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Three Investing Traps in The Time of Coronavirus

Investing now means huge potential for contrarian thinkers. See which sectors Valentine RESEARCH & Associates says will be huge winners.

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PLEASANTON, CA, UNITED STATES, March 26, 2020 /EINPresswire.com/ -- In 2002 I wrote an article called "Laissez Bear" for The Wall Street Journal's Barron's magazine. I focused on how clients' life experiences drive investment choices. People who survived The Great Depression, for example, never forgot what it's like to live in survival mode. Their portfolios tend to be much different than investors near my home in Silicon Valley, where people often approach portfolios the same way they approach roulette tables.

Investing in today's market requires bold moves and that may mean taking losses so you can move into better potential stocks. And there is a lot out there. This is the buying opportunity of a lifetime. Many segments that are down by 80% even through the are going to weather the downturn really well. But getting clients to invest in these means understanding the emotional traps that hold them back.

There are several, deeply contrarian ideas that could yield huge returns over three to five years. Real Estate Investment Trusts go against traditional thinking but are great buys right now. Many are down 80% which is far too much. Property trusts with concentrations of Life Sciences, senior housing and medical office tenants are all going to do well. Most hospitals don't own their property. They lease them from property trusts and are not going anywhere.

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Similarly, hospitals, long term care facilities, skilled nursing, assisted living facilities and senior housing all have underlying trends that make us optimistic for strong, long term growth. Meanwhile, over the next three to five years airlines, hotel chains, cruise lines, Las Vegas casino companies, oil companies and pipelines stocks are all going to bounce back strong and deliver huge returns for people who bought near the lows.

During my career I've made some crazy calls. Some of those raised attention of regulators and clients alike. I had hedged portfolios and commodities in 2008-2009 and a portion of our accounts were up 46% in a market that fell 45%. Regulators questioned commissions but the point is we made clients money.

Anchoring, Sunken Cost and Confirmation Traps

When markets are scary, investors invest emotionally and out of fear. This is our primal brain at work. But, to beat the market you must always be ready to walk away from the market, reassess, check your ego at the door and look at what is happening around you. Throughout the years, I've seen so many clients' emotional states get them stuck due to "Anchoring" or "Sunken Cost" or "Confirmation Bias" investment traps.

Anchoring is when an investor doesn't periodically reassess their portfolio and sticks with it, not willing to admit it is time to change. They wait, hoping everything bounces back and they don't adjust. But with plenty of data out there telling them to make changes to their portfolios, Anchoring is more indecision than decision. Often, these investors become unwilling to even look at opportunities and they just anchor their portfolio in place, like a ship in the water.

Sunken cost is when investors don't want to sell a stock for a loss and replace it with something that perform better. They may be aware of that the conditions of the world have changed but are just unwilling to face that position is going to incur a loss. As with Anchoring, Sunken Cost keep you from taking advantage of new opportunities and can sink your returns.

The one that drives me nuts are Confirmation traps. You see this when someone gets positive confirmation about their position or strategy from an editor of some investing app or some stock guru who's never won industry awards. For these investors, anything optimistic about a stock they own confirms in their mind that they're doing the right thing by holding and doing nothing. They selectively believe whatever agrees with their decision, and they ignore data and evidence to the contrary. More often than not, this causes them to dramatically underperform the market. I have seen accounts take a half a decade or a decade longer to rebound than was necessary.

Right now, at Valentine RESEARCH & Associates, we're seeing the investment opportunity of a generation. Markets are down a third in one month and the Coronavirus sell-off is almost across board. Whole segments are down excessively. As I wrote in Chips, Chips, Chips, some businesses will inevitably benefit. Others will recover quickly and benefit from pent up demand and solid long-term fundamentals.

Yet, with all that is going on, many clients are frozen with indecision and fear and don't want to make changes. Why is this? When investors get stuck in one of the big investment traps it can be often be explained by traumas from their past. What psychologically happened to them in their lives? What happened to them in 2008? What happened during Y2K or 911? What is their philosophy of building income or wealth? Too many are waiting on the sidelines because this situation is so far outside the norm and, but it demands we make investment decisions in new ways.

When the world transforms, you must transform yourself as an investor. You should be prepared to change from a growth manager to a deep-discounted value manager or contrarian value portfolio manager. There are lots of Fallen Angels. In the late 90s we worked with managers that could not get off the ship of growth, growth, growth.

Nothing replaces experience and systems handed down from generational logic. I'm grateful for my experience as a banker and commercial lending officer. I gained tremendously from the E.F. Hutton team and our options trading and retirement planning teams in San Jose in the heart of Silicon Valley in the late 80s. When I left the retail brokerage house, Dean Witter, to join the legendary EF Hutton and it became part of Shearson Hutton. The tools I learned helped me avoid investment traps and make great decisions today. All the portfolio managers and decision makers who bragged before the crisis about their returns are closet indexers.

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