

Lessons Learned from Two Centenarians

Herbert Hamrol, one of the last survivors of the earthquake that destroyed much of San Francisco in 1906, died in February 2009 at the age of 106. His death came less than one month after he celebrated his birthday with a big party at a steakhouse. Up until a month before he died, he worked two days a week at a grocery store in San Francisco, which involved taking the rapid transit, then a bus, then walking the rest of the way. He smoked cigars into his 90s and boasted that his secret to a long life was “wild women and good liquor.”

Albert Gordon, the longtime chairman of Kidder, Peabody & Co., died in May 2009 at the age of 107. He attributed his extraordinary longevity to “excessive exercise” and was famous for walking from the airport to his home after business trips. Mr. Gordon began running marathons in his 80s and was the oldest participant in the London Marathon twice. At his death, he was the oldest graduate of both Harvard College and Harvard Business School. He continued to go to the office until he was 105. His one concession to age was that he took Fridays off. He took one puff of a cigarette in his life, never salted his food and limited alcohol intake to a glass of champagne per year.

The lifestyles of these two gentlemen were about as different as you can get, except for continuing to work. (That alone is a good lesson for us all: stay involved in some productive pursuit.) You can relate these stories to draw an analogy to successful investing. In spite of the starkly different paths they took, both of these men were consistent.

While experts disagree about the ideal approach to investing, most would agree that consistency is important. Choosing an investment strategy and sticking with it over time will produce more reliable results than constantly shifting from one strategy to another. Those who constantly switch, do so because they have never achieved peace of mind about their chosen strategy. In order to achieve this goal, you must understand your strategy well enough to be confident that it is the best strategy for you, by defining: 1) what you want, 2) what you believe, and 3) what you can tolerate.

What Do You Want?

What you want should be defined in precise terms. But, broadly speaking, it comes down to the financial result you wish to achieve and the certainty with which you would like to achieve it. You can have a high degree of certainty of achieving a conservative result or a lower degree of certainty of achieving a more ambitious result.

What Do You Believe?

Having defined what you want, you must now establish the investment beliefs upon which you will build your investment strategy. Do you believe it is possible to forecast the ups and downs of the stock market? Do you believe it is possible to evaluate political and economic events and predict their impact on future stock market returns? Do you believe it is possible to analyze data about individual companies and determine whether the market value of their stock is too high or too low? Do you believe that historical capital market returns provide useful information about future capital market returns?

Market Timing

If you believe it is possible to predict future stock market returns and you are willing to bet your financial future on your ability to make such predictions (or to identify someone who is able to make those predictions for you), then adopt a market timing strategy and apply it consistently over time.

If a market timing strategy is going to work, it must not be a strategy built on fear and greed. Convince yourself that you have chosen the best strategy for you and follow it with discipline.

Stock Picking

If you believe it is possible to identify securities that will outperform the market, then develop a stock picking strategy (or hire an advisor who develops such strategies), and follow the strategy rigorously and consistently.

Evidence-based Investing

If you believe that market timing and stock picking are either impossible or too risky to rely on, then develop a passive investment strategy that is well documented in producing superior results. Establish an investment policy that is consistent with your objectives and stick to that investment policy, rebalancing when appropriate.

What Can You Tolerate?

Risk tolerance is part financial and part psychological. The financial part is addressed under the “What Do You Want?” section. Do you want a 95% probability of achieving a conservative objective or a 75% probability of achieving a more ambitious objective? If you fail to achieve your objective, by how much are you willing to fall short? These are all quantifiable, risk-tolerance questions you should address.

The psychological side of risk-tolerance relates to the bumpiness of returns along the way. How wild is the roller coaster ride? It is important to accurately assess your psychological risk tolerance, as well as your financial risk tolerance. Every approach to investing will face down cycles and create challenges of doubt at some point during your investment lifetime.

Peace of Mind is Paramount

Peace of mind and consistency go hand in hand. The ability to follow an investment strategy consistently over time comes from the peace of mind of knowing that you have chosen the best strategy for you. If you choose an investment strategy that is grounded in what you want, is consistent with what you believe, and does not exceed your tolerance for risk, you will be able to ride out the inevitable ups and downs of the market. It is not successful investing that yields peace of mind; it is peace of mind with your investment strategy that yields successful investing.

*We are the largest fee-only financial planning
and investment management firm in Florida.*



Resource Consulting Group
PO Box 4930
301 E Pine Street, Suite 300
Orlando FL 32802
Phone: 407/422-0252
Fax: 407/649-8795
Website: www.resourceconsulting.com