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summaries

SIGMA INVESTMENT COUNSELORS

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SAME AS EVER

Last week, many of our Sigma team members attended the annual CFA forecast luncheon at The Fox Theatre. This is an event where Detroit investment analysts gather to listen to a keynote speaker discuss the current economic and investment landscape to 'forecast' what may be in store for the next year.

I was excited to see that this year's speaker was Morgan Housel, bestselling author of *The Psychology of Money*. I wrote about this book in our newsletter last February and it is still my number one recommendation for 'books on investing'. His second book, *Same as Ever*, is another captivating collection of easy-to-read stories. This time, Housel focuses on what never changes in a changing world. Many of the stories can be applied to personal finance.

Invest in preparedness, not prediction

Housel contends that the most impactful shocks in history are those which came out of nowhere. Pearl Harbor, 9/11, The Great Financial Crisis of 2008, COVID-19. Take for example, a poll from the members of the National Economic League in 1930 (technically one year after the start of the Great Depression), which ranked the biggest problems facing the United States. Prohibition was at the top of the list, while unemployment came in at number eighteen. Unemployment subsequently peaked at 25% in 1933.

Housel references the annual forecast issue of *The Economist*, which comes out each January. In the 2020 issue, there was not a single mention of a worldwide pandemic. In 2022, there was no prediction of Russia invading Ukraine. None of the so-called experts saw these events coming.

The resulting advice in the context of personal finance is to invest in preparedness, not prediction. Accept that the next big shock will happen, but that the timing and cause will be unpredictable. Housel suggests "The right amount of savings is when it feels like it's a little too much. It should feel excessive; it should make you wince a little. The same goes for how much debt you think you should handle – whatever you think it is, the reality is probably a little less."

Pessimistic optimism

"Save like a pessimist and invest like an optimist". Housel shares the story of Bill Gates, who was wildly optimistic about the future, where there would be a computer in every home. He was so optimistic that he dropped out of college at age nineteen. At the same time, he always insisted on having enough cash on hand at Microsoft to be able to run the business for a full year with no revenue. He was acutely aware of the fact that in order to succeed in the long-run, the company would have to endure continual short-term bumps in the road.

Throughout history, the long-term tends to turn out well, while the short-term can be exceedingly difficult. You have to be set up to survive the short-term in order to enjoy the long-term. One should not be surprised by or try to continually sidestep short-term difficulties. At the same time, one should not underestimate the power of what can be achieved over the long-term. An appropriate blend of short-term pessimism and long-term optimism can be ideal.

On the topic of investing, the author writes about his own approach. "More than I want big returns, I want to be financially unbreakable. And if I'm unbreakable, I'll be able to stick around long enough for compounding to work wonders. If you understand the math behind compounding you realize the most important question is not 'How can I earn the highest returns?', It's 'What are the best returns that I can sustain for the longest period of time?''"

Good news vs. bad news

There are several chapters in the book that address the news. First, is the fact that 100 years ago, one's consumption of news was almost entirely local. In any one city or town, the odds of something like a murder on any given day were quite small and as a result, the local paper covered very neutral-to-positive content. The radio changed this. TV took it one step further. The internet made global news instantaneous. Social media took things exponential. While the odds of a murder in one's home town have fallen over time (i.e. your hometown is likely safer today than it was 100 years ago), the odds of a murder or war or genocide somewhere in the world on any given day is 100% - always has been. The primary difference is that we've gone from seeing horrific events in the news 'almost never' to 'every day'.

Second, is the fact that bad news is far more seductive than good news. Bad news gets viewers. Housel points out: "A lot of progress and good news concerns things that didn't happen, whereas virtually all bad news is about what did occur. Good news is the deaths that didn't take place, the diseases you didn't get, the wars that never happened, the tragedies avoided, and the injustices prevented. But bad news is visible. It's in your face. It's the terrorist attack, the war, the car accident, the pandemic, the stock market crash, and the political battle that you can't look away from".

The decline in deaths from heart disease averaged 1.5% per year between 1950 and 2014. A news article with this title would get virtually no attention. However, the age-adjusted death rate per capita over that period has declined by more than 70%. As a result, 500,000 deaths from heart disease are avoided in the United States every year due to medical advances since 1950. This is the equivalent of a full football stadium saved every month. Amazing? Yes. Newsworthy? Probably not.

The overall conclusion of the book is that it can be exceedingly difficult to predict the future in a world that seems to be changing faster than ever. However, if one is able to look to the past with a wider lens, there is a trove of timeless wisdom that is unlikely to change. *Same as Ever.*

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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