

FACTORS IN FOCUS

April 2018

Wanted: For Hazardous Journey



by Eric D. Nelson, CFA

In 1914 a classified ad in the *London Times* read: “Men wanted for hazardous journey. Small wages, bitter cold, long months of complete darkness, constant danger, safe return doubtful. Honor and recognition in case of success.” Surprisingly, 27 men signed up and along with English adventurer Ernest Shackleton, set out to explore the Antarctic later that year.

The expedition was slated to cover 1,700 miles from the Weddell Sea below South America, across the pole to the Ross Sea, below New Zealand. The trip, according to Shackleton, would be “the biggest polar journey ever attempted.” But the crew of the *Endurance* would never reach Antarctica. Just a few days in, they were trapped in ice “like an almond in a piece of toffee.”

They were stranded for ten months and drifted aimlessly until the ship eventually was crushed and sank into the Weddell Sea.

What makes this story remarkable, though, is not what happened, but that no one died. There was no mutiny. The crew boarded three lifeboats and landed on Elephant Island, where Shackleton left behind all but five men and embarked on a treacherous journey across 800 miles of rough sea to find help, which eventually they did. Everyone survived and lived to tell about it.¹

What would account for the bravery and heroism displayed by the men who faced these unprecedented odds and hardship? Re-read the ad that Shackleton ran to recruit his team and notice what it *didn't* say. It didn't promise great wealth nor smooth sailing. It did say how difficult the journey would be; it was honest in its assessment of the risks in return for a chance at

achievement. The men knew what they were signing up for so when they encountered unexpected surprises and hardships they were prepared to handle them both physically and mentally.

The Difficult Investing Journey

It would be a stretch to relate financial planning and investment management to the experience these 28 men encountered. But achieving your lifetime financial goals is also a journey and I've always approached it the way Ernest Shackleton described his expedition to would-be crew members.

I explain to clients and prospective clients that while successful investing isn't complicated, it's still very difficult. It takes years of disciplined saving and painfully foregoing a portion of your current spending. I admit that the best investment approaches have only modest returns and cannot be relied upon for home-run results or consistent gains. I am the bearer of bad news in revealing that we—the professionals—cannot forecast the future and we rarely have any idea what will happen next to capital markets. I advise clients to spend cautiously, not because their wealth isn't significantly greater than a given year's income, but because tomorrow is always uncertain and unknowable and taking too much today could compromise a future where needs are unexpectedly greater. I always try to be open about how challenging it is to lose money, how strong the allure of alternative approaches or strategies can be, and just how difficult it is to stay the course. My message, as most clients have learned and openly admitted to me, is often redundant

Men wanted for hazardous journey. Small wages, bitter cold, long months of complete darkness, constant danger, safe return doubtful. Honor and recognition in case of success.

Continued...

and not particularly inspiring.

Wouldn't it be easier if I made claims of market-beating prowess from picking the right stocks or my market-timing acumen? I could suggest that periods like 2002, 2008, or 2011 are fairly predictable and my job is to see them coming and reposition your investments accordingly. This is what you hear from most brokers and financial advisors. Or maybe if I just didn't spend as much time talking about the risks of investing—the panics and bear markets—more people would be willing to sign up, being attracted to the perception of calm waters? After all, a look at the long-term trajectory of the stock market shows an almost uninterrupted rise with mostly mild and always temporary setbacks. I could advise clients it is ok to spend large chunks of their portfolios every year. Everyone likes a bigger paycheck, and the risks of spending too much or making too little don't materialize for years and sometimes decades.

Is there any doubt that Servo would be much bigger and have greater marketing success if I took the easy (low) road? Why have I designed my firm this way?

Truth, Trust and Time

First, I believe you deserve to know the truth. You should know that beating the market is hard and that most people can't do it consistently, despite their suggestions to the contrary. You've worked hard for your money (or know someone close to you who did), and you deserve a fair shake when it comes to trying to grow and protect it. You deserve to know the facts. But this candid approach also allows me to explain that you probably don't need to beat the market to achieve your long-term goals. Simply getting the returns of a market-based, diversified investment portfolio will likely be sufficient to accomplish most of what is important to you. I think there is some relief in that reality. Your lifetime financial success doesn't require finding a pot of gold at the end of the rainbow. More modest and easily employable avenues are sufficient.

Second, I hope that when I tell you the truth that you recognize it as such and I am able to earn your trust. If you understand that I sincerely want you to be as financially successful as you can be, then you will trust my advice and you will be more likely to follow it. Trust is one facet of enduring the inevitably difficult times that come from all successful investing approaches. Another is preparedness.

Just like Shackleton all but promised his crew members would encounter great challenges, I tell you that you will lose money along the way to accomplishing your goals—sometimes a lot. Few experiences in life prepare us for seeing 20%, 35%, or even 50% of our wealth temporarily disappear, and I believe most investing success and failure is attributable to how we respond during these infrequent but inevitable periods. By trying to have you as prepared as possible for what will happen—even if we have no idea when or even why—I believe you will be better equipped to respond reasonably. You will avoid making knee-jerk movements and sacrificing short-term relief for long-term peril.

Finally, and most importantly, I think my candid approach can offer you something even greater than enhanced wealth or more preparedness for your investment journey—financial peace of mind. Despite the fact that investment markets are continually erratic and you will always be bombarded by headlines that beg for attention and action, I hope that being as open and honest as possible might just afford you a truly rare achievement: to be able to relax about your money and not worry so much about it. I think when you're able to relax, you free yourself to spend time on more rewarding and important aspects of life. When you aren't worrying about your finances or short-term market movements, your eyes are open to other, more rewarding pursuits: your family and friends, your hobbies and passions, your career. Your devotion to these things can help you achieve much greater balance in life and much more fulfillment and happiness. I want this balance for you and for the friends and family members you graciously refer to me.

What Would Servo Say?

In the spirit of Ernest Shackleton's expedition over 100 years ago, if I was running a newspaper ad today for prospective clients, it might read: "Individuals and families with important long-term goals wanted for a hazardous investment journey. Decades of time and significant savings required, only modest returns possible, periodic and sometimes harrowing losses inevitable but unpredictable, and no guarantee of success. In return, the chance for greater financial peace of mind and freedom to spend on more important aspects of life."

¹ Sinek, Simon. *Start with why: How great leaders inspire everyone to take action*. New York, N.Y.: Portfolio, 2009.

Past performance is not a guarantee of future results. Diversification does not eliminate the risk of loss. Index and fund returns include the reinvestment of dividends but not expenses or additional advisory fees. This article is for informational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, product, or service. Servo is a Registered Investment Advisor (RIA) with clients nationwide. Unauthorized copying, reproducing, duplicating, or transmitting of this material is prohibited. For past *Factors In Focus* newsletters, please visit Servo's website at servowealth.com. **Edited by Kathy Walker.**

Contact Eric Nelson, CFA at eric@servowealth.com with any questions, comments, thoughts, or to discuss your personal financial situation.