



Oh, About a Thousand Times

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“Oh, about a thousand times,” was his answer to both questions. But even though the words were the same, the sentiments were different. The first was factual and the second revealing.

I had gone out to play golf and ended up being paired with a gentleman I had never met. Upon learning that he was a retired Navy pilot, my curiosity caused me to ask my first question. “Did you ever land on an aircraft carrier?” And his affirmative response led logically into my second question. “Were you ever afraid?” The fact that a thousand repetitions hadn’t eliminated his fears was very telling.

According to G. Warren Hall, a NASA test pilot and retired Navy pilot, it is always scary landing on an aircraft carrier, but there is noticeable “pucker factor” to night landings. He says, “pucker factor” is knowing you’re betting your life on a nearly perfect performance - but with less-than-perfect information, in a harsh environment, with anxiety at its peak, and when you don’t feel comfortable because you don’t fly enough at night to feel comfortable or proficient.”

In his book, *Your Money and Your Brain*, Jason Zweig says it is “...no different when it comes to money. Every investor’s worst nightmare is a stock market collapse...” And since the Great Recession of 2008, the pucker factor of that fear has greatly intensified. John Bogle, the founder of Vanguard Funds, in a New York Times article, described the current investment environment as “...the worst...for investors that I have ever seen – and after more than 60 years in the business, that’s saying a lot.” In the *Black Swan*, Nassim Taleb says, “We have never lived before under the threat of a global [financial] collapse... I shiver at the thought.”

Plane crashes and stock market crashes are both so frightening, explains Zweig, because the mental imagery of “...the consequences of a crash...[are] so horrific, while the probabilities of a crash evoke no imagery at all.”

Daniel Kahneman, in *Thinking Fast and Slow*, adds that “...we tend to judge the probability of an event by the ease with which we can call it to mind.” That’s why a survey, referenced by Zweig, found that investors believe “...there’s a 51% chance that in any given year, the U.S. stock market might drop by one-third. And, yet, based on history, the odds...are only around 2%.”

While you would have to be a fool not to be afraid of the stock market, prudent investors need to rationally assess the risk. By obsessing on the consequences and overestimating the probability, we tend to overstate the risk. As my studies and Zweig’s writings explain, “The real risk is not that the stock market will have a melt-down, but that inflation will raise your cost of living and erode your savings.” He continues by saying the vivid fear of a stock market crash causes investors to “...overlook the more subtle but severe damage that can be dealt by the silent killer of inflation.”

My new golfing buddy confirmed that the “pucker factor” of a night carrier landing is an eleven on a scale of one to ten. He told me, “You can’t imagine the adrenaline rush. It’s terrifying and exhilarating at the same time.” With emotions running so high, he said, pilots need to strictly follow procedures to keep from making deadly mistakes. Investors need to do the same thing. That’s why, as fiduciaries, we follow a prudent process that balances risk and return. So “...long-term investors must hold stocks, because risky as the market may be, it is still likely to produce better returns than the alternatives,” says Bogle. And if I have said that once, I have said it “Oh, about a thousand times.”

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