



Analogies & Client Vows Presented by Don Connelly

Draw a clock

Draw a clock. 12:00 is market top; 3:00 is market decline; 6:00 is market bottom and 9:00 is market rally. Where are we on that clock?

The beach ball

Mr. and Mrs. Client, as the stock market is being pushed lower and lower by bad news; I want you to imagine that we are pushing a beach ball underwater. You know what happens when you let go.

Soar or plunge

Mr. and Mrs. Client, what would you do if you stepped on an elevator and saw the only two button choices were "Soar" and "Plunge", instead of "Up" and "Down"? Obviously, you'd jump right back out the door, even though they are just words. The connotations are frightening. Keep that in mind when you are reading random articles on the internet or watching the news on television. Words are just words and can be easily manipulated to stress a viewpoint.

One Stride

One stride in a 30-foot wide room is like a 10% decline in the market

The Acapulco Cliff Divers

"Mr. and Mrs. Client, I have a very important question for you. Are you going to be able to take my advice going forward, even though you disagree with my thinking?" Let me tell you why I ask and why this is so important."

Can you picture in your mind the guys that dive off those cliffs in Acapulco? I'm sure you've seen pictures of those guys. They are diving from a cliff 115 feet in the air into a pool of water called The Gulch. Depending on the waves the "Gulch" can vary from 6 to 16 feet, with an average depth of 12 feet. That's an incredibly dangerous jump, because so much depends on the timing of the divers. They have to catch the right wave.

Let's assume there are two divers on top of the cliff, one experienced diver and one rookie. As they look down, they see the water coming in and out. When do you think the new diver would jump, when the water was in or when the water was out? We both know that he would jump when the water was in. But what would happen by the time he got down there? Absolutely! The water would be gone. The veteran diver, on the other hand, would wait until the water was all the way out. Then he would jump. By knowing when to jump, he would

catch the right wave. Investing wisely is like cliff diving in Acapulco. It takes a true veteran to do it successfully.

Mr. and Mrs. Client, I am like a veteran Acapulco cliff diver. When I invest, I have to time my jumps. There will be times when I say hold my hand. We are going to jump. And the waves won't look right to you. Where I see opportunity, you might see inflation or terrorism or an economy in trouble.

When I recommend that you act, you will have to trust me that what I am recommending is right for you. You've got to be able to take my advice, even though you might disagree with it. Can you do that?"

Tuna Fish

Mr. and Mrs. Client, tuna fish costs at least \$1.50 per can. If you went grocery shopping on Saturday morning and saw tuna fish marked down to \$.85 per can, what would you do? Of course, you'd buy five cans of tuna fish. That's the way you shop, that's the way I shop and that's the way everybody shops. We shop for bargains. Do you realize that, as a Financial Advisor, when we slash our prices people run away? We mark our prices up to all-time highs and people throw money at us. Start to think of down markets as bargains. Tuna fish is on sale.

The Super Bowl

On February 5, 2017, The Patriots played the Atlanta Falcons in Super Bowl LI. You will most likely recall that the Patriots were down 28-3 in the 3rd quarter. If you were one of the many who changed channels because you thought you knew the inevitable outcome, you missed the greatest comeback in history.

You don't walk out of a baseball game in the second inning

Never walk out of a Red Sox-Yankees game in the second inning. Those games are never over until the final out has been recorded. This market is in the second inning.

Ten Miles of construction

Let's assume you are going to drive from New York to Los Angeles and you find that the first thirty miles are under construction, but once you get through the construction the rest of the way is clear sailing. Would you turn back after ten miles? Of course you wouldn't. You endure short term turbulence on order to enjoy a long-term journey.

Investing is not gambling

I often hear people in the general public compare investing in the stock market to gambling in Las Vegas. Next time that comes up here is a little bit of info that you can share with them.

Odds of winning at various casino games:

Baccarat – 48.8%

Keno – 23%

Blackjack – 48%

Craps – 48.6%

Poker – 46.6%

1957 to 2018

S&P 500 (Rolling monthly periods)

Rolling 1-year periods – Market was up 72.8% of the time

Rolling 3-year periods – Market was up 81.6% of the time

Rolling 6-year periods – Market was up 85.4% of the time

Investing is the exact opposite of gambling. The longer you gamble the better your odds of loss whereas the longer you stay invested the better the odds that you will make money.

Analyzing every play in a football game

Randy in Maryland uses a football analogy. He explains that the way the mainstream media focuses exclusively on short-term market performance is like stopping a football game after every play, spending twenty-four hours analyzing the play and drawing conclusions from it. One play does not make a game. If the home team throws an interception, it doesn't mean they are automatically going to lose. A losing game does not mean a losing season. It's a long season. Mr. and Mrs. Client, you hang in there until you reach retirement. That's your Super Bowl.

The penalty kick

One thought clients universally share is that it is necessary to prepare for a down market when rallies seem to be stalling. Peter Lynch observed that often more money is lost preparing for a correction than in the actual correction itself. Yet clients always want to be doing something. If a client ever intimates that you seem to be doing nothing when action seems to be called for, explain that being an Advisor is different from being a soccer goalie.

"There will be times when you wonder why I am doing nothing in what appears to be a crucial time. I don't want you to think that I should always be doing something, in anticipation of calamitous news. Being an Advisor is directly the opposite of being a soccer goalie. Let me explain. Several economists at Ben-Gurion University surveyed thirty-two professional goalkeepers and studied film of 311 penalty kicks. They wanted to see if they were right that soccer goalies and investors have one big thing in common. Soccer games are low scoring affairs, every goal of paramount importance. Penalty kicks are more often than not game changers and the results are normally not good news for goaltenders. More than eighty five percent of all the penalty kicks surveyed resulted in goals. The goalie has virtually no chance of success at what the most important moment of the match is normally. He or she must stand still until the kicker has kicked a stationary ball from twelve yards away at a goal 24 feet wide and 8 feet high. The ball takes no more than three tenths of a second to cross the goal line, sometimes to the left side of the cage, sometimes to the right and sometimes right down the middle. Thus, the goalie must decide in advance to jump right, jump left, or stand still before the kicker makes contact with the ball. Once the kicker's shoe hits the ball, it's too late. The goalies surveyed jumped in the vast majority of cases, usually to their right, even though they knew that standing still would allow them to save the ball as much or more than if they hadn't jumped. Then, why jump? They didn't want to be seen as doing nothing when the stakes were high. Sound familiar? Being right fifteen percent of the time may be acceptable for a soccer goalie. It is not acceptable to me when I am handling your money. The study makes the point that doing something and being wrong simply feels better than doing nothing. That's why there's a bias for action when the norm calls for doing something. We don't want to be accused of doing nothing. No goalie in the world wants the game to end while not moving as the ball crosses the goal line and the game is lost. No Advisor in the

world wants his or her clients to accuse them of doing nothing as the market is whipsawed by extreme volatility. Goalies think a poor outcome is made worse by inaction. I don't share that sentiment, Mr. and Mrs. Client. I don't subscribe to the theory that I'm better off lunging and failing than doing nothing. Do not allow yourself to be seduced by that philosophy."

Portfolios go through seasons

My friend Will, in Philadelphia, talks about the changing seasons. Even after the coldest of winters, spring will come. It felt like winter would never end, but we knew all along that spring would arrive. The seasons always change. Portfolios also go through seasons. Mr. and Mrs. Client, it's important you familiarize yourself with the seasonality of your portfolio. There will be times when new buds of opportunity appear. There will be times of prodigious growth. There will be times when we harvest some of that growth. And, quite obviously, there will be times when the trees look barren. It's wintertime. I've seen too many investors uproot their trees in the wintertime. These people never prosper. With just a little patience, they would have seen the season change and new growth appear.

Vows Every Client Should Take **Written by a terrific Advisor in Oregon**

These vows relate to basic investing concepts that are quite simple, but they are very, very hard for investors to properly execute without the help of an advisor:

I vow that when the stock market is at its worst, I buy or hold, but do not sell.

I know I am going to be around for a long time and I know the stock market always comes back. I will sleep securely knowing history is on my side.

I vow that even if stock prices drop further, I will remain calm and confident.

I vow I will not change my investment objectives while the stock market is down. I will not become a so-called safety-first investor under emotional duress to the point of running to the sidelines.

I vow I will not worry that the stock market could go lower. When everyone else doesn't seem to know what to do, I will begin to buy while most people will procrastinate. They will miss the bottom but not me.

I know a big break always generates a whole new generation of gloom and doom folks. I will ignore them. I will not read, listen, or believe negative stories during the bear market. I know things are never as good as they seem when you're winning and never as bad as they seem when you're losing. The media will probably be uniformly negative. They will employ high octane volume.

I vow I will not ever buy anything just because it is supposed to be hot.

I know that investments should be made as part of a long-term plan. And those plans won't be entirely upended by short-term ups and downs.

I know panicking will cost me. I think of the people who sold off at the market's bottom in 2009 and missed out on some of the greatest gains of all time in the recovery that followed.

If I must simply do something, I will build up my emergency savings.