



Think About It!

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"Think about it." It is a comment I have often heard because I tend to talk faster than I think. In this case, however, I was the one using the expression in response to a statement by my ninety-two year-old father. We were visiting the gravesite of my mother when he became agitated and angrily remarked, "They have both your mother's date of birth and death on the marker, but they only have my date of birth." After a slight pause I interjected my sarcastic suggestion, which was accepted with a grin and a chuckle after he took a moment to think about it.

While Dad's lapse in logic can be explained by age and pain medications, the rest of us have no such excuse for the really dumb things we often say and do when we don't take the time to stop and think. Without thoughtful reflection we get caught up in the fallacy of familiarity. We become so comfortable with the way we are doing things that we never stop to consider if they are right. Therefore, like Rodin's statue of The Thinker, we need to find a solitary place to just sit and think. For me, one such solitary place was a little rock shelf on the top of the aptly named Solomon Peak, in the Coastal Range of northern California.

At an altitude of over 7,500 feet that was only accessible by horseback or foot, it was definitely a place where you could "get away from it all." Like Dante, which The Thinker represents, I sat on that lonely mountain and contemplated the Divine Comedy of life. However, having more in common with Dobie Gillis than Dante Alighieri, I usually came up with more questions than answers. And most of my questions started with either "why" or "how."

Recently I was reading The Squam Lake Report, which explained "why" we had the World Financial Crisis and "how" we can prevent it from reoccurring. One passage in particular encapsulated the unthinking actions that ended up causing so much pain. "The self-serving behavior that many of our recommendations target - whether by traders, senior management, or the firm's owners - need not be strategic, intentionally malicious, or even conscious. Consider a trader who inadvertently develops an investment strategy with highly probable gains and improbable but large losses. Like a firm that sold earthquake insurance, the strategy may produce a long string of impressive returns before one year of losses wipes out many years of profit. If so, during the good years the trader will be celebrated for his or her brilliance, rewarded with large bonuses, and given more resources to manage. Many sophisticated traders and hedge funds were not aware of the earthquake risks inherent in many of their strategies..."

Looking at the paragraph you can understand why markets melted down and how those issues relate to our personal financial decision making. It all begins with not really thinking about what we are doing. Repeated success creates a euphoria that blinds us to the risks we are taking. We become convinced that whoever is running this investment is a genius. As a result, we pour more and more money into what seems to be a sure thing. Unfortunately, our comfort is based more on fallacy than fact. When our luck finally runs out, a guaranteed winner turns into a big loser.

I'm no Solomon, but I have studied a lot about investing and what I have concluded is that you can't win the investment game but you can lose it. You can't win because you can limit but not eliminate risk. There are way too many variables in the economy and in your personal life to be able to put together an investment plan that is "guaranteed" to work. So if someone tells you they have found the perfect plan or product, the only thing I can say to you is, "Think about it."

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