The Fear of Missing Out

"The secret to happiness is freedom … and the secret to freedom is courage."
—Thucydides

It has been said, human beings are social animals who seek the companionship of others as part of their well-being. Standing alone when one's peer group moves in the opposite direction is a difficult position for many people to maintain. We are naturally hard-wired to want to fit in and go along with the crowd.

Bravery, which can come in various forms is an essential character trait many successful investors possess. One of the most difficult things investors must grapple with time and time again is the fear of missing out on an opportunity. As J. P. Morgan once said, *"Nothing so undermines your financial judgement as the sight of your neighbor getting rich."*

Morgan Housel works for The Collaborative Fund and writes periodic blog posts on money and psychology. One of his most recent, “FOMO: The Worst Financial Trait” caught my eye.
*****

FOMO: The Worst Financial Trait
By Morgan Housel
Collaborative Fund
January 19, 2023

A funny thing about money is that it’s a negative art. You often have a better chance of accumulating more of it by getting rid of bad traits vs. acquiring good ones.

Most ambitious people’s intuition is to ask, “How can I get smarter? More informed? Find new skills?”

In many fields those are the right questions. Money is a rare exception where asking questions like, “How can I be less dumb, less greedy, less impatient?” can be more effective.

And there’s one trait whose removal from your personality can do more to improve your financial situation than anything else: The fear of missing out.

Having no FOMO might be the most important investing skill. Being immune to the siren song of other people’s success – especially when that success is sudden, extreme, and caused by factors outside their control – is so powerful and important that it’s practically impossible to do well over time without it. When strategizing, Dwight Eisenhower used to quote Napoleon, who said a military genius is “the man who can do the average thing when everyone else around him is losing his mind.” Same with money.

FOMO is recklessness masked as ambition. You see someone else getting rich and think, “If they can do it, I can too.” That feels like a good emotion – it feels like you’re learning through observation and following a data-driven path to success.

But what’s actually occurring is you are outsourcing your emotions to people whose quick windfall has probably left them in a fragile emotional state to begin with.

FOMO is also ruinous because it forces you into short-termism. If you only bought an investment because it went up, you’ll be the first to panic when it inevitably goes down.

Charlie Munger once said:

Someone will always be getting richer faster than you. This is not a tragedy… The idea of caring that someone is making money faster than you are is one of the deadly sins.

Remove FOMO from the equation, and what's left?

You only care about your own goals.

You tend to avoid getting sucked into bubbles.

You tend to think long term.

And you don't need much else to do well over time.
*****

Without a doubt the economy has been decelerating. We first observed this last year in both the financial economy/markets and the technology sector. To me, it doesn't matter if economists eventually get around to declaring a recession at some point, as their observations tend to be viewed through a rear view mirror and offer little of value for financial markets practitioners in this regard - along the lines of a day late and a dollar short.

Over time, I believe the deceleration is likely to trickle down and be felt throughout various other parts of our economy. David Rosenberg, of Rosenberg Research recently cited the following data over his Twitter account in support of his bearish economic thesis. "The 3-mo (SAAR – Seasonally Adjusted Annual Rate) trends in Building Permits -46.6%, Housing Starts -20.8%; Exports -11.2%; Construction -7%; Real Retail Sales -6%; Industrial Production -5.2%; Real Durable Goods Orders -3.9% & Shipments -1.2%; Real Consumer Spending -0.3%. See any + signs?"

In addition, according to Hedgeye research, US annual money supply growth as measured by M2 was down -0.62% in 2022. That was the first negative reading of M2 data going back to 1960.

With that said, given the damage done in financial markets last year, the worst very well could be behind us. Nevertheless, I believe it is prudent to remain cautious for the time being, as I view the recent rally in equity markets as likely a bear market rally. With short term interest rates pushing up near 5%, we can get paid for watching and waiting. On the other hand, if stocks continue to move higher… fine, that's why we diversify.

ASSET CLASS & SECTOR OPINIONS		
OVERWEIGHT	**NEUTRAL**	**UNDERWEIGHT**
Cash	International Developed Market Equities	Small Capitalization Stocks
U.S. Treasury Notes & Bonds	Emerging Markets Equities	Financial Services Sector
U.S. Real Estate & Related Equities	Consumer Discretionary Sector	Leisure & Hospitality
Large Capitalization Technology	Communication Services Sector	Materials Sector
Healthcare	Mortgage-Backed Securities	Energy Related Equities
Aerospace & Defense	Local Currency EMG Bonds	Leverage Loans (Floating Rate Debt)
Utilities	Investment Grade Corporate Bonds	Treasury Inflation Protection Securities
Consumer Staples		High Yield Corporate Bonds
Precious Metals		

Sincerely,
Justin Kobe, CFA
Founder, Portfolio Manager & Adviser
Pacificus Capital Management

Advisory services through Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Cambridge and Pacificus Capital Management are not affiliated.
Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as investment, tax, or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. These are the opinions of Justin Kobe and not necessarily those of Cambridge Investment Research, are for informational purposes only, and should not be construed or acted upon as individualized investment advice. Investing in the bond market is subject to risks, including market, interest rate, issuer credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies is impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Diversification and asset allocation strategies do not assure profit or protect against loss.