

11 May 2026

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Market Ethos

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Patience pays off

"It never was my thinking that made the big money for me. It always was my sitting." – Jesse Livermore from *Reminiscences of a Stock Operator* (1923)

This quote is from *Reminiscences of a Stock Operator*, a timely classic about the life of Jesse Livermore. He earned the nickname 'Boy Plunger' for taking large speculative bets, including profiting massively during the crashes of 1907 and 1929. Going long or short in stocks and commodities, you might think this has nothing to do with investing today or your portfolio, but there are valuable lessons for every investor from his journey. Specifically, his acknowledgment that his profits didn't really come from making awesome well-timed trades ahead of the markets' next gyration, his profits came from the sitting and holding of positions.

Fast forward a century or so to current times, and things have not changed that much. Headlines or attention are primarily focused on the transaction. What a famous portfolio manager buys or sells garners most of the markets or media's attention. There are even Fund/ETFs that copy famous hedge fund manager's trades once made public in filings. This attention on the trade is not lost on us, based on our content's readers. Not implying we are famous but trade rationales we circulate have some of the highest open and click rates among our many publications. But guess what? It is the pre-existing holdings that often drive the performance over a given period.

So why is there such a high level of attention via the media, research reports, clicks or questions? 'What have you been buying' is a common question, while research that is an upgrade or downgrade certainly gets read more than an ordinary research update. This attention does appear logical from a behavioural perspective. Investing is dealing with a high degree of uncertainty, and nobody likes uncertainty. So, hearing that some "expert" who may be more experienced, has greater insights, or puts more work in has made a transaction piques your interest. And if it aligns with your positioning, it reinforces your thinking.

Plus, everyone seems to adore the 'hero' call: that investor or portfolio manager that exited at the top or bought at the bottom. If it is a big enough turn in the market, the subsequent asset inflows really ramp up — or there's the option to go on the speaking tour or write a book. Rockstar award!! But investing is the combination of insight and luck when it comes to great timely 'calls'. Nobody knows it is the bottom or top.

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Context matters - Investors often look at transactions or trades as insight to where an 'expert' believes the market is going. That may be the case in some circumstances, but very often it isn't. More often it is an overall portfolio decision, not necessarily a directional bet. We trimmed our gold position in September of last year, when gold was fetching a mere \$3,700/oz. Today gold is much higher. But this decision was driven more by having a good amount of gold years ago that grew into an oversized position (a good problem to have), and not necessarily a negative view on the near-term path for gold. Or, buying into the growth factor was enabled because of a low overall growth factor exposure.

Tilts or exposures matter more than individual trades – For most portfolios, especially those that don't necessarily make big swings, it is the overall exposure that matters more than a specific trade. Sure, a trade can add or subtract from these exposures or tilts, but often they are incremental. If you want to glean insights from other portfolio managers, focus on the whole portfolio and its tilts, not just the transactions at any point in time.

We are not saying trades or transactions don't matter, because the overall portfolio composition is the result of past trades. Some recent, some from years ago in many cases, or even decades. Importantly, don't view trades in isolation. To better understand a trade, it is best to understand the trade in the context of the overall portfolio. Rebalancing, taking some profits, rightsizing trades are driven more by portfolio considerations than explicit views on the markets next move. Taking advantage of potentially mispriced assets, those trades are worth more attention.

To finish on a positive, our trades over the last couple of years have contributed to performance. But still, most of the gains are coming from sitting on positions, some we have owned since inception. Patience is a very valuable attribute for successful investing.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.

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