



The Numbers Guy

GUERDON T. ELY, MBA, CFP[®], AIFA[®]

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I have always been known as a numbers guy. So, when my pastor said that there were "...things too wonderful for words," I leaned over to my wife and whispered, "That's why God invented numbers."

The "numbers guy" was a nickname I picked up in the late 90s when I was writing software for required distributions from retirement accounts. At the time, there was a small group of attorneys and CPAs who were specializing in the field and a few of them used me to double check the numbers for their speeches and writings. Through their acknowledgement of my contributions, I built-up a little bit of a national reputation for my skill with retirement distribution numbers. My software programming not only enhanced my reputation but also improved my mathematical abilities. I learned how to calculate annuity factors using interest rates and mortality tables, but to do so I needed the help of a highly respected actuary.

Over the years, I have stayed in touch with this actuary, a real "Numbers Guy." Recently, he sent me the following email in response to a speech I had given called, "We Hate Uncertainty."

'I am an actuary – OF COURSE I hate uncertainty. So much so that in the process of admitting that I cannot peg the future with certainty in absolute terms, I pretend that I can peg it as a "statistical certainty" using interest rates and mortality tables – all the while assuming interest rates and future mortality must of necessity fall into patterns like past interest rates and mortality. But there is no necessity to that whatsoever. I can think up any of ten simple changes in culture, government, or science that would probably invalidate those past rates as even "corridor" predictors of future rates. So while I make everyone more comfortable with my expert analysis of the past to constrain the projections of the future, the future keeps coming along in its own way completely unaware that it is supposed to fit a certain model.'

Using differential equations (calculus), my friend can calculate how to fund a retirement plan, an annuity, or even social security. However, like Isaac Newton the inventor of calculus, he is aware of its limitations. Newton lamented, "I can calculate the motions of heavenly bodies, but not the madness of men." Predicting planetary movements is precise because the parameters describing the position, size, and shape of their orbits are all known. Madness enters the picture when we believe economic projections can be calculated with equal accuracy. They can't, according to Nobel laureate Friedrich August von Hayek, because, "Unlike...the physical sciences, in economics... the aspects of the events...which will determine the outcome of a process...will hardly ever be fully known or measurable." That's why Jason Zweig in a 2011 Wall Street Journal article observed "...people with years of experience, massive expertise and mountains of data...so often get the future wrong...The future is the realm of surprises; no one, no matter how expert, can reliably foresee what will happen and how people will react to it."

As a "numbers guy," I cringed recently when I heard a CNN pundit refer to Congressional Budget Office (CBO) numbers as "indisputable facts." At best they are only educated guesses. Regrettably, the newscaster's comment represents a public perception that certainty and predictability exist where they don't. Isaac Newton called this "madness", Zweig the "prediction addiction," and von Hayek "The Pretense of Knowledge." Whatever you call it, the reality is that economic and financial forecasts aren't reliable. So while numbers maybe more wonderful than words, they aren't prophetic. We live in a world that is far less knowable, measurable, and predictable than we want to admit. And that's why God also invented hope.

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