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## Emotional Bulletproofing

Our emotions are wired so that we smile when we make money per the report of a statement and growl, moan, shriek, cry or otherwise express anguish when we have had what seems like a serious paper loss. How can we keep our emotions from flaring up when we have suffered one of investing's inevitable setbacks?

**What is success in investing?**

An investor is successful when a goal is reached in the "investment horizon" (the time allocated for the investment). But most people don't set goal targets over a time horizon. Success, then, needs to be defined in less mathematical terms.

To some runners in a marathon, success is just finishing the 26-mile experience. Perhaps just being invested over a number of years without selling in panic is a good enough definition of success. In fact, any reasonably conceived investment plan is a good one provided that it is not truncated by turning a paper loss into an actual one. Paper losses come back and often morph into paper gains. Removing money from an investment after a large paper loss may grant some peace of mind for a time, but when conditions normalize an underfunded investment portfolio is left –which means that something will go wanting because finances won't support it.

**How can we make investments bulletproof?**

Taking the idea of financial suicide a bit further, it's not hard to see that the bullet we need to avoid as investors comes from our emotions, our sense of fight or flight. But there is an additional dimension of operator risk to consider if we want to get to the finish line in one piece.

Once we embark on an investment course, we must modify our well thought out strategy or tactics only when there is overwhelming evidence to do so. We must, at the outset, define an acceptable range of gains or losses (volatility) that are acceptable over, say, a year's time –not a month or a quarter. Variably priced investments, such as stocks or bonds that realize price in the action of supply and demand, frequently move in fits and starts, gaining one month and dropping another. By setting an "asset allocation" at some predetermined level or range (the mix of securities among cash, bonds and stocks), we can all but guarantee that the desired experience will be realized. What we cannot do is to nail down future returns beyond an educated guess. After all, it is hard to make predictions, especially about the future (Yogi Berra). Are we getting closer to a bulletproof portfolio?

Indeed, if bullet-ridden describes frequent portfolio strategy changes or selling in panic, maybe we can make portfolios bulletproof by simply avoiding those destructive behaviors. But we need to do one more thing - avoid the all too human temptation to compare our performance with someone else's. Investment results are simply the application of exposures to risk and mostly unpredictable events that will be experienced over time. An unknowable, but surely significant, component of short-term investment performance is founded in chance and luck. Beyond setting an asset allocation and guessing where global trends may take us over the investing horizon, we can do little else of consequence beyond strapping ourselves in the seat and holding on for the ride - provided we are well diversified and invested according to our tolerances and needs.

As always, feel free to respond to this note with questions or comments.