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How I Learned to Stop Worrying and Embrace Risk

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Do you remember the 1964 film "Dr. Strangelove or: How I Learned to Stop Worrying and Love the Bomb," in which Peter Sellers played a crazy nuclear physicist? Well, I actually met the real life Dr. Strangelove, Edward Teller, who fairly - or unfairly - was believed to be the inspiration for that part.

It was 1960, and my sister was just about to start her first year at UC Berkley. Our family was on campus for a student/parent orientation day. Among the activities was a tour that allowed us to see the facilities and to meet some of the more famous faculty members. One of our stops was in Sproul Plaza, where we sat by the fountain and listened to Dr. Teller tell an amusing story about the development of the atomic bomb. He explained that he was briefing some army officers when a general interrupted him with a question. The general wanted to know if the fission process the scientists were trying to create could result in an uncontrollable chain reaction that couldn't be stopped. Teller responded. "It is possible, but not very probable." Looking concerned the general asked, "How probable?" Teller answered by explaining that the room in which they were sitting was full of oxygen molecules which were relatively evenly distributed. However, it was possible - but not very probable - that all the oxygen molecules could end up congregated under a desk, causing everyone to suffocate. After contemplating this information for a moment, the general turned to an aide and ordered, "Open a window."

The general obviously wasn't comfortable with uncertainty, but Teller was. Teller knew that the laws of quantum physics are complex. With trillions (if not more) individual actions affecting the distribution of oxygen molecules, it is impossible to predict their dispersion with certainty. Predicting is impossible - not because the actions are random - but because there are too many variables to consider.

Investing is similar to quantum physics in that it involves a complex system with an indeterminate amount of variables. Counter intuitively, in financial markets we make money not by fleeing risk, but by embracing it. Weston Wellington of Dimensional Funds, explains, "We don't make money in the stock market in spite of the risks. We make money in the stock market because of the risks." To understand this dichotomy, consider Biff in *Back to the Future II*. He went back in time (by the way, in violation of the laws of physics) to give his 1955 self a 1985 sports almanac. With this knowledge, Biff was able to amass a fortune betting on sports events. However, if you think about it, who would ever bet against Biff if he never lost? With no uncertainty, no one would take the other side of his bets.

Stock markets function similarly. Return comes from uncertainty. "Risk and return are opposite sides of the same coin," wrote Russ Wiles in his article, *Embracing Risk*, for the Arizona Republic. "Stocks are clearly more volatile and dangerous than bonds or certificates of deposit. Consequently, they must entice investors with higher expected returns. Otherwise, nobody would buy stocks. Instead, everyone would keep all their cash in CDs, Treasury bills, or under the mattress."

Embracing risk may seem as crazy as Dr. Strangelove learning to stop worrying and love the bomb. But I'm not asking you to love risk, I myself don't. I'm asking you to understand it and act on that understanding. By accepting the complexity of financial markets and the uncertainty it creates, you will be able to take advantage of the limited number of variables you can control and stop worrying about the myriad of ones you can't. That's accepting life as it is, not as you want it to be, and that's not so strange.