

By the Numbers

August 29, 2022

Your weekly commentary covering the markets and other financial topics.

1

MADE A LOT OF MONEY - Probably my **favorite bullet** of all-time was the **53/47 split** between “up” and “down” trading days in the US stock market over the **last 50 years** (1972-2021), and the realization that in spite of the near “**every-other-day**” volatility, the S&P 500 still generated an **+11.1% per year return** (source: BTN Research).

2

I'M NOT THAT SMART - **Document (in writing) your predictions** once a year, e.g., direction of the stock market, interest rates, cryptocurrencies, etc. Then a year later, “**score**” **yourself and evaluate how you did**. Repeat every year. It's a **humbling experience** but you'll understand quickly how difficult it is to **predict the future**. If you don't write things down and you **rely on your memory** when “scoring” your predictions, you're just fooling yourself.

3

LUCK PLAYS A PART - The bullet that had me **shaking my head every year** when I updated it compared the fortunes (or misfortunes) of **2 retiring individuals** exactly **9 years apart in age**. The first person with **\$1 million** invested 100% in the S&P 500 **as of 1/01/1973** who was withdrawing an inflation-adjusted \$100,000 per year would be **out of money in just 9 years**, i.e., as of 12/31/1981. The **very next day**, a 2nd person also with **\$1 million** invested in the S&P 500 **as of 1/01/1982** who is withdrawing an inflation-adjusted \$100,000 per year would have **\$7.72 million** remaining **after 40 years**, i.e., as of 12/31/2021 (source: BTN Research).

4

THINK DIFFERENTLY - Humans are predisposed to “**straight-line**” their future expectations. E.g., when the stock market is on a **bull run**, many investors (and advisors) **see their good fortune continuing unabated**. Conversely, when the stock market is in a **bear market fall**, many investors (and advisors) **can't see the rout ever ending**. Both assumptions are wrong.

5

WHICH PERSON WILL BE RIGHT? - Gloom-and-doomers **always sound smarter** than the prognosticators who are optimistic.

6

GOOD ADVISOR - If I know **5 things** about a person, I can **give them advice** about investing. **Age, time horizon, risk tolerance, tax bracket and (most importantly) objectives**. Without those 5, I can't help you.

7

WHICH ONE HURTS MORE? - Is now **the time to invest?** To decide what's right for you, **ask yourself this question**: if I **go in today** and the investment **falls 40% in the next 6 months**, does that “hurt” more or “hurt” less than if I **stay out of the investment today** and it **goes up by +40% in the next 6 months** without me?

8

KNOW WHEN TO FOLD THEM - Think about “**selling early**” (whether it’s the stock market, the real estate market, or a business) as analogous to **leaving a party early**, even though **there is a chance** that the party **may continue** for hours. But there is also a chance that **the police show up** in a few hours to break up the party.

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POTUS IS NOT THAT IMPORTANT - Warren Buffett was quoted in 2008 as saying “buy into a business (i.e., stock) that’s doing so well **an idiot could run it**, because sooner or later, **one will.**” I’ll tweak the advice to read “buy into a stock that’s poised to do well **regardless of the man/woman** who is occupying the White House.” Instead, worry about sales/revenue.

10

COMMUNICATION - To make sure **your audience** (e.g., your spouse/partner, your kids, your employees) understands the message that **you think** you just articulated so eloquently, ask them to “**say it back**” to you.

11

CURIOUS - Want to learn? **Ask open-ended questions**, i.e., never ask a question that can be answered with a “yes” or “no” response.

12

BORING - If you do any **public speaking**, be wary of “**M.E.G.O.**,” i.e., “**my eyes glaze over**,” in your listening audience. It’s probably not their fault. You probably **need to improve your presentation skills**.

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YOUR REPUTATION IS EVERYTHING - Make it easy for **new clients** to **start doing business** with your firm, while at the same time make it easy for **existing clients** to **stop doing business** with your firm. Then it’s your job to **deliver such a powerful product/service** that clients **don’t want to leave**.

14

TIME FLIES - For my **4-year old granddaughter**, the next year of her life represents **an increase of +25%** of her time on earth. For my **66-year old body**, the next year of my life represents **an increase of just +1.5%** of my life. No wonder the years are zipping by so quickly for me.

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I’M OLD - You are old when your **last car purchase** exceeds in price your **first home purchase**.

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THIS IS WHAT REALLY MATTERS - Teach your kids **self-confidence** and **how to be happy with themselves**. Everything else follows those 2 skills.

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