Issue 139

A Peek into the PRIME QUADRANT

The 2018 Prime Quadrant Conference is nearly SOLD OUT!

Reserve your seat today for November 1st

www.pqconference.com

Upcoming Investor IQ Workshops

September 5, 2018
Taking Credit for Your Portfolio: A Primer on Investing in Credit

October 3, 2018
Selling Your Business & Beyond

November 1, 2018
The 2018 PQ Conference

We are pleased to announce Sarah Bloom Raskin among our distinguished speakers.

SARAH BLOOM RASKIN

Former Deputy Secretary of the U.S. Treasury & Governor of the Federal Reserve

Sarah Bloom Raskin was the Deputy Secretary of the U.S. Department of the Treasury, where she directed the Treasury, overseeing the drivers that bolster and sustain U.S. and global economic growth and recovery. Prior to her confirmation as Deputy Secretary, Ms. Raskin served as a Governor of the Federal Reserve Board where she conducted the nation's monetary policy, regulated banking institutions, monitored threats to financial stability, and engaged in oversight of the nation's payment systems.

What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which you achieve the highest return per unit of risk.

Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

Prime Quadrant is an investment research and consulting firm that helps high-

Stories of Interest

Sustaining Wealth is Harder Than Creating it
The Forbes list of the world's wealthiest people appears similar year after year, but the list isn't as stable as often assumed. Getting rich and staying rich are not equivalent: Sustaining great wealth actually requires more effort physically and mentally than creating it.

Life is More than Compounding Capital
The sin of obsessive frugality is just as bad as the sin of greed. Here is a captivating collection of stories that will make you re-evaluate your priorities and increase your joy in life.

Your First Thought is Rarely Your Best
Short-sightedness is a by-product of not thinking things through. Embracing patience and the time spent on thought will get you further in the long-game.

The Psychology of Money
In what other field does someone with no education and relevant experience outperform someone with the greatest education and extensive relevant experience? Managing money isn't necessarily about what you know; it's how you behave. Here is a lengthy, but fascinating report on 20 flaws, biases, and causes of bad behaviour observed when people deal with money.

The Way We See It

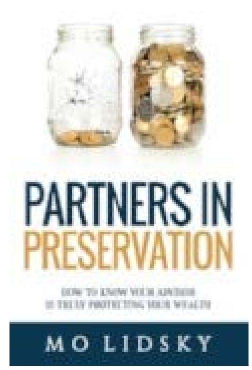
Below is a related excerpt from a recent presentation by Mo Lidsky.

Assessing Instinctive vs. Probabilistic Risk

Analyzing investment risk is a fascinating concept, in which I took

net-worth Canadians make better investment decisions.

Mo Lidsky's most recent book Partners in Preservation: How to Know your Advisor is Truly Protecting your Wealth is now available on Amazon and Indigo!



In Search of the Prime Quadrant: The Quest for Better Investment Decisions is available at a particular interest in the aftermath of the 2008 global financial crisis. Several years thereafter, I recruited a few brainy interns and tasked them with the responsibility of developing an all-encompassing risk score. I wanted them to take all major investment concerns and try to create a metric that was holistic, considering the severity of each possible risk. These interns spent months on the project, but every time they'd develop a new comprehensive measure of risk, we would poke so many holes in the theory that the pursuit of finding a singular risk metric appeared to be futile.

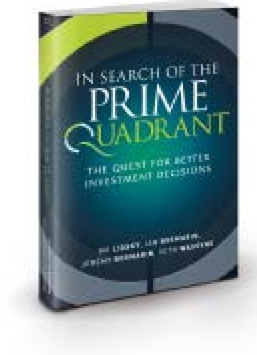
We eventually scrapped the project, but the puzzle of risk continues to beg for a solution. The question is, why do we have such a difficult time wrapping our heads around the concept of risk? Why has no one been able to identify an all-encompassing measure of risk?

I would like to suggest that the reason is due to the inherent subjectivity of risk, where we straddle the imperfect balance between reality and instinct. As such, only by understanding how we personally perceive risk, can we begin to take protective measures against it.

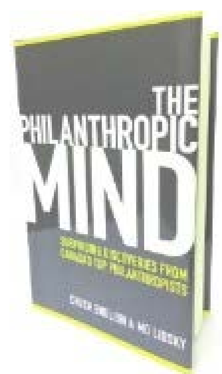
At the heart of risk is fear – one of the most basic emotional circuits in our brain. Fear influences our thinking more than conscious thought because the amygdala sends more information to the cortex than it receives. In scary situations, our brain relies more on evolutionary instinct than on rational thought. As a result, when in danger we freeze, fight, or flee. The one thing we don't do, however, is thoughtfully consider all our options. And since investing demands clear, objective analysis, instinctive reactions can be highly problematic.

In fact, humans working in highly stressful situations spend a great deal of time re-training their animal brains to "instinctively" choose the right response. Firefighters train themselves to run into burning buildings to overcome their instinctive desire to run back out. Similarly, we instruct children to "stop, drop, and roll" if their clothes catch on fire, in the hopes that we can retrain their instinct to flee.

Barnes & Noble and Indigo.



The Philanthropic Mind is also available on Amazon, Indigo and Barnes & Noble.



The further we are from our rational and objective decision making, the further we are from understanding and handicapping risk. Yet, most of us are likely to have at least one irrational fear. For example, it is irrational for a native New Zealander to fear bear attacks in a country without bears. It is equally irrational to fear flying in airplanes while being totally comfortable behind the wheel of a vehicle, as we know that the probabilities of losing life in a vehicle are infinitely greater.

The challenge is that bears and planes trigger an emotional response that psychologists refer to as “probability neglect.” In other words, when hazard stirs strong emotions it will lead people to factor in probability less and less. As a result, people will often go to great lengths to avoid risks that are emotionally charged but extremely unlikely, and not nearly far enough to avoid risks that aren’t emotionally charged but more likely to occur.

When it comes to investing, what can exacerbate instinctive reactions and reduce probabilistic analysis is the presence of immediate feedback. The availability and constant movement of stock market prices is the reason individuals make more foolish decisions with their stock portfolios than with their real estate or homes. Drastic drops in market prices set our instincts on fire and thoughtful or probabilistic decisions often fall by the wayside.

What separates exceptional investors from pedestrian ones is the ability to defy our instincts, avoid the comfort of the herd, and to make objectively better decisions. I’ve come to the conclusion that we may never see an all-encompassing risk score because, ultimately, understanding how one reacts to the market is far more important than understanding the market itself.

"The best way to get what you want is to deserve what you want."

- Charlie Munger

Our mailing address is:
2 St Clair Ave East, Suite 800
Toronto, ON
M4T 2T5