



Live *your* dream.

Acts of God, Acts of Man, and Acts of Foolishness

A well-used adage in the investment world is, “The markets hate uncertainty”, and yet we are surrounded by uncertainty. It is actually an understanding of what creates uncertainty that makes us better investors.

Here are three broad categories of uncertainties:

Acts of God

These events are typically hard to predict or avoid, such as tsunamis (Indonesia, 2004), earthquakes (China, Chile, Haiti, 2010), and volcano eruptions (Eyjafjallajökull or “island-mountain glacier” in Iceland, 2010). The effects of these acts on our finances can be dramatic, though they may not be immediate or obvious.

What we observed from this occurrence was the unprecedented shutdown of all air traffic;

As an example, look at the recent eruption in Iceland on April 14. There were no global warnings sent out a day, a week, or a month in advance; no mad scientist let us know it was coming.

What we observed from this occurrence was the unprecedented shutdown of all air traffic; airports turned into ghost towns in the UK and Europe, and the potential to affect other continents. The cost to airline companies was huge, with estimates of as much as \$200 million a day, a cost that will probably be uploaded to their insurance carriers. Exacerbating the short-term disruption will be the domino effect on

businesses and activities that are now delayed, including companies such as postal and sea cargo carriers.

But there is an upside to this event, as there often is. A yin and yang effect, I guess. In this case, ground transportation became the beneficiary of the volcano, and will most likely show a huge boost in revenues..

Acts of man

Many of these acts stem from individual or group actions such as terrorism (9/11), strikes, political regime changes, riots/revolutions and industry accidents, like the April 20 oil blowout in the Gulf of Mexico. These acts will affect the markets, but in ways that are usually not known for longer periods of time.

Acts of foolishness

The blame for this third type of act rests with most of us. We tend to fall for exceptional performance, a great story or, on the opposite side, acts of the “Chicken Little” (the sky is falling) syndrome. Just because an investment is currently generating high returns does NOT automatically make it a better investment. And just because everyone else is panicking and going to cash and gold, does not mean you should too.

Very often we see bubbles created by people believing that an investment going up extraordinarily must be a never-to-be-missed opportunity. Today, we continue to see these stories in areas such as the emerging markets (with claims it offers better growth than boring developed markets) and gold (with claims that inflation is going up to 1980s levels). We are not suggesting that these stories are false or misleading; however, you must do careful research before you decide to buy an investment after it has gone up. We have also heard that the world is coming to an end and that you should dump your well-thought-out investment strategy, abandon long-term thinking and switch to cash. Imagine if everyone had gone to cash in March of 2009? A 30% to 40% gain would have been lost forever.

How do you reduce the impact of these acts? The solution is quite rational and something we've been championing for a while: maintain a sound intellectual investment framework and keep your emotions from corroding that framework.

Acts of foolishness can be avoided by refusing to chase what's "hot" and letting go of the "regret" gene (I wish I had bought that...). You need to understand the composition of your portfolio, have good management, regular audits of those managers' performance, and independence from your emotions and biases.

Acts of man can be reduced through proper diversification and adherence to a financial plan.

Acts of God can't be avoided. They will occur every so often – reminding us that we are mere humans and to be thankful for what we have, especially our loved ones.



Trademarks owned by Investment Planning Counsel Inc. and licensed to its subsidiary corporations. Investment Planning Counsel is a fully integrated Wealth Management Company. Mortgage Broker services provided by IPC Save Inc. (ON Lic. #10227). Mutual Funds available through IPC Investment Corporation and IPC Securities Corporation. Securities available through IPC Securities Corporation, a member of CIPF. Insurance products available through IPC Estate Services Inc.