



Reality

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“Reality!” The word surprised me enough that I didn’t immediately respond, so the receptionist continued, “Hello? Hello?” I had called an 800 number to inquire about some financial planning software and had not paid attention to the name of the company. To the twenty-something young woman answering the phones, “Reality” was just the name of her employer. But to a graying hippie who came of age in the Age of Aquarius “reality” had a whole different meaning.

As a young man, my inner search for reality manifested itself in an outward wandering. After college, I put on my Kelty backpack, stuck out my thumb, and hitchhiked around the country for two years. By the time I finished, I was pretty sure I had figure out what was real. However, as I have aged, I have come to appreciate the words of the 18th century evangelist, John Wesley. “When I was young I was sure of everything; in a few years, having been mistaken a thousand times, I was not half so sure of most things as I was before; at present, I am hardly sure of anything but what God has revealed to me.”

Wesley observed what Plato understood and neuroscience has more recently explained: reality is elusive. It’s elusive because, according to the Bible, “...we see in a mirror darkly.” According to Plato, we “...see only...shadows...” And, according to neuroscience, how our brains interpret what our senses see may not be an accurate reflection of reality.

This distorted perception of reality causes real problems for investors because, it “...drives us to do things that make no logical sense,” explains Jason Zweig. In his book, *Your Money and Your Brain*, he describes the illogical things we do and why our brains make us do them.

“Your brain is better at asking ‘How big is it?’ than ‘How likely is it?’ Thus, the bigger the potential gain, the greedier you will feel regardless of how poor the odds might be.” “The pursuit of patterns in random data is a fundamental function in our brains...[that makes us] believe that we are smart enough to forecast the future.” Overconfidence in response to a run of good luck, “...can fill you with a sense of false security...that...can lead you straight into investing danger.” Fear, the most powerful investment emotion, causes us to “...blink in the face of risk... [which] is often one of the riskiest things an investor can do.” “Looking back, it is the errors of omission, not commission, that bother investors more. And yet, oddly enough, their actions almost certainly cost more money than their inactions.”

Since our brains are hardwired to make us illogical investors, Zweig believes, “The single greatest challenge you face as an investor is handling the truth about yourself.” The truth is that much of what you think you know about investing is wrong, but changing your perceptions will be hard. As Plato pointed out in the Allegory of the Cave, when the captive is released, “Will he not fancy that the shadows which he formerly saw are truer than the objects which are now shown to him?”

Conversely, Zweig says, “The intelligent investor is a realist...who [understands] financial risk lies not only where most of us look for it—in the economy or in our investments—but also within ourselves.” That’s why, like Morpheus in the Matrix, “I’m trying to free your mind...but I can only show you the door.” You have to “walk through it” or, like Cypher, you can decide that “ignorance is bliss.” It’s your choice. You can be captivated by the shadows or you can call my 800 number and choose to face reality.

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