Thoughts from Willis | Podcast Episode 4: Don't Let Emotions Drive Your Investment Decisions.

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[**Willis Johnson]** Welcome everyone. This is Willis Johnson with Willis Johnson & Associates and today I have invited Jason Mishaw to sit down with us. Jason is an associate wealth manager at our firm and I have asked him to take a few minutes today to speak with us about his experience with the firm, specifically when it comes to investment planning for clients and the emotional aspects that come with making investment decisions. But before we get into that, let's get to know Jason a little bit. So Jason, tell me about yourself.

[**Jason Mishaw]** Willis, thank you for having me. I was born and raised in Houston, Texas, and I received my undergraduate degrees from Rice University. Both of my parents work in the medical field and they actually started me off going towards medicine, but I actually found that I enjoy the business world financial markets so I ended up with a bachelor's in biochemistry as well as a bachelor's in economics. I followed through with my enjoyment and passion for financial markets and recently graduated with a Master of Science in Finance from the University of Houston C.T. Bauer College of Business.

[Willis Johnson] Congratulations on obtaining your master's degree. You know part of our business is consulting and teaching and one of the things I noticed on your resume when you were interviewing with us a couple of years back was teaching and educating. This was not a job, but almost a hobby for you.

[Jason Mishaw] One of the things I've been doing on a part-time basis for a number of years is tutoring high school students on a one-on-one basis and preparing them for the SAT and other standardized tests. I actually find that a lot of the skills I use while tutoring are translated over to this wealth management consulting role. I've always enjoyed helping and making sure that they learn and understand. A lot of it is similar to what we do with clients in making sure not only to set the path but also to understand what's happening along the way.

[Willis Johnson] That brings us to a great point, Jason. Understanding what's going on in the financial markets is so important to keep clients abreast. Tell us how you explain things and what you've seen over the last few years as far as teaching clients how to invest, what we do with investment planning, and trying to minimize some of the mistakes.

[Jason Mishaw] Absolutely, Willis. Bear in mind that we had one of the biggest financial market recessions in 2008 and a lot of clients coming out of that have been very fearful. What we've seen with a lot of our clients recently in the past few years is that they've been sitting on a significant amount of cash much more so than we would advise. One of the things we are trying to do is to alleviate those fears and thoughts that cloud their judgment, help them become fully invested.

[Willis Johnson] Are you telling me that all of the clients should be in stocks and that they should be buying stocks like crazy?

[Jason Mishaw] By no means, Willis. However, depending on what their risk profile is, we definitely advise that they be fully invested in their target allocation to get a mix of stocks and bonds.

[Willis Johnson] So we've had clients that haven't been fully invested. I would like to talk about some of the things we've seen with our clients because we believe our job is to help clients find and develop the path that is right for them and keep them invested. But what are some of the biggest detriments you've seen that clients have had to their accounts over the last few years?

[Jason Mishaw] We've seen a number of recent events that have caused short-term market volatility. For example, we had the recent political events with the election, we've had Brexit, and we've also had the Ebola scare. These headline events have caused clients to become fearful and sell out at the wrong time.

[Willis Johnson] Okay, so there are emotional things going on around the world. The headline news is affecting clients. What should they be looking for? What are the decision points that we as a firm look at when making investment decisions? What should clients really be looking at when making investment decisions?

[Jason Mishaw] So you have to look at the long-term, big picture, macro-economic trends to make sure you stay fully invested. If employment is good, earning numbers are good, and GDP numbers are good, then we believe investors should stay invested in the markets whether its stocks or bonds, even if we have short-term fluctuation. So, we're keeping abreast of those big picture macro-economic trends to stay invested for the long-term. In the short-term, we are also looking at specific valuation metric short-term trading activity to see if there are certain areas in the markets that we would like to buy at a discount where we see an attractive entry point.

[Willis Johnson] Okay, so the markets have hit all-time highs. We are recording this on February 28, and the markets have been hitting all-time highs throughout 2017 so far. So, what should we be doing now? Are you saying we should just stay in the entire time? What should an investor expect from their financial planner looking at where we are at this stage in this particular moment?

[Jason Mishaw] What you should be looking for in your financial advisor is to see what sectors they're evaluating and want to rotate into. For example, right now we are cautiously optimistic about the market as a whole but there are certain sectors we think are better positions to outperform. So we are rotating and over-allocating to those sectors. Specifically, one example is financials. As we've seen interest rates go up, banks tend to do very well with their earnings. So we've over-allocated to financials in this bull market. Even though everything has been going up, we've over-allocated that sector because we think it's well-positioned in the next 12 to 18 months.

[Willis Johnson] So my question is - how do we as a firm (you've been here long enough to see) affect when we make trades versus what you've been seeing from clients and actually what we've seen in clients' portfolios from other firms. How are we making decisions on when to buy and sell?

[Jason Mishaw] Let me first address the sell question. As you mentioned, the markets have been going up and we've been hitting all-time highs. So the question is - when do we capture those gains? When we see our clients' equities outperform and their benchmark becomes more heavily weighted equities, we take that as an opportunity to trim some of the profits and get us more back to target weight so these portfolios are not skewed to equities more so than their target allocations. So we look at it in terms of their over-allocation and that is a good metric to start to trim some of the equity exposure after it has run out.

[Willis Johnson] Give me a specific example of what numbers we would be looking at.

[Jason Mishaw] For example, our most popular portfolio is growth and income which has a target allocation in equities of 65% equities, 30% fixed income and 5% cash. If we see that target allocation go closer to 70% equities due to the increase in their valuations, then we look at that as an opportunity to sell some of the equities and trim it back more towards 65%. If we have a variation of more than 5%, then that's when we look to trim some of our equities.

[Willis Johnson] So if you trim, what do you do with that money?

[Jason Mishaw] We can either put it into fixed income to make the allocation more weighted or, if we think we don't have any more buying opportunities at the time, then we keep it in cash. We always keep a little bit of cash as dry powder in case we have a volatile period of correction so we have some money to buy at attractive valuations.

[Willis Johnson] Jason, it sounds like we're trying to take advantage of the opportunities. So I think what you're saying is that when the market runs up, we like to trim a little bit, and when the market goes down, we want to buy a little bit. But tell us of stories you've seen recently where some of the decisions that clients have made or outside advisor friends have made that you think have not been as proactive. And why do they make those decisions?

[Jason Mishaw] We see two big driving factors behind this decision, so one of the things we talked about here is fear and greed. We saw before the presidential election that some advisors were completely selling portfolios and were going 60% to cash - very drastic moves in their portfolios. Another example we saw with Brexit was that clients were selling outright after Brexit when the markets had gone down and then within a few weeks they had completely recovered. So this fear was clouding their decision-making and they were doing it based on the emotions as opposed to the underlying fundamentals.

[Willis Johnson] You said fear and greed. Well how do we see greed affecting it?

[Jason Mishaw] So on the flipside, when we see the markets going up we see clients wanting to buy in at that point in time. After they've seen money going up, they're essentially trying to chase returns and that's not necessarily the best time to get in. So they're essentially trying to hit a grand slam when they could just as well strike out.

[Willis Johnson] That's true. That's a great analogy - grand slam. So often, people want to chase returns. Hey, last year this did great and I should be in it. Last year was last year and good financial planning and investment planning is looking forward and making small tweaks to protect your portfolio and design your portfolio to be managed to meet your long-term needs. I want to thank you for being here, Jason, and for this conversation. I have enjoyed working with you on so many clients together. And I think it's an understanding of developing and properly designing a financial plan and implementing it, following it, and monitoring it is what gets people to their long-term goals and objectives. And I think you are absolutely right. Removing the emotions from your investment decisions is what will make the difference.