

## The Gospel According to (William) James

Self-help gurus offer (for a fee) to rewire your brain for success, citing “recent discoveries” that explain the human condition. Rewiring brains appeals to us here at Sigma. After all, we believe your behavior will determine whether or not you reach your financial goals, not whether you own the hot stock or fund. The greatest danger to your financial success is emotional reaction to short-term stock market movements pulling you away from a rational, long-term investment plan, assuming you were among the few that even bothered to put together a long-term financial “blueprint.”

*A formula for investing success:*  
*Self-esteem =*  
*Success / Pretensions*

There’s little new under the sun, however, and the self-help bromides are often repackaged wisdom from works often read (and immediately forgotten) in first-year college courses. For example, *Psychology*, the classic textbook by William James (brother of the novelist Henry) suggests that self esteem is a function of success divided by pretensions. James provides examples of his theory:

“There is the strangest lightness about the heart when one’s nothingness in a particular line is once accepted in good faith.... Many ... would be happier women and men to-day if they could once for all abandon the notion of keeping up a Musical Self, and without shame let people hear them call a symphony a nuisance. How pleasant is the day when we give up striving to be young, -- or slender! Thank God! We say, *those* illusions are gone. Everything added to the Self is a burden as well as a pride.”

When things are going well, the denominator in James’s formula may start to rise. “Genius is a rising stock market” is an old but true investing aphorism that warns us to be cautious about claiming brilliance solely as a result of market action. We are not smarter than we were when the Dow was 4,000 points lower – if anything, we may be dumber because a rising net worth takes focus away from the investment process. In turn, we will not be dumber if the market goes through a difficult period – if anything, we may be smarter because we will focus on what we are doing.

In the wonderful bull market we have been enjoying, pretensions are on the rise. Just about everyone has a neighbor, in-law, or co-worker incessantly bragging about how well she is doing in the stock market. We may feel bad about falling behind these smarter and more aggressive brethren. We forget we are likely hearing selected greatest hits from the speaker’s investing record. When you talk about your golf game, is it about your best recent round or your worst? Even if we are honest and above puffery, our brains protect us by recalling good experiences at the expense of bad ones. Trying to match the exploits heard in

cocktail-party chatter is a losing game. Think of the pretensions involved in imagining you know more than 1,000 Wall Street analysts about whether the market or a stock will go up. The brokerage community promotes this possibility because it generates commissions – you know, just go to the mall and see what products are popular and invest in those companies. It makes us wonder – don't the analysts ever go to the mall?

Another effect of drivel from investment braggarts is that you may feel you are a chump for not being an investment expert on your own. There are many areas in our lives (mowing the lawn, cooking dinner) where a do-it-yourself approach is appropriate even if we have limited knowledge, if only because a mistake (missing an edge on the lawn, burning the casserole) is not a big problem. There are other areas (dental work, brain surgery, drafting documents for inter-generation family trusts) where we would not think of doing it ourselves because of both a lack of knowledge and the severe consequences of making mistakes. We believe strongly that investing for your retirement, sending your children to college and building your estate fall into the second category, especially if you have gotten to the point where you have saved some real money. Asking for investment help is not an admission of defeat, it is a declaration of victory.

**... status competition is fueled by envy, the only one of the seven deadly sins that does not give the sinner even momentary pleasure.**  
*-- George Will*

The way many people treat their investments in a cavalier fashion reminds us of Maurice Chevalier's observation that the source of trouble in the world is that people choose their future mates in lighting so dim that it would be unacceptable if they were buying a suit of clothes. People who would fight a \$100 shortfall in their paycheck all the way to the Supreme Court will throw away \$5,000 on a hot stock tip overheard at a party without giving the matter a second thought.

Under James's equation, self-esteem can be raised either by increasing success or decreasing pretensions. Why not do both? Coming up with a long-term investing "blueprint," anticipating the declines you will probably have to live through, and thoughtfully implementing the plan will help increase your success. Not telling anybody who will listen about your best recent investment, and not equating market movements with intelligence, will help decrease your pretensions.

So we can be forgiven the pretension of quoting William James in an investment newsletter, we'll pass along something we tell our clients – the success of your financial plan should not be dependent upon anyone, including us, being a genius. If somebody needs to be a genius for it to work, you'd better get a new plan. If you would like help in increasing your success and decreasing your pretensions, contact us.