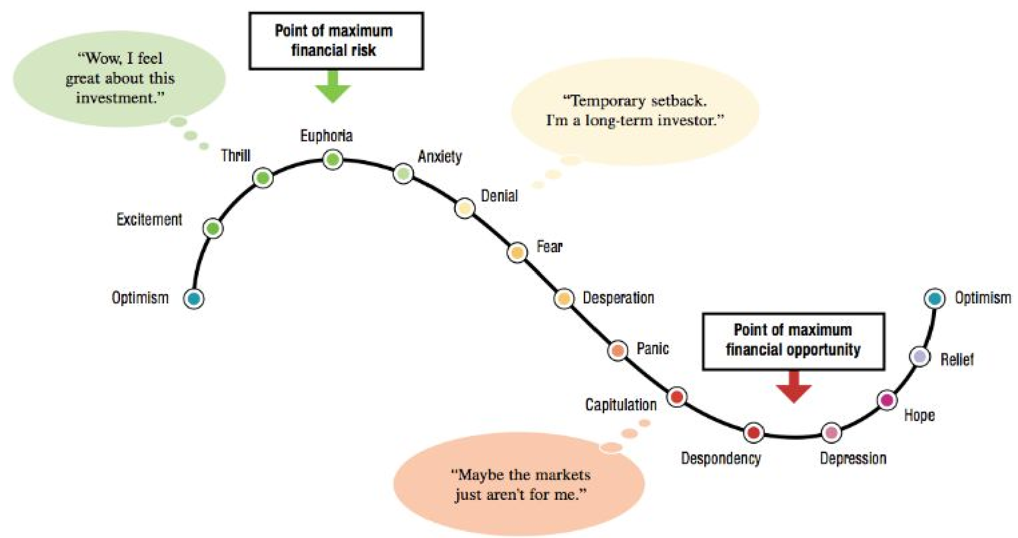
Pacific Capital



December 20, 2018

Your lifetime results as an investor will be mostly determined by what you do during wild times. Every past decline looks like an opportunity, every future decline looks like a risk.

There are investments out there that never get wild. They are called FDIC-insured savings accounts and they produce the exact return you deserve. 'Occasionally wild' is the cost of 'eventual gains.'

The biggest factor affecting market returns over a short period of time are changes in investor moods. And moods don't care about spreadsheet, reasoning, formulas, or metrics. They make fools out of those who try to predict them. Market valuations move fast. People's expectations of future returns are stickier. That's true in both directions, so gains shouldn't feel as good as they do and declines shouldn't hurt as much as they do if you have a time horizon over a few years.

There are two ways to prepare for wild times: You can expect them to come, or you can predict when they'll come. The former is realizing that throughout your career things will occasionally get wild ('Expect about two recessions per decade, on average.') The latter is predicting that things will get wild at a specific time ('A recession is coming this year.') The former isn't hard and helps, latter is extremely difficult and often backfires.

There are three legal investment strategies: You can be smarter than others. You can be luckier than others. Or you can be more patient than others. Know your edge and how hard it is to maintain. People who don't have room for error in their investments may earn higher returns than you this year or next year. But they are more likely to be wiped out, or give up, when they come across an inevitable surprise. Room for error gives you the endurance necessary to let compounding work over time.

If investing were all about math, mathematicians would be rich. If it were all about history, historians would be rich. If it were all about economics, economists would be rich. If it were all about psychology, psychologists would be rich. In reality it's a mix of many disciplines, but some of the brightest people specialize in one topic and can't see the world through another lens.

Risk's greatest fuels are leverage, overconfidence, ego, and impatience. Its greatest enemies are having options, humility, and other people's trust. Your lifetime results as an investor will be mostly determined by what you do during wild times.

The paragraphs above were written by Morgan Housel in article titled, "When Things Get Wild." It's perfectly written and I believe very appropriate for this moment when the financial markets seem "wild."

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