

## CHAPTER 4

# THE MAN WHO DID EVERYTHING WRONG

## And the Man Who Did Everything Right

“**W**ar? Who wrote down ‘war’?!” And the speaker looked around the room implying some idiot wrote down war.

I was the idiot in question. I slunk down in my seat. I was attending an economists’ luncheon and though I was no great fan of economists, I found every bit of information potentially valuable. And it was usually fun to gather with other advisors, especially whenever someone else agrees to pick up the tab. So I went, thinking to have a nice lunch and expand my knowledge without making a fool of myself. I had apparently failed on that score.

Fred was a celebrated economist visiting Louisville to share his views on the future of the economy and the market. He had passed around notecards and asked us each to write down where we thought interest rates and other market signposts might end up by the end of the year. He also asked us to write down what we thought might be the biggest surprise of the year. On my notecard, I wrote ‘war’ and for some reason that really tickled the expert.

“War! Boy, that’s a new one,” Fred chortled from his seat. “I ask this question everywhere I go, and believe me that’s a lot of places, and nobody has ever come up with war. Boy, that is rich,” and then he paused—another pause! The silence seemed to go on for minutes, everyone looking around and it became obvious he wasn’t giving up until he found me, so I raised my hand. About 20 faces turned immediately toward me, half in astonishment, half relieved that the idiot was me and not them.

“Were you joking?” Fred asked me, drawing his syllables out long and then clipping them up at the end like a fishhook. “How do you imagine a war happening in America this year? Maybe you were envisioning something abroad? Like Chile or Argentina?” Everyone stared,

waiting for my answer. I began to sweat. I couldn't take the easy road out Fred had offered me. I couldn't have located Argentina or Chile on a map if you paid me.

Thankfully, after my own excruciatingly long pause, a pause my boss would have been proud of, the simple answer came to me. "Well, Fred, you asked for a surprise, didn't you?" I flashed him my sincerest smile. "I have no idea why we would end up in a war. That's why it would be a surprise." Mercifully, Fred moved on. He'd had his fun with me, and I was forgotten. I'm pretty sure, though, that many in that room will have thought back to that awkward moment when, three months later, in September of that very year, the planes hit the World Trade Center and America went to war.

Here's the thing I've learned about surprises. They come as a surprise. And they are an unavoidable part of the market and, of course, our lives. As I had tried to explain to Fred all those years ago, surprises emerge improbably out of the blue and make us all look like idiots. But if we're prepared, we can grow from them in ways that predictions can never offer because we have to pivot in the moment and in doing so, we learn firsthand how well we've prepared for the impossible.

I had predicted the unpredictable war that came upon us in 2001, but did I act on this possibility? Did I warn my family? Sell my stocks? No. My prediction was just a fun and somewhat embarrassing story about how stupid I looked at an economists' luncheon, until the impossible happened on that horrible day.

## Inspiring Words You Can Take to the Bank

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### THE FOLLY OF FORECASTS

*Men, it has been well said, think in herds. It will be seen that they go mad in herds, while they only recover their senses slowly, and one by one.*<sup>45</sup>

—Charles Mackay

*My life has been filled with terrible misfortunes, most of which never happened.*<sup>46</sup>

—Michel de Montaigne

*Thousands of experts study overbought indicators, head-and-shoulder patterns, put-call ratios, the Fed's policy on money supply...and they can't predict markets with any useful*

*consistency, any more than the gizzard squeezers could tell the Roman emperors when the Huns would attack.*<sup>47</sup> —Peter Lynch

Lessons....

.....4. **Know your risk threshold.** The best way to prepare for a surprise in the stock market is to keep your allocation close to the target that meets your risk threshold. Of course, if your risk threshold is zero, that's a tough assignment, but most of us can accept some volatility in our portfolios. Ask yourself, what is it that would scare me into selling at market lows? What level of decline would cause me to think, uh oh, I have too many stocks? Determine your tolerance levels and respect those boundaries.

5. **Be patient.** Remember, when declines happen it can seem like the end of the world: Worldwide Pandemic! Planes Hit the Twin Towers! Financial Collapse! Reading headlines during a surprise event is unavoidable but not helpful to investors. Patience is your best friend in times like this. Even if we somehow bought stocks at the top of every cycle, somehow just had that perfect negative karma but also the patience to hold on, we would likely do just fine and significantly better than the person who panics, gets out of the market, and then is never able to get back in.

6. **Stay humble.** It's important to keep in mind that we know very little about predicting the future. We can only use history and common sense to help guide our investments. We need to stay humble, and bear in mind that the so-called experts have no monopoly on predicting the future either, no matter what they say. None of us knows what will happen tomorrow.