

THE BIRCH LANE PERSPECTIVE

Preserving and Growing Wealth

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"I play to figure things out. I play to learn something. Because if you play with a fear of failure or you play with the will to win that supersedes fear, I think it's a weakness either way."

– Kobe Bryant

Investing as a Game

Recently I attended the DealMax conference in Las Vegas, which connects companies looking to grow through acquisition, companies who want to sell, private equity firms, family offices, investment bankers, attorneys, and other professionals who help people through the sale process.

At the bottom of the hotel, beneath the convention area, there was a casino. They designed the layout so visitors had to walk through this area on the way in or out, hoping to extract more from the wallets of those who pass by.

I certainly think there's nothing wrong with having a little fun with those games as long as it's done responsibly. But what struck me as I looked at all the flashing lights and animations on the machines was how silly and boring they looked to me.

While investing doesn't have flashing lights and chiming spectacles, it is a far more interesting game. There are some rules, but they are often broken successfully. Perhaps they are more suggestions than anything else. It is a game you play where you're constantly figuring things out, learning, and adapting.

You can follow a method that has worked for decades, then it doesn't work for several years in a row. You can be very successful for years with some strategies only to lose all your gains within a few months (or less). I've known people who invested in the hottest, most hyped up areas. They had several years of spectacular returns and let it get to their heads. Then they lost everything when the bubble burst.

Those areas, the highly speculative ones, are perhaps more akin to gambling. The most successful strategies, the ones that survive sudden downturns while still doing well over time, tend to be steady ones without a lot of action.

However, even a good strategy and good process is never right 100% of the time. That's what makes it interesting. There are patterns, you can often purchase things at an estimate of good value, but you are still wrong fairly often.

What is different from investing than gambling is you can potentially be the "house." In other words, you could potentially raise your success rate to more than 50% and thus be in the same position as the casino and not the gambler: you are trying to win more often

than you lose (or win considerably more when you're right than you lose when you're wrong).

The other major difference, of course, is that in investing you are putting your money in businesses that are creating value. It is not a zero sum game. When you invest in a business, it invests in products and services and grows revenue and profit, increasing the value of the business over time if successful. Casino games just pass money back and forth among the gamblers, with the casino taking a cut.

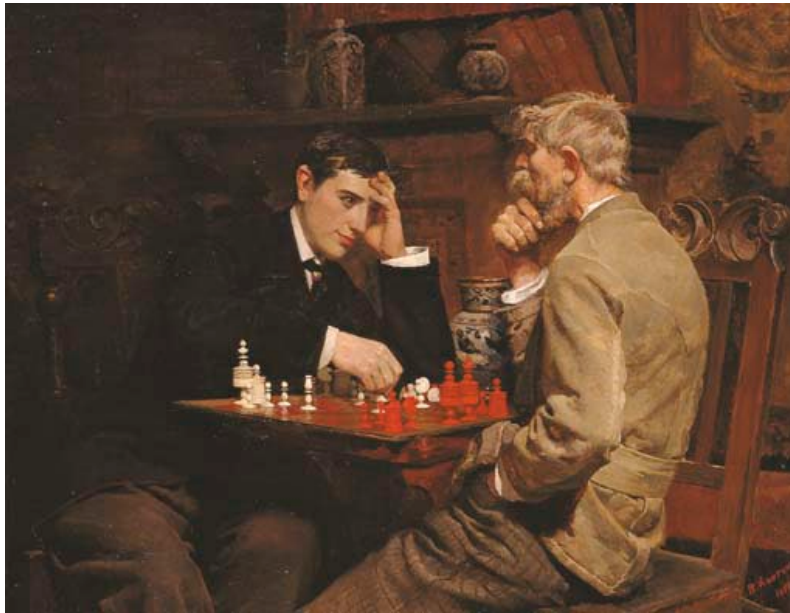
The market is expensive now, despite the pullback in certain stocks this year. In prior periods when it's been this expensive, returns were flat on average over the subsequent 10 years. Things are always changing, so this is no prediction, but it does serve a cautionary tale: jumping into highly priced stocks can lead to years of poor performance.

However, even in those flat 10-year periods in the past, there were businesses available that performed well. In my view, intelligent investing comes down to buying good businesses that are growing revenue, profits, and cash flow, and paying a reasonable price. If you do those two things consistently, you may not win every year, but I believe you'll do well over time and get through rough periods in stronger shape.

And putting that into practice makes investing my favorite game around.

Next Steps

[Schedule a consultation](#) today to explore what a resilient financial plan, asset allocation, and investment strategy looks like for you.



"The Chess Game" by Julian Ashton (1878). Source: [WikiArt.org](#).

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