

BEHAVIORAL & FINANCIAL INSIGHTS

The Peril of Investment Fads

It was just over a year ago when Bitcoin was the talk of anyone who could fog a mirror. It was a Thanksgiving dinner topic that resulted in many people confusing investing for speculating. There was a lot of positive momentum in price, forecasts and bragging rights to own this new “investment.”

An analyst, who was touted as having correctly predicted Bitcoin’s initial breakout, said she saw the currency trading between \$50,000 and \$100,000 in 2018.¹ So, one year later, did Bitcoin meet all the hype and expectations? Not quite. Despite predictions of significant gains in 2018, we didn’t see it.

Bitcoin ended 2018 trading below \$4,000, closing at \$3,747², a loss of about 80% from its 2017 highs. Quite a difference from the five-fold increase predicted by the revered cryptocurrency analyst earlier in the year. Well-regarded periodicals, such as Forbes, also missed it. After Bitcoin sold off significantly in mid-2018, they predicted it would end the year at \$10,000. Again, not quite.³

In yet another example, towards the end of the summer, marijuana stocks became the rage. It was the new paradigm shift where “investors” could make some quick and easy money. IGCC, a hot stock in this space, increased by 3,500% in just two months based on changes in law and expectations of how this may change our lives. Two months after hitting its high, IGCC went up in smoke and declined 97%.⁴

The takeaway is that speculation can be very alluring. Real investing, however, tends not to be sexy. It doesn’t activate our dopamine receptors, nor does it cause our heart rate to increase. It tends not to make us giddy, nor despondent, over the long-term.

We will, undoubtedly, see more fads. There will be things that sound sexy, as well as opportunities that appear to work better than your strategy. There will also be talks of “paradigm shifts,” or the inevitable comments like “this time things are different”, to rationalize poor decision making.

The clear question is whether you want your portfolio to be exciting or whether you want it to be enduring. We strongly suggest the latter.

¹ CNBC. Jan 16, 2018. “Bitcoin heading to \$100,000”

² YahooFinance. December 31, 2018

³ Forbes. Jul 10, 2018. “Bitcoin Looks Likely to End the Year Around \$10,000 Barring Positive Regulatory News”

⁴ Marketwatch. November 27, 2018. “The collapse of this cannabis stock offers a valuable lesson to every investor”

This commentary was composed by Steven W. Lieberman and The Behavioral Finance Network. This commentary is for informational and educational purposes only and does not constitute legal or professional advice. The views and opinions expressed in this commentary are those of the author(s) and do not represent official policy of Summit or PKS. Past performance and/or historical data points does not guarantee future outcomes nor is this intended to be an indication of future trends

Steven W. Lieberman is the founder and Senior Managing Director of The Private Client Group Wealth Management, LLC. Investment advisory and financial planning services are offered through Summit Financial, LLC, an SEC Registered Investment Adviser (“Summit”). 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3670. Securities brokerage offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC. Headquartered at 18 Corporate Woods Blvd., Albany, NY 12211 (“PKS”). PKS and Summit are not affiliated companies. 01292019-092