



The Greatest Shortcoming Of The Human Race Has Investment Implications

Saturday's With Jim

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Dear Friends,

Albert Allen Bartlett, Professor of Physics at the University of Colorado, famously said, "The greatest shortcoming of the human race is the failure to understand the exponential function." He means that we tend to overestimate the importance of the "now" while underestimating the importance of the future or the "then." We give short shrift to the long term all around us. It's in overestimating the importance of the quarterly performance of company earnings or our investment returns. It's in our two and four year political cycles. It's in our desire to have great experiences or material things perhaps before we've considered their impact on our lives for more than the immediate moment or the next few months. What's the fix?

Just Pose A Few Questions

Expose just about every decision to a few questions. After a while, they'll be automatic.

- What will be the probable effect of gaining your desire in a short while or a long while on...
 - Your finances
 - Your lifestyle
 - Other people
 - Your sense of satisfaction and well being
- What are other options to the current desire - might they be better?
- Is now the best time to achieve this desire? Later? Never?

An Example

Common stocks, our engine of growth, are long duration investments and are volatile short-term, steadier long-term. We believe that the most meaningful common stock performance measurement is the market cycle, the journey from economic boom to bust and back again. Market cycles take from about six to thirteen years to complete and investments subject to their influence like common stocks are best evaluated over a full market cycle. The signposts along the way are not necessarily indicative of the final market cycle return outcome. We like to measure market cycles using both bull and bear phases using cumulative returns, not ones broken by fixed time periods like a quarter or even a year. Measuring cumulative

performance allows us to see the result of prior years' returns every time another year passes. Cumulative returns, then, allow us to skip placing a lot of importance on any particular year's results.

The Power of The Exponential Long Term

Withdrawing \$100 from or not contributing \$100 to a retirement plan now will cost you a foregone \$400 in 18 years and \$1,600 in 36 years assuming an 8% average annual return. Compounding, growing like a snowball as it descends a mountain, carries out its work slowly, almost imperceptibly for the first few years of an investment program. But compounding relentlessly pushes your worth higher and higher the longer you live.

So What

Focusing on the short term "now" may foreclose better opportunities if you had played the "long game" by looking ahead months and years to ascertain how your decisions might be of most benefit to you and to others. As we have done through a focus on cumulative returns, it's possible at least in some instances to think long term even while living day to day, week to week. Remember that what you desire must be worth the sacrifice required to achieve it.

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