Cherry Tree Wealth Management

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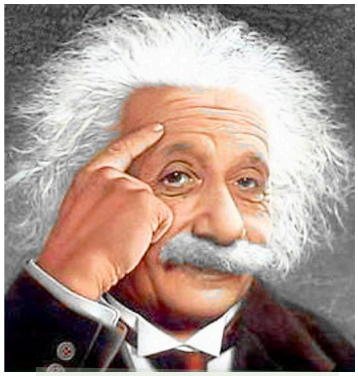
CHERRY TREE WEALTH INSIGHTS: Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.

INVESTING QUOTE OF THE MONTH:

"Cryptocurrencies- stay away from them. It's a mirage."— Warren Buffett

BE CONSISTENTLY NOT STUPID WITH YOUR MONEY

It turns out that being consistently not stupid with your money is one of the most important keys to long-term financial success. Avoiding investments in dumb things is more important than finding that one genius investment idea that you think will make you rich. And, it is much easier to do. As an emotional human your brain is pre-programmed to tempt you to do unwise financial things such as chase the latest hot investment fad (greed) or sell low after a big stock market decline (fear). The best answer to most exciting investment ideas being pitched to you is to "just say no."



"Avoiding bad investment ideas is key to achieving long-term financial success."

Warren Buffett's business partner Charlie Munger says, "It is remarkable how much long-term advantage we have by trying to be consistently not stupid, instead of trying to be very intelligent."

Many investors think successful investing is about finding a genius home-run investment idea or two. They look back in hindsight and wish they had bought Apple or Amazon stock 15 years ago. They keep looking for ways to invest in the "next" Apple stock. You are unlikely to find the next Apple stock ahead of time, invest enough in it to matter, and hold onto that stock for the whole ride up through thick and thin. It is much easier to just avoid doing stupid things with your money, not ever really finding that one big home-run genius investment, and you'll still end up reaching all your financial goals.

What are some typical stupid things people do with their money and investments that should be avoided? Having a concentrated position in a single stock is risky and typically does not come with higher expected future returns than owning a diversified portfolio of stocks. Many people have an oversized position in their employer's stock which doubles up their risk by adding investment risk and career risk onto the same company.

Some people make extreme bets on one thing or another. We believe everything is good in moderation, not at the extremes. Extremes can get you in big trouble if you are wrong. Some like technology stocks so they keep buying and adding to them until virtually all of their portfolio is in technology stocks which could then all implode at the same time like in the year 2000. You don't want to go all-in on any one big bet because if you are wrong you can get wiped out financially. You need to stay balanced so you can survive the next downturn or bust. We like to make moderate bets on investment ideas we like, but still keep a responsible and diversified portfolio.

Some people recently (2021) have gotten heavily into investing in money-losing technology stocks, SPACs (blank check companies), IPOs, cryptocurrency, NFTs, COVID beneficiary stocks like Peloton, EV stocks, and MEME stocks. Most people investing in them have very little idea what they are investing in and are buying these "investments" just because they have been going up. They let greed and envy (their neighbors and co-workers are making a fortune on these recently) get the best of them and invest in things that they probably shouldn't be. Many of these formerly hot 2021 "investment" ideas are now down 25%-80% from their peaks

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last year. Many of them have little or no intrinsic value and might be considered investment fads rather than responsible smart investments based on fundamental analysis.

Some investment actions we believe are usually not very smart or prudent are:

1. Investing in things you really don't understand.
2. Buying something simply because it is going up rapidly.
3. Investing in something without checking the valuation first. Owning too many expensive stocks.
4. Investing without checking the fees and expenses of that investment product.
5. Buying stock in companies that are consistently losing money.
6. Investing in expensive, actively managed mutual funds.
7. Investing in things that don't pay you to own them (interest or dividends).
8. Investing in expensive, complicated investment products such as universal life insurance, whole life, annuities, structured products, and hedge funds.
9. Trading too much or too often.
10. Making significant portfolio changes based on a prediction of the future by some "expert."
11. Trying to "time the market." That is nearly impossible to do consistently even for professionals.
12. Not having a diversified portfolio. Having too much money in one stock or asset class.
13. Not investing your portfolio in a risk appropriate way for your age and/or personal situation. Most older investors should not be 90%-100% in stocks and most young investors should not be mostly in cash or bonds.
14. Chasing performance. Buying more of whatever is up the most over the past year. In today's market that would be owning too many US large growth/technology stocks.
15. Investing in the most popular, most talked about investment idea or theme of the year.
16. Buying initial public offerings (IPOs) or special purpose acquisition companies (SPACs).
17. Buying cryptocurrencies like Bitcoin. That is gambling and not investing.
18. Taking unnecessary or excessive risk. Many high-risk investments do not come with higher expected returns.
19. Using too much personal leverage or margin or investing in companies with too much debt.
20. Panicking and selling your stocks after the stock market has already had a big drop. That is turning a temporary paper loss into a permanent loss of capital. This is one of the biggest mistakes you can make with investing.

We think avoiding many of these "dumb" investment ideas and actions can go a long way to helping people have long-term investment success and reach their financial goals. It is much easier to avoid doing things that are not prudent than it is to find and invest in the "next" genius Apple stock pick. As you know, we prefer to invest in funds that are low cost, simple, diversified, transparent, tax-efficient, and liquid. Being a prudent long-term investor is not as exciting or sexy as chasing hot stocks that are "going to the moon" but greatly improves the odds that you will be successful over time.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

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