# BMO Experts Share Their Most Important Investment Lessons

Making the right investment decisions for your portfolio can be challenging. Whether you're a seasoned professional or just starting out, many investors admit that they've made a few mistakes along the way. To demonstrate this point, and gain some sage advice, we asked four BMO Financial Group experts to share the most important lessons they've learned during their careers as investment professionals.

The information they share through their own experiences can be invaluable as you work with your BMO Nesbitt Burns Investment Advisor to position your portfolio for success.

## Meet our experts

**Aine O'Flynn, CFA**
Managing Director
Director of Canadian Equity Research
BMO Capital Markets

**George Patterson, CFA, Ph.D.**
Senior Vice President and Chief Investment Officer
Quantamental Strategies
BMO Global Asset Management

**Douglas Porter, CFA**
Chief Economist and Managing Director
Economic Research
BMO Financial Group

**Stéphane Rochon, CFA**
Vice President and Managing Director
Private Client Strategist
Head of Private Client Research
BMO Nesbitt Burns

## Patience really is a virtue

When it comes to investing, our experts agree on the importance of patience in any investment strategy.

"While I'm still learning all the time, I would say that the most important lesson I've learned in investing is patience," says Douglas Porter, Chief Economist and Managing Director, BMO Capital Markets. "As one wise person once suggested, successful investing should be akin to watching paint dry; invest in quality and let the market work its compounding magic over the sweep of time." However, this doesn't mean that investors should completely "set-it-and-forget-it," as Douglas believes patience is also important when making adjustments to your portfolio. He recommends that investors shouldn't act too quickly to sell an investment that has performed exceptionally well and, likewise, have the patience to wait for a good entry point before making a purchase.

He also reminds investors to be patient with their investing acumen. "Accept that no one gets everything right, that no one can always buy at the market lows and sell at the market highs, and that no one has clear, let alone perfect, foresight. And that's coming from someone who forecasts for a living," says Douglas.

George Patterson, Senior Vice President and Chief Investment Officer, BMO Global Asset Management, learned the importance of patience early in his career. "After conducting extensive research to identify companies I expected to perform well, I would become impatient when the stock price did not appreciate as quickly as I expected," says George. He adds that solid investment research can produce superior investment insights, but in order for those insights to be rewarded in the market place, other investors must come to a similar conclusion. While your insights on a particular company may be correct, it can be equally challenging to predict when other investors will also start to put more value on a particular investment. "It's good to be correct; ideally just in advance of other investors arriving at a similar conclusion," says George.

## Economic momentum drives stock returns

"Stock returns are driven by the business cycle and, more specifically, by economic momentum," says Stéphane Rochon, Vice President and Managing Director, BMO Nesbitt Burns. "I've learned that it's the trajectory of the economy that matters most to equity performance, and an economy that's improving – even if the improvement is slight – tends to be associated with strong stock market returns." Stéphane adds that, "Even a slight improvement from a very anemic starting point is typically a very good environment for equities. In the same way, a company that goes from a steep cash burn to generating even slight free cash flow will also typically sport a very strong stock."

## Buy what you know

While investors can get caught up in the excitement of a new technology or 'hot' stock, our panel promotes understanding the company's underlying business before making a decision to buy. "While these investments can sometimes work out, I believe it's important that investors understand what they're buying," says Aine O'Flynn, Managing Director, BMO Capital Markets. "For instance, I like to invest in auto parts manufacturers because, as a former auto parts research associate, I understand these businesses and have an appreciation for their key drivers of valuation." While you may receive lots of valid investment ideas, Aine believes it's important to conduct your own research to gain an understanding of the company, because ultimately, you are responsible for making your investment decisions.

Aine admits she once ignored her own advice, "During the dot-com boom, I made a small investment in a 'hot' technology stock that I didn't know much about. While the investment was successful from a monetary standpoint, it wasn't a good investment for me, because I felt uncomfortable the entire time I owned the stock," says Aine.

## Follow the money

Lots of people, from many walks of life, are willing to give you investment advice.  However, sometimes this advice is biased – and it benefits them more than you, or it's more consistent with their specific profile. "It's important to understand someone's economic motivation for making an investment recommendation," says George. "If someone is trying to influence you into a particular investment, take the time to understand if, or how, that person may benefit from the promotion of the investment or whether the investment is appropriate for you. Sometimes the advice is very straightforward and genuine, but sometimes it's not, and may not be in your best interest."

"As a Portfolio Manager, I have a fiduciary responsibility to always act in the best interests of clients," says George, "and this requires that the client always comes first." This is critical to investors and is a primary reason why many investors turn to products that are professionally managed by accredited Portfolio Managers. In addition, by working with your BMO Nesbitt Burns Investment Advisor, who has a deep understanding of your financial goals and risk tolerance, you can be confident that all recommendations are made to help you attain your investment objectives.

## Valuation is a poor timing tool

When considering the purchase of a security, valuation is a very poor timing tool. "In concrete terms, a 'cheap stock' can keep getting cheaper for a long time in the absence of a 'catalyst' or event that improves investors' perception of a company's future prospects," says Stéphane. "In fact, macroeconomic data such as short-term foreign currency or commodity fluctuations, and general market psychology have a far greater impact on the day-to-day price movements of securities. However, valuation matters greatly to the long-term investment performance of a security because, for investors, the ultimate return on an investment is determined on day one; based on the price paid for a security." Warren Buffet, for example, became one of the richest people by buying stocks with a good 'margin of safety;' meaning he always tried to buy a $1 worth of assets for 60 or 70 cents, thereby reducing the downside risk on the stock. "This approach requires great patience, which very few people actually have," says Stéphane.

From personal experience, Stéphane has found that buying stocks that benefit from rising profit estimates from analysts, while trading at a reasonable valuation, is a good 'middle of the road' approach that increases the odds of making money over a one- to two-year time frame, while protecting downside risk.

## Don't let emotion rule your investment decisions

"I learned the hard way not to let my emotions influence the investment decisions I make," says Aine. She recalls that after purchasing one particular stock, the price decreased, and continued to drop. "Eventually there was not much value left in the position and, instead of cutting my losses, I continued to hold the stock hoping it would recover. This experience taught me to be disciplined; admit when you're wrong and don't let your emotions get in the way of making the right investment decision."

More recently, Aine explains that one stock she holds had performed really well. While she knew she should take some of the profit, Aine was hesitant. “I really love this stock. But, I finally decided to sell half the position.” Since the sale, the stock has continued to perform well; however, Aine is comfortable with the decision to reduce her position to protect her profit. “Discipline pays off. But, it’s hard and that’s why you have to separate the emotion from your decisions,” adds Aine.

## Sound familiar?

The lessons shared by our BMO Financial Group experts – and which may be familiar to you – provide plenty of ideas and best practices to consider when investing and managing your portfolio. By working with your BMO Nesbitt Burns Investment Advisor, you can develop a long-term investment plan that respects your tolerance for risk and will help you reach your wealth management objectives.

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