



Maintaining Discipline

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Not long ago I received an email from a niece, Claire, who robs trains on weekends. Actually she does Old West reenactments. This particular email related a conversation she had with the engineer of a locomotive she had just held-up. Having discovered in her genealogy pursuits that her great-great grandfather (my great-grandfather) had been killed by an exploding boiler on a steam ship, she had some questions about the causes of such explosions. Claire explained that our ancestor, John Bradbury, had been killed in 1853 aboard the Jenny Lind, a steamboat operating in the San Francisco Bay. What she wanted to know was, "What was different about steam-powered boilers now versus those that were exploding so frequently in the mid-1800s?"

The answer surprised her, "Nothing." The materials, the wall thicknesses, rivets and basic design practices all remain relatively unchanged. What has changed are the maintenance practices. Today's boilers are cleaned every month and they run only softened water through them. In John's time, boilers were regularly inspected and the Jenny Lind had just recently passed such an inspection. Since there were no obvious structural problems, this suggests that the engineer may have been correct in his assertion that the explosion was due to maintenance problems.

According to Claire, the engineer described two scenarios that could have caused the Jenny Lind's boiler to explode: low water levels or sediment in the water. Interestingly, I have found that retirement portfolios rupture for similar reasons. Allowing water levels in a boiler to drop to hazardous levels is a perfectly avoidable catastrophe caused by negligence. Likewise, low funding levels in retirement accounts are caused by inattention. Throughout the accumulation stage, workers need to diligently fill-up their retirement accounts. Once distributions begin, retirees must constantly monitor portfolios to ensure that excessive spending doesn't dangerously drain their accounts.

Even if water levels are adequate, sediment accumulation can cause a boiler to suddenly explode. It's my understanding that excessive heat retained in the sediment weakens adjacent walls. Similarly, retirement portfolio failures are caused by overheated emotions that undermine sound investment strategies. For boilers, the solution to this problem is soft water that is free of impurities. For portfolios, the solution is disciplined strategies that are free of counterproductive emotional responses.

Fear and greed are two of the most powerful emotions that muddy our thinking. Without a clear plan that is diligently followed, the pressure to sell stocks in declining markets and buy them in rising markets is too strong to resist. But instead of learning our lesson after repeated failures to maintain discipline, investors are often enticed to avoid future disasters by filling their portfolios with murky alternative investments and other complex strategies.

Sediment in the water was most likely the cause of the Jenny Lind explosion, because in the 1800s steamships that traversed the southern end of the bay regularly filled their boilers with muddy water from the shallow sloughs in the area. Whether it was sediment or low water levels, the remedy is the same: a disciplined maintenance program. Similarly, for avoiding financial failure in retirement the solution is found in preserving adequate fund levels and maintaining disciplined investment strategies.

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