Justin Wolfers says your iPhone is destroying your investment returns

Expat economist Justin Wolfers, with his son in Washington DC, went from trackside gambling to academia. T.J. Kirkpatrick

If Justin Wolfers could give Financial Review Smart Investor readers one piece of investment advice, it would be the following: put away your phone and stop looking at intraday share prices.

In fact, stop looking at share prices at all.

“The best advice an investor could possibly get is to look at your portfolio once every 10 years. Lock up your investments and stop checking share prices every few minutes,” the Australian expat says.

Wolfers, a respected economist who is on a first-name basis with US Federal Reserve chair Janet Yellen, is worth listening to for two reasons.

Firstly, he knows what he’s talking about.

Wolfers and partner Betsey Stevenson – a former economic adviser to US President Barack Obama – are the authors of a series of papers that exploded myths about the relationship between money and happiness.

Secondly, because it just makes so much sense. The recommendation flows from the findings of Daniel Kahneman, who found the psychological impact of losing money
was roughly twice that of the same-sized gain, which leaves investors vulnerable to buying and selling at the wrong time.

Winning times

Stock prices, as we all know, can be volatile. Data shows over the past 60 years stock prices have fallen on 46.7 per cent of all trading days. Over time, this leaves investors who check prices every day feeling a lot more pain than joy.

If, however, you checked your portfolio every month, the number of losing months goes down to 40.4 per cent. Every year? 27.6 per cent. Over 10-year periods going back to 1900, the number falls even further, to 18 per cent.

“We live in a world where Apple puts a stock tracker on your phone as a default, which has the potential to cause enormous misery, because you can now track your losses minute by minute when what you really want to do is the opposite,” he says.

Gambling man

Wolfers doesn't look like your typical economist. His back story is equally unconventional. Despite having attended and taught at every revered US university from Harvard to Princeton and MIT to Wharton, Wolfers almost didn’t go to university.

A fascination with betting markets saw him become a regular fixture around the racetracks of Sydney, where he had dreams of becoming a professional punter.

One of his biggest wins as young punter was in 1993. The country was hurting from the 1990s recession and Paul Keating’s agenda of reform had suffered along with it. Pundits had labelled it “the unwinnable election”.

Markets had priced Keating as a 9-2 chance. Wolfers thought the odds were mispriced, or “overs” in gambling parlance, and took the plunge.

“It was a significant windfall for a 17-year-old,” he says. “It might have been two cases of beer. I was very pleased at the time, but I can't remember much more than that.”

Wolfers notes those odds are roughly the same as what bookmakers are offering for a federal Labor win later this year, saying that this means “they are still a very real chance”.

Back on the racetracks of Sydney, Wolfers eventually made a serious miscalculation, which saw him exchange the world of gambling for academia, but the concept of risk and how it was priced would remain among his many interests.

Free lunch

In terms of personal investment, Wolfers says he is a firm believer in diversification, “the only free lunch in economics”, and as a consequence he does not believe in stock picking or fund managers that promise they can consistently beat the index.
“We hold low-cost index funds,” he says. “I like that low cost because it’s the only variable from last year that you can factor into next year. We like the index approach because the guys who beat it last year are no more likely to beat it this year.

“I’m happy to take risk but I don’t want to be in bonds. If you held stocks for any 10-year period, you would win every time, so if that’s risk, give me more of it. We have a view on rates and how low they can go, but that’s our only real expertise.”

Today, Wolfers says, the risk with owning bonds is asymmetric. With real rates at zero, he says the risk is “highly asymmetric”.

“Even back when bonds used to pay you a return, it was low return and no risk. Now it’s no return and the same risk. The risk is all on one side,” he says.

His views on portfolio management, while intrinsically academic, are also remarkably intuitive and easy to understand.

**Money and happiness**

And so it is with his most famous piece of research, Economic growth and subjective wellbeing: reassessing the Easterlin Paradox – although perhaps the title could do with a bit more sizzle.

The paper explored the idea that money can’t buy you happiness – a theory known as the Easterlin paradox – by analysing and organising vast amounts of data on economic growth and surveys on levels of happiness.

Wolfers subsequently established a clear link between a country’s level of GDP and its inhabitants’ measures of subjective wellbeing (that is, happiness), comprehensively demolishing an idea that had been around for 30 years.

“There was this idea of the miserable millionaire, but the reality is that I’ve never met one and couldn’t find one in the data. So if people think there is such a thing, then they aren’t using data and they are probably making it up,” he says.

This link between GDP and happiness comes with the disclaimer that correlation does not imply causation.

The relationship may have more to do with an individual’s agency – or ability to make choices – than it does with the ability to dive into a pool of money like Scrooge McDuck.

Nevertheless, the research provides a platform from which Wolfers is able to offer a number of interesting observations.

“People who say income doesn’t buy happiness are saying, ‘Don’t worry about the poor people of Burundi, they’ll get used to it.’ Which when you look at the lives of the people there, or places like it, it’s an absurd statement.”

While the plight of the Burundians is hard to contest (in case you didn’t know, a poverty-stricken east African nation that shares a border with Rwanda), the data also
allows Wolfers to make the following conclusion, much closer to home.

“Another point I can make is that your readers are among the happiest people in Australia, which is one of the happiest countries in the world, in what has surely been the happiest era of history.”

Just don't go checking your intraday share prices, OK?
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