

February 2006 Commentary

Predicting the Future - Why Invest?

"The future, according to some scientists, will be exactly like the past, only far more expensive." - John Sladek

Are you able to predict the future? It seems to us, that most people would agree that they are not able to do so. That said, do you worry about what the future may bring? Will the future be better for your children or your children's children? At this point, some people might express doubts about whether the future will be better for the next generation of their family. After all, there are certainly many things that we can worry about. We don't have enough space to list them here, but you can read a newspaper or watch the news on TV to get a good dose of worry.

How do your concerns about the future impact the decisions you make today? Most likely you'll put aside those worries and go about your daily activities as you normally would. How will your concerns impact tomorrow? The same thing occurs. You'll likely go about your day as you normally would. Eventually, the concerns you have today will be resolved and replaced by other concerns. The media will ensure this. Can you remember a day when there wasn't something to worry about?

Now, let's look at investing. Do the concerns you have about the future impact your current investing decisions? On the surface, it seems to make sense that if you have worries about what the future may bring, that they should impact any investment decision made today. After all, investing is meant to be a long-term exercise with results that will be realized sometime in the future, and it seems only natural for investors to become very cautious as their concern about the future rises. For example, many people sold stocks during the lead up to the war in Iraq. Certainly, this was a very serious situation and it would seem to make sense to sell stocks during the build up to the war.

Conversely, it was also an opportunity. The war, or for that matter any other crisis, eventually gets resolved and is replaced by the next big worry. In this way the future becomes the present and time marches on. As investors, if we wait for all of our worries to resolve themselves, we will have little chance of meeting our financial goals and we may die waiting. Waiting for resolutions to our worries only guarantees that we have less time to meet our goals; it does not ensure that we will meet them.

We don't know whether the first part of the quote at the top of the page is correct, but we agree with the second part. Undoubtedly the future will become more expensive. Put another way, the purchasing power of your money today will be worth less tomorrow. And the day after tomorrow it will be worth even less. Inflation is not a positive thing. It will steadily erode the purchasing power of your money. This will happen whether we are at peace or at war.

For all of us the task is the same. We must save enough so that it can grow enough to meet our lifetime needs. This challenge must be faced regardless who the president of our country is, no matter what our economy is doing or which international crisis we face today, despite huge trade and fiscal deficits, global warming, high oil prices or the litany of other worries we may have about the future. The task doesn't change, only the noise around us.

"The trouble with our times is that the future is not what it used to be." - Paul Valery

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"There is no security on this earth, there is only opportunity." - General Douglas MacArthur

Rich Karlgaard, the publisher of Forbes, suggests that it is important to have a mental operating system that will be as good 30 years from now as it is today. He suggests that the world's worst disease is "not cancer or AIDS or avian flu; it's a monstrously flawed idea. The sickest thinking - and the source of the most human misery throughout the ages - is based on the following beliefs:

- The Earth is running out of resources
- People consume more than they contribute
- Wealth is a zero-sum distribution game"



Karlgaard goes on to say "history overwhelmingly refutes these ideas; otherwise humankind would still be living in caves, sharpening spears for the hunt. Our lives would be brutal and short, lasting on average about 30 years...Yet most politicians, economists and journalists act as if growth were a mirage and wealth a zero-sum game. What else accounts for last November's headline yelling about GM's cut of some 30,000 jobs? Does the creation of 30,000 jobs get equal treatment? Why not? That's about how many jobs are born in the U.S. every six days."

Karlgaard suggests that "three eternal truths sit at the core of our mental operating system. The first: Natural resources will never run out. Etch this into your brain - man discovers or creates resources faster than he uses them up." Karlgaard reminds his readers that whale blubber started to run out in the early 1800s and then the first oil well was drilled in 1859. Today we might worry about running out of oil (perhaps today's version of whale blubber), but over time something else will certainly replace it.



According to Karlgaard the second "eternal truth" is that "success is not a zero-sum game, though most economists, pundits and politicians act as if it were." Karlgaard suggests that these folks live in "zero-sum professions." There can be only 1 U.S. President and 50 senators, for example. Karlgaard also believes that "television is a carrier of the zero-sum disease: There can only be one evening television anchor and one top editor at a newspaper. There is only one Survivor, one American Idol and a single-digit number who escape Donald Trump's wagging finger."

Finally, Karlgaard's third eternal truth is "the golden rule is more than a spiritual truth, it is a business truth. You get ahead in business by serving others. Sure, you can try to cheat or cut corners - and you may succeed. But the odds overwhelmingly favor the company that serves its customers with great products and services at a fair price." Karlgaard suggests that these beliefs "help us see the world in which we live and where that world is going. With the right belief system we can predict the future."

In our view, it's not so much about being able to predict the future but having a view that enables us to take the right course of action. We understand that there will be many opportunities to veer off course. While we allow ourselves to worry about all kinds of things, we are focused on not letting those worries impact our judgments, actions and ultimate goal of helping our clients realize their financial goals.

"Practicing the Golden Rule is not a sacrifice; it is an investment." - Unknown