

A Quiet Town, a Little Out of the Way

I recently took my four-year-old son to a model train show. It was quickly apparent that the show was aimed at men in their seventies (and they were almost all men) rather than four-year-olds. Exhibitors jumped up to protect their fragile treasures at the approach of any child. After completing the circuit of exhibits, my son asked “So, where’s the show?” Still, we had a good time. I questioned, however, the motivation for the hobby. Sure, I would love to put on an engineer hat, take the controls and send the train around the track a couple of times. After about ten minutes, though, I am sure my mind would start to wander.

I also noticed that however exquisite the trains, the hobbyists appear to spend most of their effort creating the world in which the trains run. Then it struck me. The hobbyists are just doing in physical space what the rest of us do mentally, creating a fantasy world to shield themselves from chaos and harsh reality. In this alternate world, the spouse never nags, the children never get into trouble, nobody dies of cancer, nobody faces foreclosure of their subprime mortgage and the stock market does not suddenly fall 400 points one day. Model trains never seem to travel through big cities with traffic jams, smog and crime. They invariably chug through pleasant little towns dotted with parades, barbecues and bands playing in gazebos. An air of nostalgia pervades the hobby – after all, trains are a much less important part of American life than they were 50 years ago. There is always an allure in escaping to the simple and halcyon days of our youth, forgetting that those days were neither simple nor halcyon. After all, the stressed-out, harried executive seeking to escape the pressures of life was a staple plotline for episodes of *The Twilight Zone*, and *Stop The World I Want to Get Off* was a Broadway hit in the early 1960s with its signature tune, relevant to investing, “What Kind of Fool Am I?”

In investing, the two standard responses to the real-world risks and chaos we all face are both misguided. Most common is denial. Overwhelmed with the complexities of preparing for the future, we instead ignore the task (“we’ll be fine”) or procrastinate (“I need to wait until things become more clear, until we get the kids through college, until...”). Life has a way of never quieting down, though, and there is always something more urgent, or at least more appealing, than preparing for a possibly unpleasant future.

“There is only one thing about which I am certain, and that is that there is very little about which one can be certain.”

– W. Somerset Maugham.

The second error overshoots in the other direction, pretending you have more control than you actually do. Much of financial planning is an expensive equivalent of the train hobbyists building that quiet, small town – the stock market goes up a specified percent each year, tax rates never change, and you predict, to the penny, how much money will be in your account on July 28, 2021. Unfortunately, the world created in the pages of your detailed financial plan bears no more connection to your reality than the little plastic people enjoying their picnic on the tailgate of their tiny 1958 Rambler as the Wabash Cannonball rolls by.

This does not mean you have to be depressed, or that a healthy concern for the future should overwhelm you. Uncertainty and risk are certain but need not be petrifying. It is certain that we are going to die, but this does not pervade the everyday actions of the mentally healthy. Uncertainty is part of life, and thank goodness. No script I would have written for my life 15 years ago would have involved me, at age 52, taking my pre-kindergarten son to a model train show. Now, I cannot imagine my life otherwise, nor would I have it any other way.

The key is not ignoring or avoiding uncertainty but preparing to deal with it. The thirty-year flood will happen, and we have no way of knowing precisely when. Paradoxically, the longer the period without a flood, the less prepared people tend to be, and the more likely that developers build houses on the flood plain. The little people in the towns built by the train hobbyists are not filling sandbags, and it would be a hollow life spent worrying about floods coming. Still, we can build dikes and levies to protect ourselves, even if it involves work and is not part of our fantasy. Bear markets will happen, and we have no way of knowing precisely when. Paradoxically, the longer the bull market, and the more expensive stocks are, the more aggressive investors tend to be. Your retirement is also coming. We can create a rational investment plan and structure that prepares for the future without needing to predict or control it.

Somehow, musing on this, I do not think I was getting the intended effect of the train show. My son, used to dad’s reveries, just demanded a hotdog as the price of his indulgence. Your problems may not be so easy to fix, though, so you should give us a call at (503) 419-3938, or contact us through our website at www.sigmainvestment.com.

~ Bill Berg