



Investors, don't give in to the fear of missing out

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Sensible investing has rarely seemed as dull and removed from the action as it did in 2017.

Between bitcoin and other cryptocurrencies, marijuana stocks, robotics and artificial intelligence, an unprecedented amount of attention was given to hot sectors this year. The late 1990s period, with its mania over technology stocks, was intense. Today, there's a greater variety of temptation and thus more risk that people will make investing decisions based on a fear of missing out, rather than financial fundamentals.

Adding to the lure of hot sectors as we head into a new year are the subdued recent returns from a prudent portfolio holding diversified stocks with a blue-chip tilt and bonds. Bitcoin's price doubled several times in 2017, and marijuana stocks have heated up in advance of the legalization of cannabis in Canada by July, 2018. The Canadian stock and bond markets were on track for modest single-digit gains late in 2017.

Investment advisers break down into two groups in terms of how they view hot investment trends – extremely cautious adopters and traditionalists who reject the idea of betting on individual sectors. Not one of the six people in the advisory business who were contacted for this column advocated an investment in bitcoin right now.

Brett Girard, a portfolio manager at Liberty International Investment Management, suggested in October that it could make sense to take a small position in bitcoin of less than 1 per cent of your net worth. Recently, he changed his thinking. "Given the insanity of late, I'd recommend staying on the sidelines for the time being," he said in an e-mail.

Sheryl Purdy of Leede Jones Gable in Calgary won't touch bitcoin. "I'm staying as far away from that as I possibly can," she said. "I think it's in a bubble. The volatility one hour to another, never mind day to day, is just absurd."

Bitcoin is a digital currency that has gained influence because it operates outside the traditional financial system. Through what's known as blockchain technology, you can send bitcoins to someone without involving an intermediary such as a bank or payments network. Unlike traditional currency, bitcoin has no backing from a central bank, and its value fluctuates wildly. Tempted to buy?

Some of Ben Felix's clients are certainly interested. "They're seeing the price of bitcoin – because it's published everywhere – and they're asking if they should be looking at it," said Mr. Felix, associate portfolio manager at PWL Capital in Ottawa.

The answer from Mr. Felix is no. He's a strict advocate of passive investing using exchange-traded funds that track recognized stock and bond indexes. Bitcoin to him is pure speculation, not an investment. He's not even open to using bitcoin or other hot sectors in what the advice business sometimes calls a "core and explore" approach. That's where you add a small position in something speculative in an otherwise sensible portfolio core.

People who are determined to get into something speculative are better off using an exchange-traded fund or mutual fund than individual securities or investments, Mr. Felix said. The fund format offers diversification that will protect you from the risk of losing most or all your money on one bad stock pick. Of course, the same diversification will limit your upside if one or two stocks in the fund blast off and others in the portfolio do not.

The Globe's Clare O'Hara has reported that at least two investment companies in Canada have applied for regulatory approval to offer bitcoin ETFs, and there have been 19 filings in the U.S. market for ETFs targeting bitcoin and blockchain technology. The Horizons Marijuana Life Sciences index ETF (HMMJ-T) began trading in April, while the Horizons Robotics and Automation index ETF (ROBO-T) was listed in November. Among the many U.S.-listed robotics and artificial-intelligence ETFs is the ROBO Global Robotics and Automation index ETF (ROBO-Q).

Some advisers are selectively zeroing in on particular sectors that look promising by picking individual stocks. Mr. Girard believes robotics will play a big role in the economy, and he's had some good results for clients with a company called Cognex Corp. (CGNX-Q) that develops vision systems to help computer see.

Mr. Girard said he'll get interested in marijuana stocks when selling volumes produce enough cash flow to pay a dividend. Ms. Purdy has bought marijuana stocks for clients to trade rather than hold onto long term. She bought some Canopy Growth Corp. (WEED-T) in April, 2016, and took profits in November of that year. Now, she's building positions in Canopy and two marijuana stocks listed on the Canadian Securities Exchange, iAnthus Capital Holdings (IAN-CSE) and Cannabix Technologies (BLO-CSE).

Ms. Purdy spent time last summer researching marijuana stocks, but has so far used them for a small minority of her clients – less than 5 per cent. "We're still very focused on making sure we have very good dividend players," she said of the majority of her clients. "There is still holdover nervousness from 2008."

Among the advisers and firms not jumping into hot sectors are:

Susanne Alexandor, vice-president at Cougar Global Investments: She said her firm uses a model to pick ETFs that relies on data going back at least 10 years. "We are known as a prudent, conservative manager that invests in established, large, liquid asset classes and don't engage in investments that might be considered speculative trades," she said in an e-mail.

Pramod Udiaver, CEO of Invisor, a robo-adviser: He said his firm uses broad-based index products, but is monitoring the evolution of sector investments and client demand to participate.

Justin Bender of PWL's Toronto office: He's not using sector ETFs and does not expect to in the future.

Mr. Felix said the challenge of dealing with clients who are keen to get into a hot sector is that emotions can overrule the financial arguments he makes against doing so. He suggests clients try to imagine the regret they would feel at missing out on a big score and then compare it with the regret of losing a lot, or even all, of their investment.

Clients don't always see if Mr. Felix's way in the end. "I had one client tell me he felt like he was missing out. What do you say to that? The emotional side to investing is just about as important as the financial side. So if he needs to spend \$5,000 to not feel upset, then sure."

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