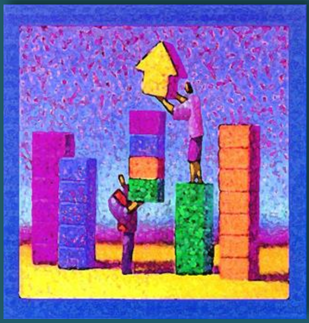

Brent Sheather's RESEARCH

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INVESTORS JUST WANNA HAVE FUN – PART 1

An article the other day by Jason Zweig, writing for the Wall Street Journal, reminded me of a subject I thought might resonate with some investors: investing in shares is not just something you do to accumulate wealth, it is exciting and fun. Even with a modest sum you can get involved, talk about investing with your friends and have a good time. An excerpt from the Zweig article follows "*Index funds have made investing simple – but not easy. These portfolios that seek to match, rather than beat, a market's returns usually charge extremely low fees. If you buy a handful of index funds, sit on them for decades and never do anything, you are likely to outperform nearly everyone who tries to beat the market by trading. But what is the fun in that? Can you endure a lifetime of barbeques and cocktail parties where other people brag about their winning trades and all you can do is mutter, "Umm I own index funds and haven't made a trade in a decade?"*

In a recent email Bloomberg's Matt Levine alludes to the same issue when he writes:

"Jack Bogle famously hated ETFs, for reasons that used to strike me as bad, but you can see why he'd hate this. You could tell a story of investing that is like:

1. *People used to think about what stocks to buy, get advice from brokers, and then buy some stocks rather than others hoping to make money. This could be hard and intimidating, but it was pretty fun if you were into it, and sometimes the results were exciting.*
2. *Financial theory discovered that actually most ordinary investors' best bet is to just buy all the stocks in a diversified market portfolio and not think about it at all.*
3. *The financial industry built the index fund, to give retail investors low-cost access to that theoretically approved portfolio.*
4. *Then the financial industry built the index ETF, as a cleverer and more tax-efficient way to do index funds.*
5. *The investing problem for retail investors was in some rough sense solved. You can just buy a handful of big index funds — or maybe one life-cycle fund that buys index funds — and hold them until you retire. Simple tools (self-directed brokerage accounts, robo-advisers) exist to make that easy. The whole problem of thinking about your investments, learning how they worked, trying to choose good ones, getting excited if they went up, etc., seemed like it could be automated away.*
6. *Apparently people got bored?"*

In the same email, discussing the role of financial advisers he added: "*You want to provide customer service; you want to do stuff; you want them to feel like you are paying attention and coming to them with ideas. You will be somewhat tempted to come to your customers to propose popular ideas, or cool-sounding ideas, ideas that impress them and make them think you are clever. That will make* *them respect you more and invest more money with you, even if the ideas turn out to be bad. "Just put it in index funds" might be good advice, but they can get that anywhere; they want some pizzazz from you."*

What the Zweig and Levine articles touch on is the fact that, for many people, investing is not only what you do to produce income in retirement and leave some money to your kids - it is also interesting, fun and up there with gardening, bowls and maybe even cake decorating. Many investors want to feel important and special, some see themselves as "winners", so buying an index fund and just being average is an affront to their self-image. In a previous life, back in the early 1980s, I was employed in the in the economics department at Tasman Pulp and Paper with John McDonald and Neil Craig, and they got me interested in the finance world and investing in shares. I soon realised that it was great fun, so much so that when my mates and I went to Tolaga Bay on surf trips we would wait anxiously for the Road Services bus to deliver Saturday's Dominion at 5.00 pm so we could catch up with the latest from Friday's stockmarket action. The NZ stockmarket was going ballistic in 1985-1987 and an Auckland based stock market tip sheet called the A-Letter attracted a huge following. It was published on a Friday and when markets opened on Monday various company's share prices that were "tipped" skyrocketed.

Admittedly those were wild times and, as we all know, interest in investing waxes and wanes according to it's recent performance nevertheless there is a significant proportion of investors for whom the investment world is a consistent source of entertainment and wonder above and beyond its attraction as purely a means to build wealth. Investment markets can also be a useful lens through which to view the world: I recall some time ago, when nobody knew whether NZ First would back Labour or National, the weakness in the NZ$ suggested that it wasn't going to be National. Whenever Israel and Iran fire missiles at each other it's worth checking the reaction of the US bond and equity markets, not to mention the oil and Lockheed Martin prices, to see whether "the market" believes things are likely to escalate further or not. Investing can be an engaging and intellectual experience involving researching new opportunities and staying informed about the latest market trends. Many people enjoy discovering new opportunities – but this doesn't always turn out well, or just enjoy reading about the companies they own shares in. Investing can thus confer psychological rewards as well as intellectual satisfaction, whether you have $5,000 invested or $10m.