

Is Risk a Bad Thing?

Almost 40 years ago about 1,500 young men were preparing to travel to Annapolis, Maryland to be sworn in as members of the Class of 1977 at the US Naval Academy. I was among those young men who were about to embark on a "freshman" year that to this day is quite a different experience than most people have in their first year in college.

The welcome at the Academy includes an introduction (indoctrination really) to hundreds of facts and sayings to connect you to a couple of centuries of tradition of service in the Navy and Marine Corps. John Paul Jones, considered the father of the US Navy, is a key figure in that tradition. Among better known quotes of this naval hero is: **"It seems to be a law of nature, inflexible and inexorable, that those who will not risk cannot win!"**

Our Fears

Throughout life we accumulate experiences where we learn to adapt our decision making and behaviors based on outcomes. We even evolve heuristics (by another name, rules of thumb) to guide us in the future. The more pain or loss involved with a particular outcome, the more we seek to avoid that outcome in the future. If we don't, we risk being hurt again.

The difficulty comes in striking a balance. If we look only at the potential risk and loss in a situation, we can miss the opportunity for gain, success and progress. Can you think of a time when you decided to "Go for it!" and your life has been better ever since? What fears did you need to overcome to take the step that made your life better?

Dealing with the Unknown

It is natural for us to want assurances that everything will go well for us in the future. We want to know that if we make a decision on a purchase, a course of action, a business venture or even a friendship, that the decision will turn out well. When we make the choice and take the action step(s) there's the chance things will go well..... and the chance we will be disappointed with the outcome.

It is this "not knowing" that can be paralyzing in certain circumstances. As financial advisors, we see this every day in helping people consider how to put money to work. Everything you can do with money from the proverbial mattress to speculations on one company's common stock carries risk. A

fire that burns a mattress and a company going bankrupt can both cause financial loss. The question is not “How do I avoid risk?”, but rather “How do I evaluate risk?”.

Nothing Ventured Nothing Gained

Getting back to John Paul Jones, in order to win or to succeed we have to be willing to accept certain risks. The questions are:

- Which risks do I take?
- How much money do I subject to a specific risk?
- How can I combine investments to cause one risk to offset another?
- How many different investments do I need to hold for risk to be offset?
- Can I invest at different times to take advantage of different pricing levels?
- Can I ride out the inevitable periods where investments go down in value?

If you can approach these questions in a balanced way, without too much fear, you stand the chance of succeeding as an investor.

Live to Fight Another Day

Towards the end of the last real estate bubble there were actually quite a few people who thought that homes had become “too expensive” for people to afford. If you have made money in an investment it can sometimes be wise to capture a gain and look for another opportunity to generate gains.

The stock market in the US is reaching new all-time highs. Will it ever go lower than it is today? A review of stock market charts going back to the early 1900’s suggests that markets pull back at some point. Sometimes though, the market moves above previous pricing levels and never returns to those levels. The gains become “permanent”, never again offering the same buying opportunity.

Having cash to buy in, when markets pull back, has often proven to be a good approach for many investors. Just remember, trying to pick tops or bottoms can be a difficult and most often impossible thing to do. Still, as the debt ceiling discussion returns to Washington DC, such an opportunity may present itself.

Bottom Line

Taking measured risks when making longer term investment decisions is critical to success over time. Eliminating all risk is not possible in a world where low interest rates and inflation can eat at the value of the dollars you leave in federally insured deposits at the bank. The best course for you to sail is to invest steadily over time, diversify what you own, harvest investments from time to time and always look for opportunities the markets will offer over time.....and remember..... "Don't give up the ship!".

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

Colin S. Mackenzie, CFP®
Cetera Advisor Networks LLC, Member FINRA/SIPC
301 E. Colorado Blvd, #400
Pasadena, CA 91101
mackenzie@ceteranetworks.com
(626) 795-8896

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