager,



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