SIGMA
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Investment Lessons from Fast Food II (and Frozen Yogurt, too)

Stand at the counter at enough burger chains and you are struck by the variety of names for essentially the same meal – the Big Mac, the Whopper, the Quarter Pounder, the Big Carl or, for you *Pulp Fiction* fans, the Royale with Cheese. Or, you can go to Taco Bell and wonder how many ways they can combine a tortilla around shredded meat, cheese, lettuce and tomato. Come to think of it, how many variations of pasta, tomato sauce, cheese and meat does Sbarro serve?

When you come right down to it, most of the dishes served in each species of this restaurant genre are quite similar to one another. Don't get us wrong – we are not claiming to be above eating fast food. We will wolf down a cheeseburger, burrito or calzone with the best of you. Our point is that the fast food industry is oriented towards marketing and volume, not authentic fine cuisine. There are only so many combinations of the ingredients for each type of fast food. The marketers, seeking to lure customers, bravely try for variety where little exists. We also are still waiting to receive a meal from any of these chains that looks quite as good as those shown on billboards and in TV commercials, arranged by designers and obsessed over by professional photographers and marketing consultants. If it looks too good to be true, it probably is.

In investing, stocks, bonds, cash, real estate and commodities make up the limited number of true components of investment portfolios. There periodically are manias for stamps, coins, diamonds, baseball cards, Franklin Mint coins, tulip bulbs or other collectibles, but those are mostly fads, illiquid investments for which bids fade rapidly when the cachet recedes. The job of most Wall Street firms, like purveyors of fast food, is marketing products. When investors are not inclined to buy normal investments, it is time to repackage the same old stuff in a new format.

Earlier this decade, investors were risk averse, having suffered through the technology boom turning into a technology bust. They were inclined to seek safety, and if the promise of high returns could accompany that safety, so much the better. Thus, Wall Street's product-creation conjurers and marketers worked their magic to repackage some of the same old stuff in a way that appeared to meet these needs. How do you think collateralized debt obligations and other real estate-related derivatives drove the boom earlier this decade? Did the idea come from true investor demand for real estate derivatives, or from Wall Street creativity? This alchemy and over-hyping of the "new" investments that combined real estate and bond components became positively dangerous. It looked too good to be true, and it was.

> ***"We are all prompted by the same motives, all deceived by the same fallacies, all animated by hope, obstructed by danger, entangled by desire, and seduced by pleasure."***
> **~ Samuel Johnson, The Rambler**

In an episode of the television show Seinfeld, an ice cream parlor thrilled the characters with a particularly delicious fat-free frozen yogurt. The yogurt shop fulfilled a fond desire of its patrons, except that the fulfillment was a fantasy – the yogurt shop was lying about its product being fat-free. The customers enjoyed the prodigious amounts of frozen yogurt they consumed, but they gained weight. Their curiosity and attention to their waistlines, however, was curiously limited. Their fantasy of delicious fat-free frozen yogurt superseded their rationality; they wanted to believe in the fantasy so much that they did not want to think too hard the reality.

Every investment cycle is also a wish-fulfillment cycle; a new type of investment emerges that seems to promise returns without risk, just as the yogurt shop promised dessert without calories. However, wishing does not make it so. The sooner we can be realistic and acknowledge that, like different types of fast food, investments only have relatively few components that do not change much over time and, like frozen yogurt, there is no gain (investment returns) without at least the possibility of accompanying pain (the risk of declining prices). Investing, like dieting and cooking, is not easy and carefree, but hard and occasionally frustrating.

Cooking, dieting and investing do not seem to have much in common, but they share two characteristics: (1) the most important determinant of success is to have a rational process; and (2) they take more time and attention than you would like. Because it is so easy to lack the patience for a rational process or for the passage of the necessary time, we look for shortcuts, magic solutions, *anything* new and exciting. Marketers know this propensity well, so we will always confront a novel menu invention at McDonalds, a new wonder diet to take inches off our waist in the next two weeks, or a supposedly safe investment that offers potentially high returns. We are only human, after all, but in many important areas of our lives, including investing, there are no shortcuts, no substitute for rationality and wisdom.

Feel free to enjoy your "Terminator" double-stack bacon cheeseburger ~ we will. Feel free to read the "Lose 20 Pounds Quick" diet book. For your investment portfolio, however, follow the clear path that avoids merely seeking novelty or shortcuts. Realize that investing is a process-oriented endeavor, not a product- or marketing-oriented one. We invest money for our clients in a careful, thoughtful, rational manner. If you want our help, or know someone who could benefit from our advice, contact us at www.sigmainvestment.com or at (503) 419-3938. And be sure to try our secret sauce.