

# The Ghost of Stephen Foster

Talent and genius do not necessarily produce success. As Calvin Coolidge said, “unrewarded genius is almost a proverb”. The upcoming Kentucky Derby got us thinking of Stephen Foster, a prime example of this truth. Foster was a prodigy. In his short life, he wrote songs such as *Oh! Susanna*, *Jeannie With the Light Brown Hair*, *Old Folks at Home* (“Swanee River”), *Camptown Races* and *Beautiful Dreamer*, songs that, after 150 years, you can hum after seeing the name. Normally solemn and thoughtful individuals, people who have never been within 500 miles of Louisville, weep openly at the traditional singing of *My Old Kentucky Home* before the Derby. Such is the power of Foster’s art.

Despite this production of memorable music, Foster enjoyed little monetary success. He died at age 37 in 1864 in a squalid New York City hotel with 38 cents to his name. Part of the blame for this is the poorly defined copyright laws of the time, but we cannot help thinking that a lack of common sense was more important. By age twenty, Foster had already published his first song, but he converted his earnings to gold nuggets that he carried in his jowls. Somebody mimicking the wealth preservation techniques of squirrels lacks a certain appreciation of the practicalities of the financial world.

Financial market history also tells of genius coming to a bad end. The managers of Long Term Capital Management included two economics Nobel Prize winners, but they still suffered a spectacular failure in 1998 that threatened the whole economy. Isaac Newton managed to lose just about everything in the South Sea Bubble in 1720. In fact, every market up cycle generates a new group of supposedly gifted whiz kids who suffer ignominy and disgrace in the subsequent down cycle.

Sometimes, the genius paradoxically lacks knowledge. Stephen Foster's songs extol life in the South, but he spent his life in Pennsylvania and New York, only venturing south to go to New Orleans on his honeymoon. As delightful as his songs may be, he did not know the subject matter. More important to our point, however, he clearly lacked a way to convert his musical production to money and a way to preserve and grow those earnings. Newton could deduce the laws of motion, but he knew little about investment in the new world of North America. The professors at LTCM may have been whizzes at the blackboard, but they were less familiar with the more relevant knowledge of the workings of derivatives trading desks in Jersey City.

Despite these cautionary examples, investors persist in a quest for genius in their investments – the hot manager, the brilliant picker of stocks in a newsletter, even the neighbor or co-worker with the hot tip. Most do-it-yourself investors do not really do it themselves – they are relying on an article in a magazine, a broker, a television guru or the like. It always helps to have good ideas, and, even better, a touch of genius. Stock picking is a battle you can win in the investment struggle, but it is not the war. The war is won through planning, common sense and discipline, factors that conspicuously are absent in many investment portfolios we see.

Genius, talent and smarts are helpful, they just are not enough. Think of golf – you can have your best-ever drive off the tee and still wind up with a quadruple bogey. To be successful, you have to have different skills (drives, irons, putts) and string together several good shots on each hole. A mistake can be disastrous at any stage of any hole. To be successful at investing, skill at picking stocks or sectors is nice, but insufficient. You also need discipline and, perhaps most important, self-knowledge of why you are investing and what you are trying to achieve.

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You presumably have a reason for investing. If the reason is entertainment, make peace with that idea and do not concern yourself with success or failure – the common denominator of most forms of entertainment is that they cost money. Reading

books, watching television, skiing, golfing, gambling and sailing may fall at different points on a cost spectrum, but most people engaged in those activities at least know they are seeking entertainment. In investing, there is more confusion about this concept. If your reason for investing is to provide for your retirement or to build a legacy, make peace with that idea and do not concern yourself with entertainment. Most successful investing is slow and boring. The power of compounding takes time, patience and persistence. Anything that engages your emotions (excitement, fear, greed) is likely to destroy investment returns.

With better practical discipline and management, Stephen Foster perhaps could have died on Park Avenue rather than at 30 Bowery. If you would like better practical discipline, management and professional help in achieving your investing and financial goals, call us at (503) 419-3938 or check us on the web at [www.sigmainvestment.com](http://www.sigmainvestment.com). We can help provide the serenity that will keep you humming all the doo-dah day.