

Hello Everyone,

The English author David Whyte once quipped, “*Stop trying to change reality by attempting to eliminate complexity.*”

And, as you might guess, complexity is the subject of today’s missive...or, better said, how humans deal with complexity is our subject for today.

I hope it helps you view the investment world a little better.

Signed, Your Wishes-Life-Were-Less-Complex Financial Advisor,

Greg

KKOB 10.01.2018 Simple Answers to Complex Problems

Bob: So, Greg, we are the subject of buying low ---and how difficult that can be. After all, what is the definition of low? Plus, some low things never come back--- like film-cameras and flip phones. Now you’re going to tell us human psychology can also prevent us from buying low. Right?

Greg: Right. As you know, the world is a complex place. Human beings, however, don’t handle complexity very well. We want simple answers... even if those answers are wrong. For example, today’s closing market report might go something like this, “Stocks rose today, based on easing trade tensions.” We’ll all hear that, nod our heads and then say to ourselves, “Oh, OK. That makes sense.” And, we’ll then go on with our day.

But, you and I know, it’s never that easy. There were millions of investment decisions made today. Most had nothing to do with trade tensions. But, the reporter knows we, as humans, want cause-and-effect explanations. So, they give them to us.

Bob: I guess it’s like the old saying, “Any explanation is better than none.” But, I don’t see where you are going with this with respect to buying low.

Greg: Sorry---back to the point. And, you’re right...most believe any

Greg: Sorry---back to the point. And, you're right...most believe any explanation is better than none. The trouble is, once we have that explanation, whether it is correct or not, we tend to hold on to it as if it were gospel.

Now, that we "**know**" something, we believe we're smarter...and, being smarter feels good. Behavioral psychologists say this feeling is caused by a chemical reaction in our brains, which makes us feel happy. We then become addicted to the rush from "simple answers to complex problems." Whether that addiction is based in fact, or fiction, is irrelevant.

Bob: I know exactly what you're talking about. I see this in politics all the time. Often those with the least knowledge form the strongest opinions. I hadn't thought of this in the financial-world though. Everything there seems like it's based on numbers, reason and logic.

Greg: Yes, my industry is very good at projecting that image when, in fact, we are as susceptible to human emotions and foibles as anyone.

For example, if you listen to CNBC, everyone "knows" Lehman Brothers was responsible for the mortgage mess a decade ago. That's the simple answer. The reality is, Lehman was just the last domino in a calamity of errors that stretched back over years. Bad governmental policies & accounting practices, over-indulgent regulators, institutionalized dishonesty, and a host of other reasons, all contributed.

The point is, in 2008, thousands of factors created the fingers of instability that almost brought our economy to its knees. Lehman was just the last snowflake that caused the avalanche.

Bob: So, you're saying, that since we get a chemical high (I think they're called endorphins) from an easy answer, it follows we get the opposite reaction from a complex answer. I mean, if there are too many factors to consider, then we don't feel in control. That makes us anxious about the world around us. So, we return to the easy answer...even if it isn't right. And, if you believe wrong things, you'll probably invest poorly.

Greg: Wow. That was good. Right. That's why the legends of the financial world all have something in common...they tend to ignore the endorphin hit and dig into the complexity of things. Then, when they ferret out the hard truth, it's as if the heavens open and the angels sing.

They say, “Hey, this sector is cheap...and, here’s why.” Or, the opposite, “Yikes! The fingers of instability have made an avalanche possible.” The endorphin hit comes...but, only after hard work.

Bob: That’s the second time, you’ve used that term—“fingers of instability.” What is that...what does that mean?

Greg: John Mauldin taught me that term 12 years ago...tell you what, I’ll share his wisdom next time. It relates to all this. Sound good?

Bob: Looking forward to it. Until then, how do people reach you?

Greg: My number is 508-5550, 508 triple 5 zero or go to my website at zanettifinancial.com

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