# LISTEN TO YOUR HEART

## (... OR YOUR GUTS)

By Cyril Demaria

|  | 14-19 | 20-25 | 14-19 | 20-25 |
|---|---|---|---|---|
| **Austria** | 1. COCA-COLA<br>2. RED BULL<br>3. BEER | 1. COCA-COLA<br>2. RED BULL<br>3. ICE TEA | 1. COCA-COLA<br>2. ICE TEA<br>3. RED BULL | 1. COCA-COLA<br>2. RED BULL<br>3. WATER |
| **France** | 1. COCA-COLA<br>2. RED BULL<br>3. FANTA | 1. COCA-COLA<br>2. RED BULL<br>3. FANTA | 1. COCA-COLA<br>2. ICE TEA<br>3. FANTA | 1. COCA-COLA<br>2. ICE TEA<br>3. FANTA |
| **Germany** | 1. COCA-COLA<br>2. RED BULL<br>3. FANTA | 1. COCA-COLA<br>2. RED BULL<br>3. WATER | 1. COCA-COLA<br>2. RED BULL<br>3. WATER | 1. COCA-COLA<br>2. WATER<br>3. RED BULL |
| **Italy** | 1. COCA-COLA<br>2. RED BULL<br>3. BEER | 1. COCA-COLA<br>2. BEER<br>3. RED BULL | 1. COCA-COLA<br>2. WATER<br>3. MALIBU | 1. COCA-COLA<br>2. WATER<br>3. VODKA |
| **Spain** | 1. COCA-COLA<br>2. FANTA<br>3. JUICE | 1. COCA-COLA<br>2. RED BULL<br>3. FANTA | 1. COCA-COLA<br>2. NESTEA<br>3. WATER/RED BULL/FANTA | 1. COCA-COLA<br>2. WATER<br>3. RED BULL |
| **Switzerland** | 1. COCA-COLA<br>2. ICE TEA<br>3. BEER | 1. COCA-COLA<br>2. RED BULL<br>3. BEER | 1. COCA-COLA<br>2. ICE TEA<br>3. RED BULL | 1. RED BULL<br>2. COCA-COLA<br>3. WATER |
| **U.K.** | 1. COCA-COLA<br>2. VODKA<br>3. RED BULL | 1. RED BULL<br>2. COCA-COLA<br>3. JUICE | 1. COCA-COLA<br>2. VODKA<br>3. MALIBU | 1. COCA-COLA<br>2. VODKA<br>3. MALIBU |

Source: European Youth Trend Report 2009, Trendwolves.

Figure 1 – Top three famous brands as voted by young people, product category, country, age group and sex.

Investing is not only a matter of financial expertise, but also of understanding and actually feeling what we invest in. Warren Buffet does not say anything else when he describes his investing philosophy. The difficulty comes from putting it in practice.

Applying the «I only invest in what I understand» axiom of the Sage of Omaha is slightly complicated when it comes to concrete action. Imitation naturally comes to mind. However, mimicking the investment strategy of Berkshire Hathaway, the group managed by Buffet, is an option… reserved to a happy few. Negotiating special investment rights in Swiss Re or Goldman Sachs with their Chief Executive Officers is only reserved to privileged investors. Indeed, some of the biggest financial successes of the Warren Buffet were convertible debts – which are not accessible to common investors.

What would be an alternative strategy? Capitalizing on the advice of people who actually know. This might be more difficult than expected. For example, bankers or financial analysts generally «push» pre-packaged products to their clients. They certainly will not take any risk - and hence their advice carry very little potential return. The goal of a banker is first to keep his job and to get a bonus – which he will get mainly because he is still around when it is paid in March. Hence his recommendation will be to buy with the crowd, as «nobody was ever fired to have recommended to buy IBM».

The group of knowledgeable people is nor composed of journalists, who actually just repeat and echo market noises. As the financial wisdom puts it: «when taxi drivers recommend to buy a financial asset, it is time to get out of the market». Journalists are the ones who are listened by taxi drivers (or by hair dressers, manicures, masseuses,…). They are hence the closest expression of what to actually avoid when it comes to investing.

To whom to turn to then? People who know, but actually do not know that they do. Said differently, these individuals are able disclose a practical knowledge for no other purpose than establish and share a common understanding; and with the obvious interest of actually either living by or comply with a certain number of values and beliefs. These individuals are called trend setters, early adopters or disseminators. Above all, they are a source of a rich and unbiased – if maybe partial – knowledge about our modern world.

### Rule number 1: ask the teenagers

Who is then delivering an unbiased perspective on emerging trends, products and brands? Teenagers. Parents often complain about how expensive teenagers' tastes are, but this can turn out to be also a signal to start to invest in these brands. Besides brands (for example in drinks, see Figure 1), trends are maybe an easier way to address mid to long term investing purposes. Teenagers declare that their purpose is to «have a better work-life balance than their parents. They have high expectations for their free time» (European Youth Trend Report 2009).

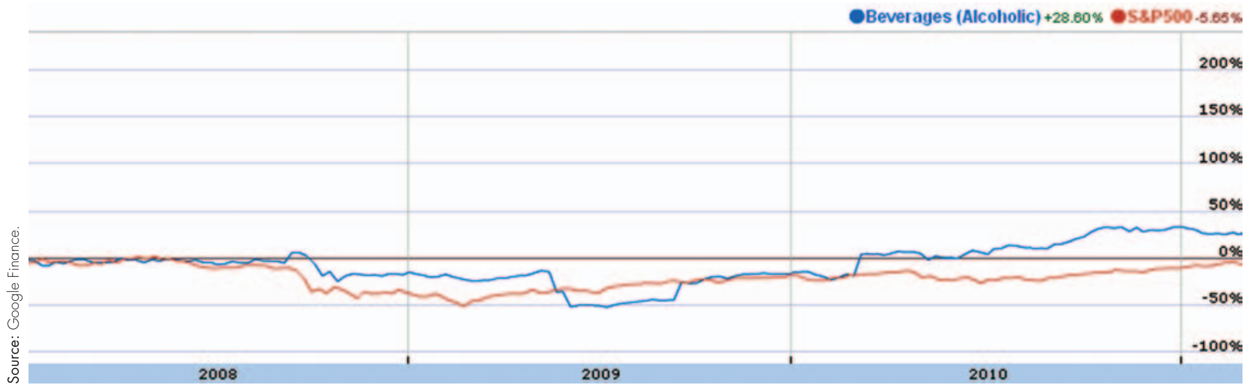



Figure 2 – Compared evolution of the Alcoholic Beverages sector and the S&P 500 (Jan. 2008 – Mar. 2011)

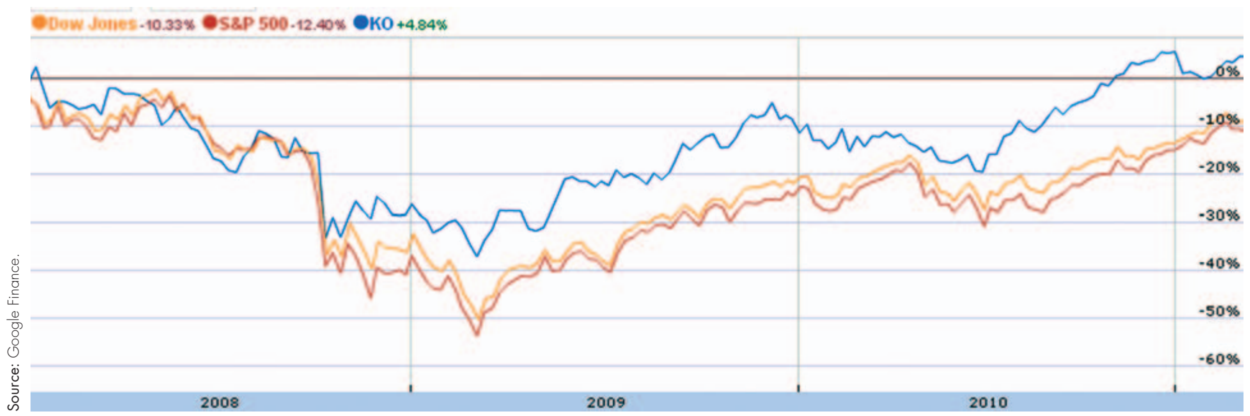



Figure 3 – Compared evolution of The Coca-Cola Company, the DJIA and the S&P 500 (Jan. 2008 – Mar. 2011)

Indeed, teenagers spend a lot of time with their friends, either eating out/drinking out, at the movies, doing sports, watching TV or listening to music, doing homework or shopping. This means that their strong leisure orientation helps them identify new trends. Nevertheless, «young people can no longer be defined as an age group, a culture, a music style, a picture, a story... A fragmented society has complex cultures. Young people regularly switch cultures and mix different cultures simultaneously.» This means for the investor a permanent attention and an ability to take rapid decisions and quite a high risk appetite – but also solid potential rewards (see Figures 2 & 3).

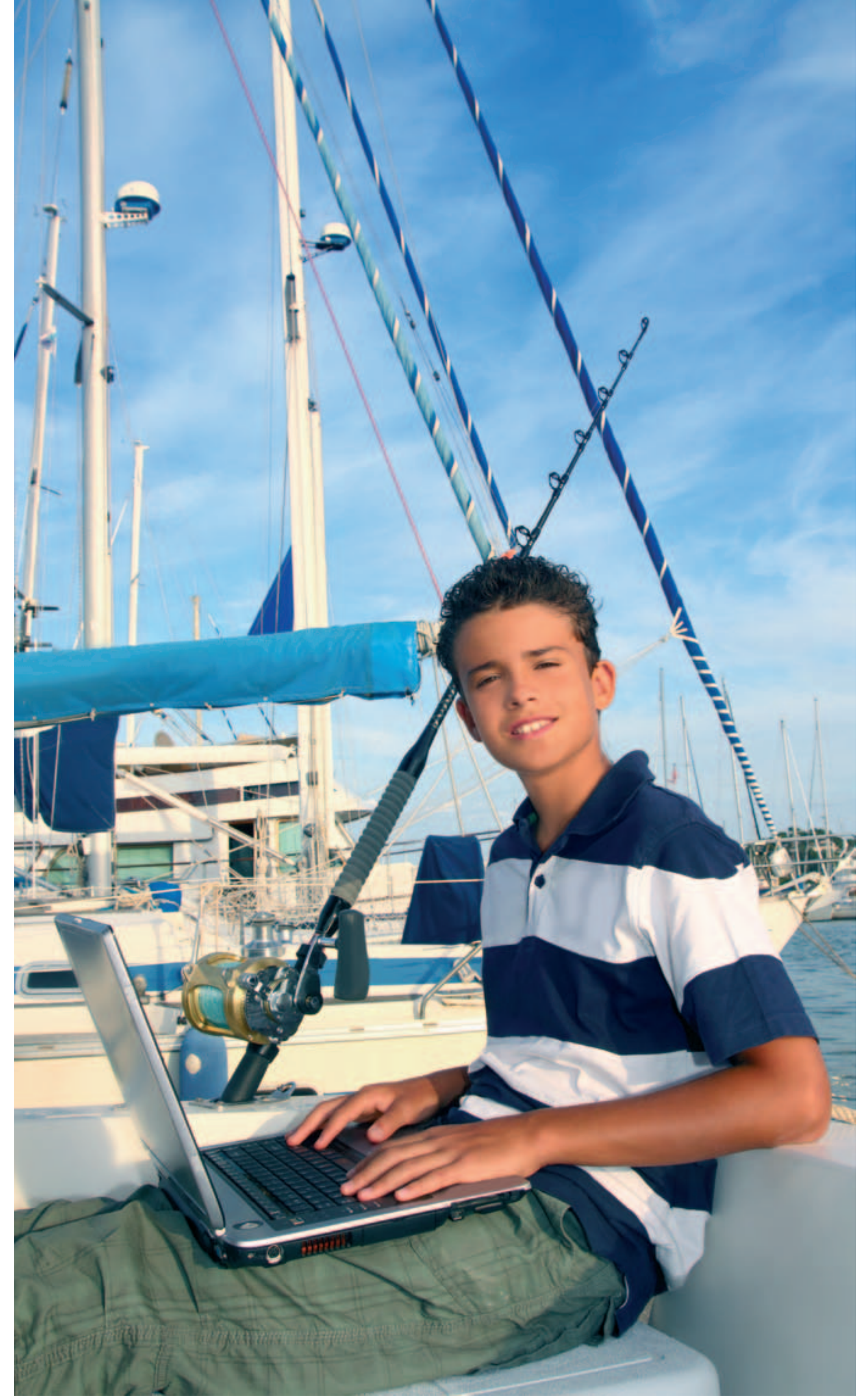
Studies have regularly shown that teenagers investing in their tastes on the stock exchange have been regularly beating the top Wall Street analysts. Most recently, Uruguayan high school students from Economics & Finance classes at the British and American Schools of Montevideo have generated a 97% and a 72% return respectively on Apple and DirecTV by smart trading and stock selection.

## Rule number 2: trust your guts

Apple, Hermès, Porsche.. are part of wish lists. Some can afford it. Why not benefit from it? The issue is: even though a consumer and an investor are the same person, they barely reunite in the same thought. Academic research have found that the human being is actually thinking differently as a consumer or as an investor. An investor thinks differently if he handles money he has earned, inherited, found in the street… or if he handles the money of somebody else.

Actually, it seems that one of the biggest challenges to everyone's investment skills is actually intelligence. When it comes to stock picking, instead of listening to emotions, impulses and feelings and try to make sense out of it, the consumer-turned-investor tends to rationalize,





find explanations and actively biases his own input. This happens also to the brightest – and usually full time employees at Wall Street banks – investors.

In a famous 1988 contest, the Wall Street Journal's journalists threw darts randomly at financial pages to pick stocks, and compared their performance with experts' picks over the course of the next six months. In 1998, the journal presented the results. If 61% of the contests were won by the experts over the darts, the performance of the experts against the index (Dow Jones Industrial Average) was less impressive: they won only 51% of the time.

What does it say to the consumer-turned-investor? That picking up stocks randomly does not work but also that putting too much brainwork in the selection is equally doomed. Rather, the investor should pick up the companies which have successfully drawn his attention as a consumer over the course of the past six to twelve months. That should provide guidelines to actually select companies which have been able to generate a steady sales increase.

## Rule number 3: «on the long term, we are all dead» (J. M. Keynes)

What if the guts remain silent? Said differently, the consumer instincts of the investors have turned out to be frugal and compliant with a sustainable development approach. There lies a different perspective, which is more focused on lifecycle and long term. The perspective of decline is increasingly managed by the ageing Swiss population. Coming to mind is healthcare (pharmaceuticals, hospital chains and managed care), which is a traditional investment sector in Switzerland. However, being a «senior» is actually a source of renewed health and happiness.

Cosmetics (anti-ageing, Botox injections), youth hormones (DHEA, hormonal treatments), plastic surgery, sports (Power Plates), managed retirement resorts, services to the person are long term where well being, longer life expectancy and activity are the key trends. As everyone will head towards this period of his/her life, why not prepare to this now and invest in it? After all, investing is to prepare for future times. Investing in what will make these future times most enjoyable could be a wise approach – and almost risk free. ■