



It isn't About Being Right....

Ego is a funny thing. Few of us like to think about our ego. Even more disquieting is for others to think of us as egotistical; and yet, ego drives so much of our decision-making process. Right up there with “egotistical”, equally disparaging in the eyes of others is the thought that we are “judgmental”. Unfortunately, part of the human condition is to evaluate choices relative to our own standards – we can’t help but judge... and inherent in judgment is the binary conclusion of “right” versus “wrong”.

Our tendency is to draw conclusions or “judge” based on outcomes. Who won the game? Who lost? What was your grade on the exam? How much did your investment portfolio earn last year? We ALL want to be on the “right” side. Behavioral economists have identified “hindsight bias” as one of the preconceived notions that can sabotage our decision-making. We either fear making the “wrong” decision or, if the outcome is not what we sought, critiquing our decisions after the fact; once the outcome is known and hindsight, as they say, is “20-20”.

Making decisions in the face of uncertainty characterizes virtually every financial decision we make, from buying a home to making investment decisions; even making significant purchases. Am I going to regret buying those expensive shoes? Can I afford a new car? The quest for incremental certainty has fostered the field of quantitative investing – searching for combinations of quantifiable data or attributes that should lead to higher returns; algorithmic trading – highly sophisticated software programs seeking to exploit minor discrepancies in the price discovery function of financial markets. Even exhaustive Google searches to comparison shop before we buy that new large screen TV for the Super Bowl. And yet, there are so many variables affecting the ultimate outcomes of our choices over which we have absolutely NO control. Weather, our health and state of mind, global politics, availability of an item, or the actions of other parties, just to name a few.... And yet, we somehow believe that we can or should be able to achieve our intended outcome regardless of these variables. That our decisions should somehow always be the “right” one.

If you have ever had the opportunity to visit Nantucket Island off the coast of Massachusetts (or for that matter, observed the SUV of a family who has vacationed there) you may have seen one of my favorite bumper stickers, “**Fog Happens**”. Given the proper combination of meteorological conditions, fog is inevitable. If you are in a boat on the water and sail into a fog bank with limited visibility, one had better be on their toes to avoid a collision with another boat equally impaired! Probably safe to say, this wasn't the outcome you were expecting when you cast off on a sunny day for the proverbial “three-hour cruise”! Time to focus on the process to safely navigate out of the fog.



Staying on course and avoiding navigation hazards such as sandbars or shoals, not to mention other boats, can be tricky, even with the GPS and radar technology of today. Protocol is to insure everyone is wearing a life jacket...just in case. Reduce speed, turn on your running lights to increase the chances of being seen and sound your horn regularly. It helps to have someone stand on the bow of the boat to act as look-out. More likely than not, your pleasant afternoon sail just turned into an anxiety provoking and emotionally charged adventure and wherever you are headed, you'll be arriving later than expected!

The point of this metaphor is that so many potential variables are outside of one's control; to judge "right" or "wrong", "success" or "failure" based solely on outcomes is naïve at best. If you have adhered to a rational, intellectually honest process in arriving at a decision you can be confident it was a good decision at the time. The outcome is virtually independent of your decision and ultimately beyond your control. The advent of fog does not mean it was a terrible idea to go sailing!

If the outcome is undesirable, a subsequent decision may be necessary to address whatever variables conspired to thwart your initial plans. Having a "process" to cope with the diminished navigational abilities resulting from fog reassures the skipper and crew that they can successfully navigate out of the difficulty. Similarly, having a process for making financial choices can help us avoid self-defeating (often emotional) behaviors.

Equally as confounding are those individuals who recount with pride their decisions that always seem to be guided by their "golden touch" or "intuition". On occasion, circumstances can conspire to favor their choices, fostering a belief that they have "the gift". Were you so prescient to have purchased Zoom, Docusign or Peloton last December, BEFORE Covid made these the darlings of the stay-at-home pandemic? Often, the less favorable trades are forgotten (Were you equally as prescient that you sold all of your Marriott, Chevron and Exxon stock at the outset?) This distorted, optimistic view of one's prowess is likely reinforced by confirmation bias (the tendency to hear only those arguments that support your views) and recency bias – the tendency to believe current trends are likely to continue unabated into the future.

Have a clear understanding of your destination (what's most important to you); understand that higher reward typically entails higher risk, so manage your expectations accordingly. Rely on making informed choices based on a decision-making process. Avoid hindsight, other than as a valuable feedback tool and refrain from judging whether you were "right" based on the outcome. Process beats luck every time. Control what YOU can control.

And that reminds me of another favorite bumper sticker, "**Wag more, bark less!**"

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