WESTBOURNE
INVESTMENT ADVISORS

INVESTMENT PERSPECTIVE — THIRD QUARTER 2024

"Las Vegas is busy every day, so we know that not everyone is rational…Wall Street is filled with individuals who know the price of everything, but the value of nothing." – Charles Ellis, consultant

Stubborn Inflation – A Tale of Two Economies

We hope this finds you *enjoying* the inflation the of the last two years - the highest since the early '80s. Enjoying inflation? Wait…what?

Inflation creates winners and losers. Those holding significant assets in stocks, bonds, or real estate have been enjoying the unintended consequences of rising prices and increased rates. Recently, money market fund yields have been ~ 5% -- a $500k investment last year earned $25k of interest, if invested in the stock market, call it a 20%+ return or $100k!! Add a paid-for home and/or a 30-year 3% fixed-rate mortgage to the equation and it gets even better for asset owners, and worse for those who don't own assets. These gains in asset value and cash flow are staggering compared to those without significant assets, e.g., those just entering the work world without homeownership, and/or living month-to-month. To the former, the impact of grocery prices rising 25%, or apartment rentals rising 30% has little impact, while the latter sees a significant erosion in their monthly disposable income.

For those fortunate enough to own such assets, our recommendation is to stay invested – particularly in Equities for assets with a long-term investment horizon. For those less fortunate, just starting out, or on a fixed income – those feeling the strain of price increases - we recommend staying-the-course and socking-away any excess dollars into assets that should create value above inflation over the long run, specifically Equities and/or Real Estate.

This isn't a political commentary, but a social and economic one – part of America is benefiting from asset inflation while part of America is being crushed. Meanwhile, The Fed has not yet reached its inflation targets – but they've signaled they're getting close, and eventually The Fed will lower interest rates. Lower interest rates on the margin are good for stocks long-term.

"The investor's chief problem- and even his worst enemy – is likely to be himself" – Ben Graham

Behavioral Finance – Don't Be Your Worst Enemy

We regularly witness the impact of human behavior on investing. The investor who sees the market go up, and up, and up, and *finally* wants to invest. The investor who sees the market plummet wants to hold off on investing. The investor who sees the market at an all-time high and wants to "wait for the dip." The momentum investor who sees a stock rise to stratospheric levels and wants to chase it. The investor waiting to sell a fallen stock because they do not want to admit to a loss, foregoing better investment alternatives in the process. Or yours truly, slightly late to the Apple party, viewing the iPhone as a piece of hardware rather than recognizing its true essence as a portable piece of software, with significant investment implications. Humans are logical, but are also subject to impulses and biases, often creating irrational behavior. Behavioral Finance is an important factor in investing which we'll discuss in more detail in future *Investment Perspectives*, but for now we note some investor behavioral issues stemming from cognitive biases and emotional factors that may lead to irrational decisions. Here are a few common pitfalls:

1. **Overconfidence**: Investors may overestimate their abilities to predict market movements or stock performance, leading to excessive trading or taking on too much risk.
2. **Loss Aversion**: This bias causes investors to strongly prefer avoiding losses over acquiring gains of the same magnitude, leading to selling winners too early and holding onto losers too long.

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3. **Anchoring**: Investors fixate on a specific piece of information (like the purchase price of a stock) and use it as a reference point, which can prevent them from adjusting their strategy in response to new information.
4. **Herding Behavior**: Following the actions of others without fully evaluating the underlying reasons or risks. This can lead to bubbles or market crashes as everyone rushes in or out of investments simultaneously.
5. **Confirmation Bias**: Investors seek out information that confirms their existing beliefs and ignore or discount contradictory evidence, potentially leading to suboptimal decisions.
6. **Framing**: The way information is presented (positively or negatively) can influence decisions. Investors may react differently to the same information depending on how it is framed.
7. **Mental Accounting**: Treating different investments or assets differently based on irrelevant factors (like how the money was earned or the source of funds) rather than their overall financial impact.
8. **Regret Aversion**: Fear of making a wrong decision can lead investors to avoid taking necessary risks or making changes to their portfolio, even when it may be beneficial in the long term.
9. **Availability Bias**: Placing too much importance on information readily available or recent events, rather than considering a broader range of factors or historical data.
10. **Behavioral Biases in Valuation**: Emotional attachment to a stock or investment can cloud judgment when assessing its true value, leading to overvaluation or undervaluation.

Awareness of these logic-traps is crucial for investors to diminish their effects. Techniques such as diversification, disciplined investment strategies, and seeking unbiased external information can help counteract these behavioral biases and improve overall investment decision-making. *Westbourne* believes that successful long-term investing is rooted in valuation while reducing emotional biases and attempts to time the market.

Stay the Course and have a happy and healthy Summer.

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