

## What Game Are You Playing?

You are in a water fight. Three members of your team, armed with small cups of water, charge off. They return, absolutely drenched, laughing and crowing, “Boy, did we get them!” Your opinion of the teammates depends upon your understanding of the nature of a water fight. If the objective is to have fun, your teammates are clear winners. If the objective is to get members of the opposing team wet while remaining relatively dry, your teammates are losers, despite their positive attitude ~ they appear to have absorbed more water than they dispensed.

It is always a good idea to remember the goal of any activity. You may find yourself in an unexpectedly intense argument with your spouse over why you are out of Honey Nut Cheerios, but is your breakfast choice that day ultimately more important than marital harmony? If you are trying to teach chess to your child, should your aspiration be checkmate in the fewest number of moves? We think not, but in investing, it seems that many investors forget their fundamental purpose. A big part of the problem is that some who claim to be trying to help them are playing a different game altogether.

Turn on CNBC or Fox Business News and you will witness attractive reporters, bravado, camaraderie and pretty charts, but not much that will help you in investing for your retirement. Does the anchor for *Squawk Box* get a bonus if you double your money? If you secure your financial future, does that guy making funny noises on *Mad Money* receive additional stock options? No. The game they are playing is attracting viewers, so their target is entertainment, not investment returns.

Another type of market commentator focuses on political matters. These observers appear to believe that only one political party’s policies are conducive to making money in investing. Since each side of the political divide has about the same number of pundits, you can tell right away that the evidence must not be compelling for either. They are promoting an electoral platform, not trying to help you.

Most so-called market “experts” are stopped clocks, always dispensing the same message. The biggest subset of this group believes the market perpetually goes up, a view that leads us to wonder if they are keeping up with current events. They tend to confuse bullishness with patriotism. Trust us; believing stocks can be overpriced does not make you a traitor, it makes you a realist. The other species of stopped clock, less numerous but more interesting, is the incessant pessimist. This crew seems convinced that we are slipping back into the economic equivalent of the primordial ooze. Perma-bears are prone to conspiracy theories, believing that everyone, including the government (well...especially the government), is continuously lying to us to hide some nefarious, hidden agenda. Their attitude violates one of our fundamental rules: never posit conspiracy when incompetence provides an adequate explanation.

Most of the permanent bulls and bears do not manage money, an activity that forces you to be somewhat pragmatic. Instead, they tend to be writers of market letters or talking heads (more nicely put, “strategists”) for investment firms. To them, winning consists of getting attention, not making you money. They are marketing, not investing. Since they never change their opinion, they are bound to be right every now and then. When that happens, they will brag about it forever. Many other financial service providers also find their motivation in something other than your investment well-being. Do they make money by selling you particular financial products that may not be suitable for your portfolio? Does their employer reward them based on something you do not care about, like the number of transactions in your account?

“If you don’t know who you are,  
[the stock market] is an expensive  
place to find out.”  
*The Money Game - ‘Adam Smith’*

Even away from the media or industry players, you may run into investors motivated by factors irrelevant to your goals. A standard species of cocktail party bore is the boastful, hyper-competitive financial wizard, “in the know” about some undisclosed investment secret. An alarming number of people

seem to be searching for their identity through investing ~ trying to prove their intelligence, connectedness, or the like. Given the potential market losses they risk, psychiatry would be a cheaper alternative.

The consistent thread for each of these groups is that they are engaged in a game you do not want to play, at least as far as your portfolio is concerned. The object of investing should be securing your financial goals ~ for retirement, for the education of your children or for a charitable legacy. The goal of a valid investment process is serenity ~ the confidence, given your goals, given the unpredictability of future market movements, given the almost certain chaos that lies somewhere in your investing future, that you have done everything you can to prepare. It does not matter if you are “right,” in the sense of correctly predicting next month’s market direction, cleverly assessing the consequences of the administration’s stimulus policy, or sounding wise to acquaintances at a party. What matters is success. We believe the best path to that success comes from analyzing, with no preconceived notions, the evidence the financial market presents, taking advantage of the opportunities the market currently is offering, if any.

If you are in a water fight, beware of those who do not care if they get wet ~ they are playing a different game than the one you want to play. The same rationale holds true in investing. If you would like help from an adviser aligned with your interests, playing the same game you are, contact us at [www.sigmainvestment.com](http://www.sigmainvestment.com) or at (503) 419-3938.