

Investment Lessons From Fast Food - Pizza

It has happened to all of us - you are with a group of friends who decide to order pizza. Everyone peruses the menu, and the first people to speak up invariably suggest a typical choice (pepperoni, cheese or Hawaiian). The others in the group dilly-dally over the menu and, after extensive discussion, make an exotic choice - Thai mango chutney (the "TMC"), for example. When the pizzas arrive, however, the pepperoni disappears quickly, while two-thirds of the TMC remains at the end. Most of those voting for the TMC ate more slices of pepperoni than they did of the more exotic choice.

Why does this happen? Perhaps those ordering the TMC just want a taste, and this gets that taste subsidized by the others. Do those making the exotic choice now ever order the TMC as their single choice when dining alone? Probably not. We are devoted, clear-eyed, self-aware fans of pepperoni, so maybe this just reflects our bias, but it seems unfair that those making the exotic choice think nothing of wolfing down with abandon *our* pizza after *their* risky choice did not work out. On the other hand, if the TMC pizza truly was exquisite, we suspect those ordering it would boast about their great instinct for food.

A less sinister, more charitable interpretation is that after the first people order something typical, it appears boring to double up with the same choice, even if it should be clear that most people would eat mostly cheese or pepperoni. The exotic choice is for appearance's sake. This is not really about what they will eat, but about how others perceive them within the group. A similar, if potentially more destructive dynamic is at play in investing. It is just human nature to want to be doing something different, something exciting, and something to brag about to your friends. Mention asset allocation or a reasonable, carefully considered approach to risk, and your listeners suddenly discover they need to be somewhere else now. In contrast, pontificate about "absolute return structured investments" or "market neutral alternatives" and everyone is all ears. It is natural to believe that a normal investment plan, similar to everyone else's, is unworthy of us - *we* are special, after all.

Yes, that TMC pizza *may* make all other pizzas we have ever eaten pale in comparison, but even the most superb pizza imaginable is unlikely to change our life. In contrast, while we may dream that a new, exotic investment will make us rich quickly without work, hard thinking or worries, more is at stake than with our dinner choice. A severe loss of capital could have a big, negative impact on our life – so it is even more important to be serious in our consideration. We all have areas where we demonstrate a certain immaturity, and wanting to be exotic in a pizza choice is a relatively harmless example. While some may think hope is childish, it is a virtue, a kind of happiness – but reality also exists. One definition of maturity may be when, still filled with a zest for accomplishment, you can accept with equanimity the realization that you are never going to perfect that golf swing, never going to learn to speak Russian, never going to have that multi-house family compound at the exclusive coastal community. On the upside, you can willingly accept that, given the choice, you truly just want to eat plain old pepperoni pizza for dinner.

“...the more simple any thing is,
the less liable it is to be
disordered, and the easier
repaired when disordered...”
- Thomas Paine, *Common Sense*

It is very easy to confuse means and ends. The end or goal of your get-together with friends is conviviality, not discovering the ultimate pizza experience. Once you grasp that, you can smile, if a bit wistfully, while your friend beats you to the last slice of pepperoni, even as you recognize that the vast, quickly congealing, unconsumed remainder of the TMC will reside in your

fridge for a week until you determine it to be past safe (if theoretical) eating. The goal of your investing is to provide for the future comfort of you, your beneficiaries and your heirs – not entertainment, not sounding smart in front of your friends, not even convincing yourself you are smart. You cannot eat self-esteem in your dotage.

Not to be too hard on those who wind up with exotic pizzas or exotic investments, but we should never make our happiness depend upon external circumstances, whether those circumstances are pizza preparation or the movements of the financial markets. We can imagine how great an exotic pizza might be, but that just sets us up for disappointment when the pizza arrives. We can imagine how that new type of investment will make us the envy of our friends, but that just sets us up for disappointment when we see how it actually performs. Yes, hope is a virtue, but we should direct it reasonably towards ends that will make a difference, not means that will not.

Imagine pizza advisers can help your friends order their dinner. One type of adviser might push the TMC pizza, pandering so hard to the human nature described above that you start to wonder if they receive a higher commission on the exotics than on pepperoni or cheese. He could spin a tale of the fantastic possibility that the TMC pizza is *exactly* what your life, or at least your palate has been missing; the exotic pizza, will transport you to a perfect culinary world. Despite the possible entertainment value of this pitch, our guess is that you would prefer an adviser that could size up your group and, efficiently and cheaply, order two pepperonis, a Hawaiian and a cheese, sufficient to satisfy everyone’s hunger with a minimum left over (with even that gone by the end of tomorrow’s lunch). We believe you should also prefer an investment adviser that can size up your situation and, efficiently and cheaply, make the appropriate investments in a way that will help you achieve your goals, with a minimum of sleepless nights no matter what market conditions ensue – so contact us at www.sigmainvestment.com or at (503) 419-3938. If we have our meeting over a pizza, though, we insist on placing the order.