

Dawdling Towards Disaster

The month when tax returns need to be filed seemed like a logical time to address procrastination in investing. We consider ourselves experts on procrastination, owning a substantial library of books on the topic that we never get around to reading. (We'll assume you'll be gracious enough not to comment that this newsletter isn't exactly arriving in your hands at the first of the month.) Charles Ellis, in his book *Investment Policy*, wrote "Time is the Archimedes' lever in investing," referring to the Greek scientist who claimed that, given a lever long enough, he could move the earth. Given a rational asset allocation, time is the most important factor in investment success. Those starting even small investment programs early in life find it easier to wind up with substantial portfolios than people investing large sums later in life. Unfortunately, procrastination in developing a rational asset allocation robs investors of the time they need to achieve their goals.

Somebody who needs to make a lot of money quickly should be buying Powerball tickets, not investing.

While many successful people got through school cramming for exams, it is difficult to "cram" for retirement. While it's possible to make a lot of money fast in the market, it's not likely. Somebody with a few dollars who wants to have several million next week should buy Powerball tickets. He's very unlikely to achieve the goal, but that's the only rational option he has. Middle-aged prospective retirees who didn't start an investment plan soon enough may feel they are left with the investment equivalent of Powerball, having to gamble on speculative stocks with low probability of success. Everyone knows that the way to lose weight is to exercise and have a sensible diet. Like a rational asset allocation plan, this seems a bit boring. It's easy to procrastinate until the high school reunion or swimsuit season is too close for that approach to work, and you wind up on a miracle diet of eating only plantains and buying the "Abs-erciser" hawked by a has-been starlet on late night television.

Investment procrastination especially affects intelligent high achievers. The best short-term traders quickly admit their mistakes, living to fight another day. Successful professionals, on the other hand, believing they rarely make mistakes, rationalize their previous actions rather than correcting them. High achievers also tend to adopt the pretense of being a "renaissance man," expert in all things (and in reality, master of very little) or the type of "superior" person that can wait until the last minute and still make things turn out well.

Causes of procrastination include perfectionism, fear of making a mistake, and the belief that there is only one right approach. Believing you need to find the best investment, the peerless guru/adviser or the perfect system for market timing leads to delay. Articles and books on investing pile up on the nightstand,

but something more pressing (or interesting) always seems to take precedence. Finally, panic as retirement approaches, a particularly greed-inducing idea or simple laziness can lead to several years of savings lost on imprudent, speculative investments. Many investors who use a calculator to divide the bill for lunch will throw away a year's salary on an investment tip passed on by their lunch partner.

Hiring a personal exercise trainer isn't an admission of defeat, but a step towards improving the odds that you will get into shape.

Comedian Pete Barbutti often plays a trumpet as part of his act. When some hecklers criticized his musical skills, Barbutti threw them his trumpet, challenging them to do better. Pete knew,

but the audience didn't, that the hecklers were professional trumpet players from the casino's show orchestra. Three hecklers in turn each belted out an accomplished riff. The trumpet was then handed to an unlucky fourth audience member, bathed in the spotlight, who for a short time believed he was the only person in the world who couldn't play the trumpet. Over the last few years of the frenzied bull market, many investors were like that fourth audience member, believing that they were the only ones in the world not rapidly getting rich in the stock market. Feelings of inadequacy and envy gave rise to many unsuitable, ill-considered investments.

Investing is often compared to gambling, but the financial markets are more dangerous than gambling in at least two ways. Investing is socially acceptable while gambling generally is not. Attorneys and doctors who wouldn't be caught dead going to the dog track will bend your ear about their latest biotech speculation. Second, the procrastination that comes so naturally to many of us is destructive in investing. In the casino, you have to take the action of placing a bet for each game. If you procrastinate, you aren't in the game. In investing, procrastination often means your money is still at risk. If you buy a stock and it goes down, a natural response is to lose interest, deciding to wait to sell until you "break even." Procrastination leads to automatically continuing in the game, just as if the blackjack dealer was automatically withdrawing our money from your bank account. You have to make an affirmative act to stop "playing." After the market declines of the past year, many people are sticking with inappropriate investments due to inertia.

Sigma clients are primarily business people and professionals. They can read *The Wall Street Journal* on their own, but they lead busy lives. They want a process they can trust and people they can trust in charge of their investments. They don't need the pretense of pretending to be experts in portfolio management as well as 15 other things. They're the kind of people who realize that hiring a personal exercise trainer isn't an admission of defeat but a way of improving the odds of getting in shape. If you know people who fit that profile, have them give us a call.