Be Sure to Leave Room for Error - Transcript

Tom Mullooly: In episode 213, we talk about bad decisions and how they can have a big impact on you.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. And this is episode 213. If you haven't watched episode 212, go back and watch that before getting to this one because we could have made one long video. If the markets are making you freaky and you're flipping out, you likely have too much money invested in the stock market. There's a great post today from Morgan Housel and we'll link to it in the show notes. His article is titled Common Causes of Very Bad Decisions. I just want to... He gave a ton of them and it's definitely worth your time reading, but there's one in particular that I want to focus in on with this video. And that is, he says, one of the common causes of very bad decisions is underestimating the need for room for error. That's so important and that's not just financially, but mentally having room for error.

There's a quote from Ben Graham. Now, Ben Graham wrote the book literally on security analysis and he was also the mentor for a guy named Warren Buffett. But Graham's quote goes like this. The purpose, the purpose of the margin of safety is to render the forecast unnecessary. Think about that. We want to construct portfolios where even if everybody is totally wrong, we're still going to be okay. It's not going to kill us. See, room for error has two sides and this is really important. The first is we need to have room for error because we want to know that if we do have an imperfect outcome financially, if we're wrong financially, we can survive it without getting forced out of our plan. And the second thing is whether you and I can survive another imperfect outcome, a bad outcome mentally, without getting scared out.

So many people got forced out, scared out of the markets in 2008 and never came back. Never came back. And over the years as markets have dropped, we've seen people do the same thing. It's a mistake. Here's the message I really want to deliver. Most bad decisions, whether we're talking about money or anything else, most bad decisions are made when people can only see one path, one possible outcome. So I want you to think about a couple of things. I want you to think about this election. And I want you to think about the virus. And I want you to think about the economy. If you can only see one way out, one potential outcome out of these different scenarios, you need to reconsider what is possible.

See, when we discuss long-term potential returns with our clients, we're already packing in the likelihood of several bad years in a row. A bad decade, poor returns throughout, we want to forecast all of that and paint the worst possible scenario. By nature, we're optimistic people, but we have to plan pessimistically. That's important. We want to make sure that you reach your goals financially.

If you've got concerns, if this market's flipping you out, don't worry. Please don't worry. You're paying us to worry, but if you're are concerned, get in touch with us. We'd be happy to catch up and talk with you.