BIRLING CAPITAL ADVISORS, LLC

Think Strategically

Investing Myths: What's True and What Isn't

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Epigraph

"Puerto Rico once feared a creature that appeared to thrive in the dark—El Chupacabras—a myth kept alive through repetition, emotion, and imagination. In investing, the monsters are different, but the pattern is the same: we give power to stories that have no evidence, act on fears that have no foundation, and forget that myths disappear the moment we shine data and discipline upon them".

What Is a Myth?

A **myth** is more than an incorrect belief—it is a story repeated so often that it acquires the weight of truth. Myths arise because humans seek simple explanations for complex realities. They provide comfort when the world feels uncertain, clarity when information is scarce, and familiarity when change feels threatening.

Some myths are universal:

- **"Humans only use 10% of their brains":** A myth debunked by decades of neuroscience. Brain imaging shows activity throughout nearly the entire brain.
- **"Vikings wore horned helmets":** A story created by costumers in 19th-century opera productions. Archaeology proves Viking helmets never had horns.

And in Puerto Rico, where folklore is woven into our culture:

- **El Chupacabras:** In the 1990s, Puerto Rico became the epicenter of a global phenomenon. People reported sightings across towns, talk radio shows tracked its "movements," and livestock deaths were attributed to this creature. The Key person we all remember was the then-Mayor of Canovanas, José "Chemo" Soto, who would often embark on nighttime Chupacabras hunting expeditions, but he never caught the Chupacabras. Despite the cultural fascination, no biological evidence ever confirmed its existence. The beast vanished after Chemo Soto died—but the story remains.

These myths survived because they were repeated, familiar, and emotionally satisfying—not because they were true.

Financial myths work the same way.

They arise from fear, uncertainty, or misunderstanding. They move through conversations, media headlines, family advice, and old sayings. And they shape decisions that affect real money, real futures, and real lives.

- A myth is powerful because it is repeated.
- A myth is persistent because it feels comforting.
- A myth is dangerous because it is untested.

Understanding and dismantling these myths is essential for investors—especially those seeking to build long-term wealth in an increasingly complex world.

The Investing Myth Index: Why We Must Address These Misconceptions

Before diving into each myth, it is essential to understand *why* we are confronting them.
Myths are not harmless—they are **obstacles** that distort decision-making, weaken returns, and compromise financial independence.

Why These Myths Matter

1. **They reduce long-term wealth:** Following myths leads investors to delay investing, take unnecessary risks, avoid equities, or chase bad strategies.
2. **They amplify emotional decision-making:** Myths thrive when fear is highest, causing panic selling, market timing attempts, and poor reactions to volatility.
3. **They disproportionately harm new and small investors:** Those starting with less capital cannot afford to lose years of compounding by following misinformation.
4. **They weaken our financial culture:** An investing public guided by anecdotes instead of data saves less, invests less, and builds less long-term capital.

Why Address Them Now

We are in an era where:

- Social media spreads misinformation instantly
- Headlines create emotional reactions
- Retail trading participation is at historic highs
- New asset classes (crypto, AI-driven funds, alternatives) add complexity
- Market volatility tests investor psychology frequently

In this environment, **financial education is a responsibility**, not a luxury.
Birling Capital is committed to elevating the public's financial understanding—especially in Puerto Rico—so that decisions are made with clarity, confidence, and long-term vision.

Why These Specific Myths Were Chosen

These myths:

- They are the most commonly repeated
- Cause the most consistent financial harm
- Reflect emotional biases nearly all investors share
- Affect multiple generations
- Prevent wealth creation

Purpose of the Myth Index

This work aims to:

- Replace fear with strategy
- Replace confusion with clarity
- Replace folklore with data
- Replace short-term noise with long-term vision
- Replace emotional reactions with disciplined decision-making

When myths guide investors, they lose. When knowledge guides them, they grow.

Myth 1: "Sell in May and Go Away".

This myth originated centuries ago when wealthy Europeans left cities for the summer and exited the markets. Today's 24/7 global markets render this folklore meaningless. Despite its popularity, the idea that markets weaken during summer months is not supported by historical evidence.

The Data (1950–2024):

- **June:** +0.25%
- **July:** +1.13%
- **August:** +0.73%
- **September:** –0.59% (the only consistently negative month)

A study by the *Journal of Financial Economics* confirmed that once taxes and fees are included, the strategy **fails to outperform** staying invested.
Fact: Markets do not take vacations. Exiting in May is a relic of a world that no longer exists.

Myth 2: "Market Timing Is Key to High Returns".
This is one of the most dangerous myths. The desire to predict the perfect moment reflects human psychology—not market reality. Many believe timing is key, but missing just a few top-performing days significantly impacts long-term returns. Missing even a single day each year can significantly impact portfolio performance over time.

The Math (1999–2024):

- Fully invested: **7.98% annualized**
- Miss 10 best days: **4.54%**
- Miss 20 best days: **2.29%**
- Miss 50 best days: **–2.62%**

The Crucial Insight
Six of the 10 best market days in history occurred within two weeks of the worst days.
Investors who flee during fear miss the rebound that creates long-term wealth.
Fact: Wealth comes from Time in the market, not timing the market.

Myth 3: "Now Is the Wrong Time to Invest".
Every era feels uncertain—but markets have survived wars, pandemics, crashes, recessions, oil shocks, inflation, and political turmoil. Timing the market risks missed gains. Data proves staying invested beats emotional decisions.

Market Performance After Crises:

- **2008 Crisis:** $10,000 → $28,000 (10 years)
- **Dot-Com Crash:** $10,000 → $19,200
- **Black Monday (1987):** $10,000 → $41,000
- **COVID-19 Crash:** $10,000 → $18,000 (just 3 years)

The S&P 500 rose from **16 points in 1950** to over **6,840 points today**, through every crisis imaginable.
Fact: The wrong Time always feels like now. The right Time is always long-term and consistent.

Myth 4: "Holding Cash Is Better Than Investing".
Cash offers emotional safety—but inflation erodes purchasing power relentlessly. Holding cash feels safe, but inflation erodes its purchasing power. Over time, investing typically outperforms cash savings, especially after inflation.

Purchasing Power Decline
A 1913 dollar is worth **3 cents** today.
$100,000 Over Time (1992–2025):

- S&P 500: **$2.84M**
- Russell 2000: **$1.72M**
- Gold: **$979,540**

- Long-term bonds: **$559,560**
- Money market: **$228,720**
- Cash: **$54,000 in real value or 46% Less**

Fact: Cash is safe for emergencies—but deadly for long-term goals.

Myth 5: "Stocks Are Too Risky".

Volatility is not the same as risk. Risk means *permanent loss* and Volatility means *temporary movement*. Over time, volatility may lead to growth potential.

Probability of Positive S&P 500 Returns:

- 1-year: 75%
- 5-year: 88%
- 10-year: 94%
- 20-year: **100%**

Long-Term Returns

- Stocks: ~10%
- Bonds: ~5%
- Cash: ~3%
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Fact: The most significant long-term risk is avoiding stocks.

Myth 6: "Investing Is Only for the Rich".

The power of compounding can grow small, regular investments over time, making investing accessible to a wide range of income levels.

This myth is destroyed by math.

- If you invest **$50 every month**, without skipping, for **25 years**.
- You will have put in a total of **$15,000** (because $50 × 12 months × 25 years = $15,000).
- Your money is **invested, not left in cash**.
- In the **60/40 portfolio** (60% stocks, 40% bonds), we assume it grows at about **6.5% per year** on average. That gets you to about **$48,000** after 25 years.
- In the **S&P 500 index fund**, we assume it grows at about **8% per year** on average. That gets you to **more than $76,000** after 25 years.
- We assume you **reinvest all dividends and interest** rather than spend them.
- We assume **no withdrawals**, no stopping, and that you use **low-cost funds** so fees don't eat your returns.

In plain terms:

With just **$50 a month**, patience, and discipline, a regular person—not just "the rich"—can turn **$15,000 contributed** into **$48,000–$76,000+** over Time.

Fidelity Study

88% of millionaires are self-made, and most used employer retirement plans—not inheritances.

Fact: Investing is not for the rich. It is how people become rich.

Myth 7: "Investing Is Like Gambling".

Gambling is negative-sum. Investing is positive-sum. Unlike gambling, which relies on chance, investing is about compounding growth and has historically rewarded long-term commitment with positive returns.

Casino Probabilities:

- Craps: 50%
- Roulette: 47–49%
- Blackjack: 49%
- Baccarat: 44%-46%

Market Probabilities:

- 10-year rolling returns: 95% positive
- 20-year rolling returns: 100% positive

Fact: Gambling depends on chance. Investing depends on productivity and progress.

Myth 8: "Fallen Stocks Will Always Bounce Back".

Many companies never return to previous highs. Contrary to the belief that they must rebound at some point, some stocks might never recover.

Examples of Permanent Declines:

- **AIG**: –95.1%
- **Citigroup:** –84.9%
- **Perrigo:** –86.9%
- **Walgreens:** –88.1%

Key Study

40% of stocks experience a permanent decline of 70%+ or more. Only **4%** of stocks create all long-term market wealth.

Fact: Not all stocks bounce back. Quality and diversification matter.

Myth 9: "The More You Own, the Better Diversified You Are".

Diversification is not about quantity—it is about correlation. Rather than just increasing holdings, true diversification reduces concentration risk without increasing overlap.

Portfolio Comparison:

- Sector ETF: 531 holdings, **15.16%** in top 10
- Broad index: 2,935 holdings, **27.83%** in top 10

Too many investors unknowingly own multiple funds with the same top holdings.

Fact: True diversification reduces concentration, not adds duplicates.

Myth 10: "Successful Investors Take Big Risks".

Market legends succeeded through patience, not bold bets. Akin to avoiding "putting all your eggs in one basket" up front, contributing over time often provides for a smoother–and more rewarding–investing journey.

Evidence:

- Regular contributions beat lump-sum guessing 80% of the Time
- Low turnover portfolios outperform high turnover ones
- Long holding periods correlate with higher returns

Example

A disciplined investor who contributes $250 per month (growing at 3% annually) accumulates significant wealth with minimal drama.

Fact: Consistency, not aggressiveness, builds fortunes.

Myth 11: "Percentage Gains and Losses Are Equivalent".

Losses hurt more because of mathematical asymmetry.

Recovery Requirements:

- 10% loss → 11.1% gain
- 20% loss → 25% gain
- 50% loss → 100% gain
- 75% loss → 300% gain

Fact: Avoiding significant losses matters more than scoring big wins.

Myth 12: "Gold Is a Safe Haven".

Gold protects during extreme crises—but not over long periods.

15-Year Returns

- S&P 500: 14.9%
- Gold (GLD): 6.3%

Historical Flat Periods

- 1980–2000: gold lost **55% real value**

Fact: Gold is a hedge—not a long-term strategy.

Myth 13: "A High Dividend Yield Means a Safe Investment".

Investors often consider dividends as indicators of secure investments. However, elevated yields can be a signal of underlying company challenges, potentially becoming “dividend traps” that threaten long-term performance. Some investors perceive high dividend yields as indicators of secure investments. However, elevated yields can sometimes signal underlying company challenges, potentially affecting long-term stability.

Dividend Trap Examples

- AT&T
- Altria
- Xerox

Fact: A high yield is often a warning sign, not a reward.

Myth 14: "Bonds Are Risk-Free Investments".

Bonds are not entirely risk-free as even the safest bonds carry risk, and they can be affected by inflation, interest-rate, and default risks.

The Puerto Rico Bond Crisis: A Real-World Example of Default Risk

Puerto Rico provides one of the clearest modern examples that bonds are not risk-free.

For decades, investors believed Puerto Rico general obligation bonds were untouchable because they carried a constitutional guarantee: **“The payment of principal and interest on GO debt shall be paid first”.**

Yet in 2016, Puerto Rico became the largest municipal bond default in U.S. history, with more than $70 billion in debt entering restructuring.

Holders of Puerto Rico bonds—including retirees and conservative investors—saw their investments lose 40%, 60%, and in some cases more than 80% of their value.

This wasn’t due to market volatility or temporary price fluctuations.

This was a permanent loss of capital—the very risk investors thought bonds helped them avoid.

Bond Risks

All bonds, including government bonds, are exposed to the following risks:

- **Interest Rate Risk** – When rates rise, bond prices fall.
- **Inflation Risk –** Inflation eats away at the real value of fixed payments.
- **Credit Risk** – Issuers can default, restructure, or miss payments.
- **Duration Risk –** Longer-term bonds swing more in value.
- **Liquidity Risk** – Some bonds cannot be easily traded without significant discounts.

Fact: Bonds stabilize portfolios—but they are not safe havens.

The Final Word: The Truth Behind the Myths

Myths endure because they are simple, familiar, and comforting. They offer an easy refuge when the world feels uncertain. But comfort is not a strategy—and in investing, comfort can be costly. Every myth we dismantle in this report reveals a deeper truth: wealth is not built by what feels right, but by what *is* right.

Successful investors do not rely on folklore, seasonal sayings, or emotional shortcuts. They rely on habits, discipline, and a relentless respect for the data that markets continuously provide. They understand that volatility is temporary, but missed opportunities are permanent. They know that risk is something to be managed, not feared—and that time in the market always defeats the temptation to time the market.

True wealth is built through:

- **Long-term consistency:** the quiet, steady compounding of contributions that continue through good times and bad.
- **Behavioral discipline:** resisting panic, avoiding euphoria, and staying anchored to a plan when emotions scream otherwise.
- **Strategic diversification:** owning investments that behave differently so one season of fear does not derail a lifetime of progress.
- **Smart risk management:** protecting against catastrophic losses while allowing upside to flourish.
- **Patience:** honoring the fundamental truth that markets reward those who wait.
- **Evidence-based decision-making:** grounding every choice in data, history, and strategic analysis—not anecdotes or assumptions.

At Birling Capital, we understand that **"Markets are living conversations, expressed in numbers. Data gives them voice — revealing how they feel, where they move, and how they believe. From uncertainty, we distill insight, from strategy, foresight. We speak this language fluently".**

By replacing myths with knowledge, investors gain clarity, confidence, and the power to build enduring wealth.

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