

Smart Money: Taking things out of context

Brad Brain
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Brad Brain: "Following the Bitcoin price plunge from \$85,000 to \$50,000, I came across a video on social media where a crypto enthusiast was quoting Buffett, saying "The time to be fearful is when others are greedy, and the time to be greedy is when others are fearful." And certainly, after watching their investment lose about 40% of its value, there would be Bitcoin followers that would have been fearful." | Getty Images

Occasionally I have been asked how I come up with new material to write about every week. Coming up with ideas is usually not too hard, I just write about whatever is on my mind that week.

But sometimes I have an idea for an article, and I will push it to the side for a while, usually coming back to it later. This is one of those times. When I started thinking about the material for this column, Bitcoin was trading around \$50,000, down from its peak of about \$85,000.

Now that Bitcoin is about \$26,000, the article takes a different tone. When I started writing this, I fully expected that, in time, people would see exactly where I was coming from. I just didn't expect my point would be proven before the article was even finished.

But this article isn't really about cryptocurrencies. It's about taking things out of context.

So, here's where all this started. Warren Buffett is, of course, widely known as the World's Greatest Investor. He is also insightful and witty. His commentary is widely followed and often quoted.

But as brilliant as Buffett is, if you twist his words, if you take them out of context, you can get unpredictable results. Here is what I mean:

Following the Bitcoin price plunge from \$85,000 to \$50,000, I came across a video on social media where a crypto enthusiast was quoting Buffett, saying "The time to be fearful is when others are greedy, and the time to be greedy is when others are fearful." And certainly, after watching their investment lose about 40% of its value, there would be Bitcoin followers that would have been fearful.

What Buffett means when he says “be fearful when others are greedy” is to beware of trendy investments that are trading at unjustifiably high prices. When he says “be greedy when others are fearful,” he means to embrace the opportunity to acquire high quality investments when they are temporarily available at distressed prices. It’s another way to say “buy low, and sell high,” and the wisdom is self evident.

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So, following the 40% price decline, when the crypto guy quotes Buffett saying the time to be greedy is when others are fearful, what he is saying is that you should be buying more crypto, and buy a lot. Be greedy about it.

But here is the logical fallacy. Buffett never said this in reference to cryptocurrency. Buffett is a value investor. Indeed, he is the king of value investing. And fundamental to value investing are ideas like buying high quality businesses at a discount to the present value of their future cash flows. Good luck determining the future cash flows for crypto. They have none.

In fact, Buffett hates cryptocurrency. There is no ambiguity about this. He famously called it “rat poison, squared.”

Along the same lines, at the Berkshire Hathaway annual meeting in May, Buffett spoke about inflation. The crypto community seized his words, using them lend legitimacy to crypto’s viability. But at that same meeting, Buffett also said that he would not buy all the Bitcoin in the world for \$25.

It’s absurd to quote Buffett as a rationalization to buy crypto. And yet people do it all the time. But taking words out of context is no assurance at all that you will get the result you are hoping for. Sure enough, only weeks later after I saw that crypto guy’s video saying to be greedy when others are fearful , Bitcoin has lost 50% of its remaining value.

Here’s the point. Financial planning is not as simplistic as just finding a flashy catch phrase and basing your planning strategy on it. Even if the flashy catch phrase is from Buffett.

Especially if you take the flashy catch phrase out of context.

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