FREE

THE CLIENT LETTER

MONTHLY NEWSLETTER

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"Know When to Hold 'Em"
Investing vs. Gambling
(Some similarities and one big difference)

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Don Schlitz is one of the most prolific songwriters in this difficult town, winning the songwriter of the year award four consecutive times from 1988 -1991. Don was not a great "musician", even getting kicked out of his neighborhood garage band as a child. But knowing he wanted to be a songwriter he worked the graveyard shift in the Vanderbilt computer lab as a young man in order to allow him the daytime to write and pitch songs. Yada, yada, yada – he ended up writing a little ditty for Kenny Rogers called "***The Gambler***".

I have always been fascinated by gambling, especially the World Series of Poker. I am by no means an avid poker player, but I developed an intrigue for it when I tutored statistics classes at Belmont. I am fascinated by the rapid-fire calculations players make on every hand without the help of a computer or as much as a pad and pencil.

When poker players make their bets, it's not just about the cards they hold but also the probability of what cards their opponents may be holding. This requires assessing what cards have already been played and what may be left in the deck. The player then makes their wager based on the probability that they have the best hand.

Betting on a poker hand is a similar notion to allocating one's portfolio among various investments and asset classes based on economic outcomes. That is, how much should someone allocate their money to riskier investments for greater payoff versus safer assets for comfort (and a good nights' sleep). It depends on the assessment of the upside compared to the downside risks.

One recent example of this was the debt ceiling debate. Many people worried that a prolonged shutdown would crater the markets. Instead, an agreement was reached, and markets rallied. It is helpful in these types of scenarios to objectively assess the risks - and objectively means *without the unnecessary influence of fear mongering media outlets*. Remember, the media is paid based on advertising sales, NOT you reaching your financial goals.

In reality, the chances of a catastrophe from the debt ceiling debates, while not zero, was historically still relatively low. Therefore, it doesn't make logical sense to change one's portfolio dramatically based solely on such an unlikely scenario. Instead, the majority of one's money should be invested based on the ***most likely*** outcome – in this case, a resolution.

This would be like a poker player betting most of their chips on a hand holding only a ***pair of 3's***. Is it possible that the player could win with a pair of 3's? Sure. But there is a greater chance there is a better hand on the table. In this case, the player may bet a small amount (if any) - matching the size of their bet with the probability of a win. We will leave the topic of "*bluffing*" for another forum, but if anyone is interested in developing this skill, I can put you in touch with any of my daughters.

Now here comes the big difference…

In poker (as with most all casino games), the rules and odds are tilted slightly in favor of the house. In statistics this means the longer you sit at the table, the greater the chances you will lose. We all know the story of the person who was up big at the casino only to stay there and give it all back over the course of the night. Simply put, the chances of a loss go up with time.

But investing in the stock market is the opposite. The risk of a loss is higher in the short term, but that risk goes down over the long term. Basically, the longer you sit at the table, your chances of winning goes up in the stock market, not down.

Consider this, according to Forbes, your chances of losing money in the stock market over the past 100 years is approximately 25% for any single year. That means one out of four years in the market produces a loss (2022 was one of those years). But that percentage drops to nearly zero over a ten-year period. That's right, with reinvested dividends there has been ***virtually zero 10-year time periods that resulted in a loss***.

Of course, the stock market is not indicative of everyone's investment strategy, and past performance is no guarantee of the future, but ladies and gentlemen, the point of this comparison is that generally, you just have to stay at the table long enough. I have seen countless clients regret a short term move out of fear, but I cannot think of one that regrets staying invested long term. Don't let a down market cause you to "fold" too early….I feel like Kenny Rogers would agree.

Cole's Corner

While I am no poker player, I do know we all make decisions with limited information. Simply put, none of us know what the future will entail. That is why it is important to separate short term vs long term thinking and investment decisions. In today's world especially, we are all about instant gratification, but delayed gratification (long term investing) is what helps us reach our long-term goals. Your risk goes down the longer your time horizon and your probability of reaching your goals increases. There's always something to worry about and a reason to be fearful, but historically, markets go up more than they go down. And as Brick suggests, try not to "fold" too early.

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit – we appreciate the many referrals we have received over the years and encourage the introduction to others. Edie, Cole and I are happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

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Forbes BEST-IN-STATE WEALTH ADVISORS 2022 SHOOK RESEARCH

"2017 RJFS Chairman's Council Member"
"2019, 2021, 2022 Forbes Best-in-State Wealth Advisor Tennessee"
"2019 Bank Investment Consultant Top 100 Bank Advisors"

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Best-In-State Wealth Advisors (2019, 2021)
The Forbes ranking of Best-In-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative criteria and quantitative data. Those advisors who are considered have a minimum of seven years of experience, and the algorithm weighs factors like revenue trends, AUM, compliance records, industry experience and those who encompass best practices in their practices and approach to working with clients. Portfolio performance is not a criteria due to varying client objectives and lack of audited data. Out of 29,334 advisors nominated by their firms, 3,477 received the award. This ranking is not indicative of an advisor's future performance, is not an endorsement, and may not be representative of an individual client's experience. Neither Raymond James nor any of its financial advisors or RIA firms pay a fee in exchange for this award/rating. Raymond James is not affiliated with Forbes or Shook Research, LLC.

Top 100 Bank Advisors (2019)
To compile the list, multiple variables were combined into one composite score. The six categories used are: (1) assets under management; (2) trailing-12 month production; (3) percentage increase in AUM from the previous year; (4) percentage increase in T-12 production; (5) amount of fee business; and (6) the ratio of production-per-AUM. (Note: 2018 AUM was defined as the amount an advisor had as of Aug. 31, 2018. Likewise, for T-12 production, the 12-month period ending Aug. 31, 2018, was used.) The nominees were ranked by each of the six categories and then six different scores were calculated based on where they ranked. Those six scores were used to compile the final list. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. BIC is not affiliated with Raymond James.