The Plight of Investor X

While at the gym after work, a Rockwood advisor walked by one of the ubiquitous Plasma TVs that seem to adorn every wall in the place. That particular TV happened to be tuned into CNBC, purveyors of the latest stock market news, information & financial headlines. Our colleague made the fateful mistake of looking as she strode past. The closed captioning showed the following email from an investor, who we will refer to as Investor X.

"I heard that the Warren Buffet of Canada took a big position in Pfizer and I was wondering if I should too."

The shot then panned to a red-faced host, Jim Cramer, who in a grossly over-animated manner began shouting rationalizations to buy it or maybe not to – forgive us for not sticking around to hear his thoughts. It's hard to stop thinking about all the ways in which that email was indicative of everything that is wrong with the public's perception of investments. Here are just a few:

- Investor X thinks that there exists someone who can consistently and accurately outperform the market by picking stocks. It's quite possible he thinks that person is this Canadian Warren Buffet or possibly even Jim Cramer.
- Investor X is intimating by his statement that he will reach his goals, happiness, or some combination thereof, if this one stock performs gloriously. More succinctly, Investor X thinks that outperforming the market is the same as reaching financial goals.
- Investor X either has no idea, or simply doesn't care, what the inclusion of this single stock means for the overall volatility of his portfolio nor does he understand its correlation to other assets in his portfolio.
- Investor X is the type of person who buys and sells emotionally, pays lots of short-term capital gains taxes, pays lots of trading fees, and nearly always underperforms the global equities markets in the process. He probably spends all afternoon watching stock tips for his brokerage account but has no idea what investment vehicles are in his underfunded 401(k).

Trust me when we say that the absolute most damaging outcome for Investor X would be to buy that stock and then have it shoot up by 70% or so in a few short months. While this may seem like it provides him with an economic benefit, what it really does is convince him that this sort of behavior can be financially rewarding. Undoubtedly, he will attempt to repeat it; next time on a larger scale with disastrous results for him and his family.

So, who should we blame for the pervasive comingling of speculation and investing? We certainly don't fault Investor X or the investing public, as they have been steadily conditioned by the financial media that market timing and picking stocks will bring fortunes. We don't even really fault quasi-lunatic Jim Cramer (of CNBC's Mad Money TV show fame). He certainly would be out of a job if the show was called Jim Cramer: Charlatan Money Manager and Puppet of CNBC's Quest for Afternoon TV Ratings. The real culprits are those that profit from transactions, the very brokerage firms that run ads during Mad Money broadcasts hoping you might place your trades at their trading desk.

For our part as investors, perhaps it's just our innate sense of competition, and that we all have a little shade of Investor X in us. Some part of each of us wants to do better in the market than our neighbor because somehow, we think that it will help us accomplish our financial goals. It sounds a bit distasteful when we put it that way. However, we really think it takes a sophisticated person to suppress our own Investor X and intuit that risk-controlled, globally diversified portfolios—not miracle stock picks—allow us to reach our financial goals.