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This Time It's Different!

It was 1999, and I was having lunch at a small café. I overheard someone sharing a great stock tip that he got from his friend, a friend that had gotten into trading at home just 6 months earlier but was making money “hand over fist”. It was when Nortel and JDS Uniphase stock was flying. Many ideas were trading at high prices, and yet, these same companies weren't earning any money. I was surprised at the recommendation knowing the price was extremely escalated.

6 months later that stock was out of business, the tech bubble had burst, and many late to the floor investors lost lots of money.

Fast forward January 2021, and I'm getting the same requests to purchase stocks that are way more expensive than they would usually be, huge price swings of 300% in a few days. Everybody is starting to think it's easy to pick stocks again. Gamestop, Blackberry, Bitcoin have seen huge price swings in the past few weeks.

However, right now, with more time on our hands for many, there are swells of groups on different platforms sharing their ideas, and many listening and considering how they can get involved. If you have the time, it can be an interesting pastime, but beware missing out on a few hours with the high-end trading can cost you.

In fact, part of the swell of interest is because some don't like certain strategies such as “shorting a stock”, a way of making money when the stock price goes down. You are betting that it will, and if you are wrong, and the price escalates, then you can lose a lot of money because you, as the purchaser, must cover that spread. Some of these retail investors feel there is regulatory unfairness with Wall Street institutions and they have too many advantages. There is much debate to be considered regarding these ideas.

Today, let's focus on the fact that you need to be just as aware at what you are buying and from whom you are taking advice. You also need to be aware of the fall out, no matter who is taking advantage of the system. Fair platforms are important. Collusion or manipulating stock prices is always based on hype and usually takes things too far. It is damaging on the institutional level, but I also think it is damaging on the retail investor level as well. The difference is that if it's proven in the industry, there are rules in place and they can be penalized. If it happens in the retail space, and on social media, who is accountable for bad advice?

So, where are we today? What can we learn from this current extreme trading run?

- Trading and investing are not the same thing. Trading takes a lot of time, and strategy, and no one strategy works all the time. So be prepared to have some fun, but know that you will likely take some losses with the winners.
- Stock markets will shift, and every year a different stock, or industry will garner full blown attention. Watching the trends is interesting but ensure you have the stamina, time and courage to play out the trading game if you decide to get in.
- Consider having an online trading account with the “fun money”. Often keep the serious money in a more stable environment, and ensure you are utilizing broader investment strategies.
- Trim your winnings when prices seem too good to be true, as they usually are.
- Be aware, when irregularities are found, trading can be stopped for a considerable time, and you may not be able to exit a position when you want. This happened in the past week with Gamestop.
- Never get cocky. I've been following market traders for many years now (too long to mention) and I have not found 1 expert that was successful all the time and didn't get cocky and suffer some big losses at some point.

- Be aware our tax rules do show active trading, and intent to make money from stocks that's based on trading, not on increasing valuation over time can be taxed as income. This can apply even within the TFSA. Check out the tax guidelines, and Tim Cestnik's Globe & Mail article "Social Media Driven Trading Frenzy can have Tax Implications"

For those of you with the tolerance and interest, have fun. For the rest of you, watching and understanding the best options are enabling us to target some higher risk items for growth, and ensure the majority of the portfolio is integrated with a global diversified perspective. It might be more boring, but it's a lot easier to sleep at night! And in retirement, which is when we want to spend this money, sleep is a necessity.

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