

Hello Everyone,

While America is transfixed over the Supreme Court, today's missive is focused on marshmallows.

Not marshmallows as a growth industry, but rather as a way to make a point about the world of money. After all, that is our beat.

Signed, Your Still-Going-To-Watch-The-Vote Financial Advisor,

Greg

KKOB 10.08.2018 Marshmallow Investing

Bob: OK, Greg, on Monday, you talked about market fault lines—you called them fingers of instability. You said investor psychology plays into how fault lines can develop. And today, to make your point you want to talk about four-year-old children and marshmallows. Is that right?

Greg: Yes, it sounds weird, but stick with me. I recently saw a wonderful TED talk given by researcher & speaker Joaquim de Posada. He believes he has found the most accurate indicator for success in life. To make his point, he references a study done many years ago, wherein four-year-old kids were gathered in a room and each given a marshmallow. They were then told, “If you can wait 15 minutes without eating the marshmallow, you’ll get another one.” Then, the researchers left the room...with the hidden cameras running.

As you might guess, some immediately ate the marshmallow. Some lasted 5 or 10 minutes before eating it. Some hovered around theirs. Some smelled it longingly. One little girl even hollowed hers out and ate just the inside. She’s probably a Wall Street banker today.

Anyway, less than a third of the children had the discipline to not eat the marshmallow and thereby get the second one.

Then, 15 years later, the researchers caught up with these same kids. They were now 18-19 years old. What they found was----100% of those who had opted for the delayed gratification of two marshmallows were successful. They were diligent students. Good workers. Highly regarded in their peer groups.

Meanwhile, those children who wanted the instant gratification of eating the marshmallow didn’t do so well. They weren’t good students. They had relationship issues. You get the picture.

Bob: That's a great story. But, uhhhh, what does this have to do with investing?

Greg: You ask me that question a lot. OK. I believe the same principle applies at both the individual and societal levels with respect to investments. Remember a little while back when I said behavioral psychologists had shown human beings get an endorphin rush when they get a simple answer to a complex problem? I think you said, any answer is better than no answer.

Bob: I do remember that. It's why we don't embrace complexity. Complexity makes us feel insecure...out of control. So, we look for simple answers...which can hurt us when we invest... because we are susceptible to accepting explanations that may not be true.

Greg: Exactly. That behavior is the equivalent to the immediate marshmallow. The best investors accept complexity---even if that complexity creates anxiety. They reject the simple answers in search of the real answers. Of course, once the genuine answer emerges, then they get their endorphin rush...but, that rush is bigger...it's two marshmallows.

Now consider this at a national level. Societies and cultures that are willing to live below their means...to invest for the long run...to work hard today for the reward tomorrow, are the ones that succeed. Those societies that demand instant gratification don't do so well.

Bob: So, where do you think we are? Are Americans eating the marshmallows, or waiting for two marshmallows later?

Greg: There is some of both. I see a lot of people doing things right. Saving. Working hard. Foregoing vacations. Sacrificing for their children. Meanwhile, I see governments spending more than they take in. Thus, the ballooning debts. Therefore, you might want to think of

our \$21 trillion national debt as \$21 trillion of instant gratification marshmallows. And, that bothers me, because the marshmallow-eaters have the power to undermine the excellent work of those who instead choose delayed gratification. How's that for connecting toddlers, to economics, to marshmallows?

Bob: Not bad. And, for whatever reason, I have a hankering for a smore right now. How do people reach you?

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

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