

Sweet Deals and Sweethearts
My eyes adored her... and she broke my heart.
Letting go of the value trap that snapped your hand.

I can still smell that first day of school. The unmistakable aroma of fresh pencil shavings and brand new pink erasers – which seemed to have been flavored at the factory to entice us to eat them.

The cute dark-haired girl was placed on the first day of the school year in a desk just in front of me and to the left. This put her between me and the teacher at the front of the class. I was just 11 years old, and the new kid in class, but I couldn't help myself. I pretended to listen to the teacher all day, while I gazed at her striking profile.

I was working over my second pencil, keeping a close eye on her, when she "accidentally" elbowed her eraser on to the floor. Seizing my opportunity for gallantry, I jumped. I could hear the music in my head just as I picked it up off the floor. Before I placed it on her desk I used my best Prince Charming voice to declare: "I believe this... (pause to make eye contact)... belongs to you." Gaze, pause again, for effect, and return.

I was nearly out of pencils by 1:30, but soon the eraser move was repeated, by both of us, only this time I wrote a little note on it before giving it back to her. "Can I walk you home?" She smiled warmly. Later, my eraser mysteriously had a one word note on it from her: "Yes."

I carried her books to the trailer court where she lived with her mom and grandma. Her Norman Rockwell nana had made fresh tea biscuits with butter, honey, and hot chocolate, and we sat together, eating awkwardly, both of us too nervous to speak.

Her dad was a logger, and would be back tomorrow, so I'd better not come around because he got angry, she said, so I didn't.

Four years later, I had moved away and come back to the same little town where her dad was still a scary logger, and her face was still gaze-worthy. But by then I was tall, dark and dorky. My long hair, bad skin and raspberry cane biceps just couldn't restart the music for her. And though something in her eyes seemed to want to recapture the moment, it wasn't to be.

Breaking up is hard to do. Value Traps: Linger too long for the glory of what once was.

Boyhood crushes that end in heartache and non-guaranteed investments which end in regret, have some commonality. There will always be a measure of pain in love and with money, but the trick is to let go at the right time. Buy low, sell high sounds easy. We wait for things to go on sale, and this works very well in one-off purchases, but not always.

And these are not just amateur mistakes. Some of the brightest minds in the industry occasionally devil out these details wrongheadedly. I just had one of them. Stock A, we will call it, was a large multinational corporation based overseas, but with a solid first world customer list, a reliable dividend, and a huge war chest of alternative products to see it through a downturn on global fortunes. It ran up against some headwinds about a year ago and that's when it caught our analyst's attention. We bought it at say 25% off its peak price, a good deal according to a swarm of strong minds prognosticating over it.

When my clients came in for their review a few months later, it had gone down another 25%. This sort of thing happens, and sometimes we pick up good ideas a little too early in the business cycle, but, according to all the in-depth studies on it, things should turn around in the next few months, and even if we don't earn it all back, we are better off holding it than locking in our losses now.

At some point a stock on sale becomes what we refer to as a Value Trap. According to Stephen Penman, of Columbia Business School: "History tells that value outperforms growth on average, but with risk: a value position can turn against the investor."

You know where this is going. We are selling that position now. The analysts were not a bunch of dummies. It is a truth that part of the uncertainty of this business that some things can't be predicted with precision. And, if we don't throw too many eggs in too few baskets, the aggregate of all those decisions should still work in our favor.

Like the crush we might have had on a sweet kid in the 6th grade, or the stock that seemed like a sweet deal, sometimes it just doesn't work out. In banking we used to say, if you don't have any write-offs, you are not in the game. We also used to say, don't throw good money after bad. Finding the time to walk away was and is as much art as science.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member-CIPF), and these are Mark's views, and not those of RBC Dominion Securities. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.