

Success Assured - Keep Quiet!

The Difference is a book in which author Jean Chatzky details the results of a recent survey she conducted in collaboration with Merrill Lynch and Harris Interactive. They surveyed more than 5,000 wealthy people to discover if there were any common behaviors, personality traits or attitudes among these successful individuals. They defined wealthy as those people who have investable assets of \$2 million or more.

Seventy five percent of wealthy families in the US today earned their wealth, it was not inherited. The survey identified seven distinct traits of the “wealthy” personality. The first six - resilience, connectedness, drive, curiosity, intuition and confidence are characteristics that you would expect successful individuals to possess. But Chatzky was amazed to find that the seventh characteristic is optimism, which she described as a “wealth magnet.” Let’s define optimism as a confident expectation that things will turn out well; that life will bring more good than bad outcomes. Chatzky makes a distinction between optimism and happiness. Happiness is a short-term, present tense emotion. Optimism is a personality trait; it indicates how someone views the future. The newest research in behavioral finance indicates that we are born with about 50% of our optimism potential. The second half must be developed, it is a learned behavior. Here are some characteristics common among people who have developed the second half of their optimism potential--

- Optimists expect the unexpected. They understand that the future is unknowable but this doesn’t cause them to fear what it might bring.
- Optimists don’t let temporary disappointments keep them down. They know that problems are solved one step at a time and they are content to implement partial solutions.
- Optimists don’t believe that the universe is stacked against them. They believe that they have a great amount of control over their future.
- Optimists realize that isolation is a poison. They make it a priority to develop new relationships and spend their time with other optimistic people.
- Optimists love learning, stay intellectually active and don’t know what the phrase “over the hill” means.
- Optimists place a high priority on developing their spiritual lives and set aside time for mental and physical rest and recuperation.
- Optimists realize that worrying is a misuse of their imagination. They trust their own perspective on events rather than the media’s catastrophists - who extrapolate every piece of bad news to our inevitable doom.
- Optimists know that there is nothing new under the sun and that today’s daunting problems are no more difficult than ones that have been solved in the past.
- Optimists are appreciative and count their blessings. They believe that the world is full of good things to be savored and enjoyed.
- Optimists visualize success; it’s the movie that plays over and over in their minds. Their passion to succeed is accompanied by action. They look forward to the day when all their hard work will pay off.

One of the reasons that I love to study history is because it provides endless evidence of the folly of pessimism. Consider this quote from an article in the October 8, 1903 issue of *The New York Times* -

“(Human flight in a machine) might be evolved by the combined and continuous efforts of mathematicians in from one million to ten million years.”

On the same day, October 8, 1903, Orville Wright wrote the following entry in his diary -

“At one o’clock we took machine to small hill, where we made a few glides.

The diary entry for November 2, 1903 -

“Began work of placing engine on machine”

The diary entry for November 3, 1903 -

“Completed attachments for working tail.”

The diary entry for November 5, 1903 -

“We got the machine ready for testing engine and screws”

On December 15, 1903 Wilbur sent the following telegram to their father Milton -

“Misjudgment at start reduced flight (to) one hundred (and) twelve (feet). Power and control ample. Rudder only injured. Success assured keep quiet.”

Then on December 17, 1903 Orville sent this telegram to their father announcing that they had achieved the first controlled, powered and sustained heavier than air human flights -

“Success. Four flights Thursday morning all against twenty-one mile wind. Started from level with engine power alone. Average speed through air thirty one miles. Longest 57 seconds. Inform press. Home Christmas. Orville Wright.”

Orville requested their father to “inform press”. Their hometown paper, the *Dayton Journal*, refused to publish the story saying that the flights were too short to be important. Perhaps the editor was hoping that someday he could work for the *New York Times*.

On December 31, 1903 Milton Wright wrote in his diary -

“The past year was full of stirring events. I was serene and happy through it all, though grieved at the folly of many, and the wickedness of not a few. I believed that God would at last vindicate the right.”

It seems that Orville and Wilbur inherited their optimism from dear old dad. Aviation history gives us a great example of the folly of pessimism. The writer of the *New York Times* article could not have imagined that the owners of a bicycle shop in far off Dayton, Ohio had designed and built their own lightweight engine, the first aviation propellers and developed the first three axis system for controlling aircraft in flight. Moreover, he couldn't have imagined that, just as in all other technologies, the progress in aviation would increase logarithmically. This means that as time goes on, the rate of change accelerates.

The longest flight the Wright brothers made on December 17th travelled just 852 feet and lasted 59 seconds. Just 24 years later, Charles Lindbergh (Talk about an optimist!) flew solo across the Atlantic Ocean, staying airborne for 33½ hours. Just 20 years after Lindbergh, Chuck Yeager broke the sound barrier in the X-1. Fifteen years later the fastest plane ever built, the mach 3 SR 71 Blackbird, made its maiden flight. The epic journey of Apollo 11 followed just seven years later. Two years after Neil Armstrong set foot on the moon, Intel invented the microchip. Today, your cell phone has more computing power than all the computers used by NASA to put men on the moon.

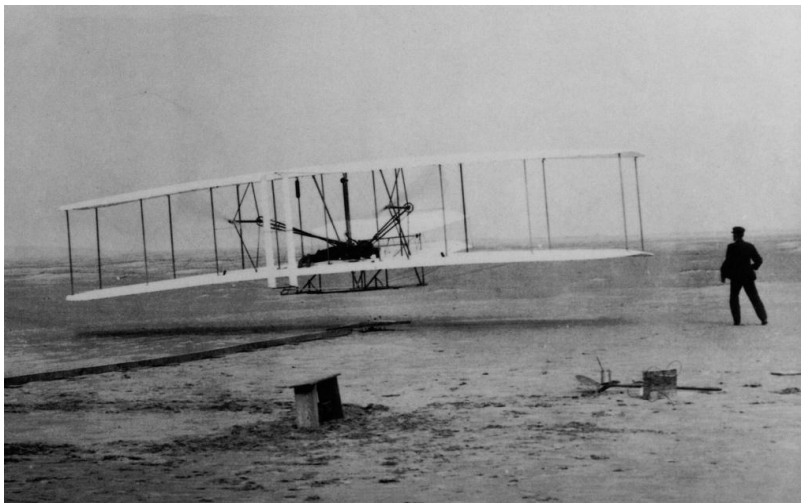
Pessimists inevitably try to craft solutions for tomorrow's problems with today's ideas and technologies. They are not entrepreneurs; they have no vision. If they cannot conceive of a solution to a difficult problem, they act as if no solution exists. On the other hand, optimists don't feel that they need to know how difficult problems will be solved but they remain confident that somebody will figure out a solution. They realize that history is the story of how the human race has progressed by solving its problems. We humans have the self-preserving habit of stepping aside when we see disaster approaching. When we see danger ahead we adapt and change, sometimes frustratingly slowly, before doomsday arrives.

Historically our collective cultural optimism has been known as the American Dream. It is the long-standing belief that if we work hard and provide our children with a good education they will enjoy a higher standard of living. It seems strange to me that among native-born American adults, who have lived this American Dream, belief in the American Dream is fading. It has been replaced with an unwarranted pessimistic cynicism about America's future. It seems that the longer life stays good and the more global wealth that is created, the more sure pessimists become that the end is near. However, the American dream is still alive and well among immigrants who don't share their pessimism. How strange. How sad.

The future belongs to the well-educated. Education, or the lack of education, will be the economic dividing line in the future. Students who attend college and study something serious will have opportunities unmatched in any other place or time in history. For them, the American Dream will be alive and well. In the future, the demand for well educated people will make employment discrimination by race, creed or gender obsolete vestiges from the past.

Optimism is a necessary ingredient to a healthy growing society. Our economy remains robust and resilient. America and our capitalist system offer extraordinary opportunities for individuals to achieve their dreams, whatever they may be. Throughout our nation there are modern-day Wright brothers, optimists with an entrepreneurial spirit and a vision to change the world. Their minds are filled with new ideas and concepts that most of us cannot envisage. They will develop the technologies and products that will be changing the way we live in the decades to come. I can't wait to find out what they're up to.

On behalf of those of us who love aviation, a tip of the Captain's hat to Orville and Wilbur Wright. They had a dream playing over and over in their minds. It looked something like this -



Ups & Downs

Let's take a peek at three different articles written by the same author in *The Wall Street Journal* this past week.

On Tuesday, Peter McKay wrote that Monday's 118 point gain in the Dow Jones Industrial Average was driven by strong earnings and a five-year high in US factory output. McKay also noted that U.S. Treasury bonds declined in value as investors sold the bonds and invested the proceeds in riskier assets such as stocks and commodities.

On Wednesday, he wrote that Tuesday's 111 point gain in the Dow Jones Industrial Average was driven by good news from the home building industry. Commodities rose again.

But on Friday, Peter sadly informed readers that Thursday's 268 point loss in the Dow Jones Industrial Average was caused by fears about the global economy as well as worries that Greece might default on its sovereign debt. So investors forgot about Monday and Tuesday, reversed course and sold stocks and commodities and invested the proceeds in safe US Treasuries.

Peter MacKay is paid to answer the question - "Why did the market do what it did yesterday?" He cannot say "Nobody knows." He can't say "Don't ask me, it goes up and down like this all the time." He wouldn't dare say, "How am I supposed to know? I'm just a journalist." So, like most financial journalists, if the market

went up he will credit the rise to whatever good news was reported yesterday. Likewise, on days when the market goes down we will be told that some particular piece of bad news caused the decline. There's no evidence given that the cited reasons are correct. Fortunately for journalists, as long as their logic seems reasonable, no one can prove that their cause and effect assumptions are erroneous. Besides, tomorrow at this time there will be a new article describing why the market did what it did today.

I'm going to let you in on a little secret that will probably get me kicked out of the Wall Street Is Really Mysterious Club. The New York Stock Exchange is the world's largest flea market. There are millions of shares of stock for sale every day and none of the shares has a list price. Every day, a buyer must be found for every share of stock that another investor wishes to sell. Likewise, a seller must be found for every share of stock that another investor wants to purchase. Every day the number of shares sold must equal the number of shares purchased.

The people who are tasked with the assignment to produce a balance between sell orders and buy orders are called market makers. Market makers create a liquid market by quoting a "bid" price at which they will buy shares of a particular company's stock and an "ask" price at which they will sell these shares. These prices change throughout the day to keep a balance between the buy and sell orders of a particular stock.

So last Monday and Tuesday, the number of shares of the 30 companies in the Dow Jones Industrial Average that investors wanted to buy exceeded the number shares originally being offered for sale. So the market makers had to raise the price they were willing to pay for these shares (they raised the bid price) until enough sellers emerged to fill every buy order. That's why the Dow Jones Industrial Average rose on those days.

On Thursday the opposite happened. The number of shares offered for sale exceeded the demand for these shares at the then current prices. So, market makers discounted the prices for these shares (they lowered the ask price) until enough buyers were found to fill every sell order. Does this make sense? Please say "Yes" because it couldn't be simpler and it's all you really need to know about why the stock market did what it did yesterday.

In the long run (decades) stock prices will rise with the growth of the economy. Historically, the annual growth rate of the US economy has been about 3%. Add to this the historical annual stock dividend yield of about 4% and annual inflation of 3% and you come up with the 10% annualized average return of large-company US stocks for the last century or so. But in the short run, no such simple calculation can be made. The short-term movements of the stock market are random. From one day to the next no one can be sure which way the market will go. On most days the reasons behind the buy and sell decisions of millions of investors cannot be summarized in a few short paragraphs in *The Wall Street Journal*. This may make for very dull journalism but it's the plain unvarnished truth.

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