

Risk and Mindsets

He was an old man who fished alone in a skiff in the Gulf Stream and he had gone eighty-four days now without taking a fish. In the first forty days a boy had been with him. But after forty days without a fish the boy's parents had told him that the old man was now definitely and finally salao, which is the worst form of unlucky, and the boy had gone at their orders in another boat which caught three good fish the first week.¹

Ernest Hemingway

Perhaps your stock selection experience is much like the fishing misfortune of Hemingway's old man. Maybe you view yourself being possessed by excessive *Salao*, real or imagined, and that prevents you from even attempting to play in the market; for sure, ineffective stock results wear on you and destroy your confidence.

The truth is that we all have *Salao* in our DNA. Unfortunately, some of us appear to have more *Salao* than others. Sure, you can shake the Magic 8 Ball harder or yell at the sky for celestial intervention, but the record may still show that your assets don't even get you to the next county, let alone the Moon. So you intentionally compromise by not playing in the game and you ghost your own rocket.

¹ Ernest Hemingway, *The Old Man and the Sea* (Scribner/Simon & Schuster, 2003; Copyright 1952 by Ernest Hemingway): 9

In addition to the *Salao* risk you bring, there is the investment risk the market brings per the assets you select. In simplified market portfolio theory, these two investment risks are referred to as *systemic* and *unsystematic*. Systemic risk is common across all investments, whereas unsystematic risk is specific to the investment choices you make.

How do you straitjacket systemic and unsystematic risk? Regarding the former, you really can't, other than closing your position and perhaps moving the cash to money market instruments. But unsystematic risk can be greatly reduced by having a diversified stock portfolio. Still though, there is your "unlucky" risk: *Salao*, and it must be confronted as it shall determine your rewards at the end of the day. Let's stretch our foreign language inputs to include another impactful word that is 180 degrees different from *Salao*, and that is the Finnish word of *Sisu*.²

Sisu has a mystical, almost magical meaning. It is a Finnish term that can be roughly translated into English as strength of will, determination, perseverance, and acting rationally in the face of adversity.

Sisu is not momentary courage, but the ability to sustain that courage. It is a word that cannot be fully translated. It stands for the philosophy that what must be done will be done, regardless of cost.

Your rocket to the Moon is very much dependent on your *Sisu*. Let's go backward to hear the story of a voyager and *Sisu*, and then we'll go forward to build yours.

In 1914, going to the South Pole would be like going to the Moon today. Ernest Shackleton and his ship, the *Endurance*, sailed 12,000 miles from England to the Antarctica with his intention to be the first person to traverse the South Pole, end-to-end. However, the *Endurance* became stuck in pack ice, sank, and the 28 crew members had to live on an ice floe for six torturous months in frigid sub-zero weather, having only minimal food supplies and the mental strain of no-help-is-on-the-way. Knowing the ice floe would eventually melt in its drift North, Shackleton had to pivot.³

²<https://www.finlandia.edu/about/our-finnish-heritage>.

³For a great read on Ernest Shackleton, get *Endurance, Shackleton's Incredible Voyage* by Alfred Lansing (Basic Books, 2014), <https://www.amazon.ca/Endurance-Shackletons-Incredible-Alfred-Lansing>. Other terrific reads that I sourced were: <https://www.auroraexpeditions.com.au/blog/shackletons-endurance-expedition-timeline/amp/>, <https://www.coolantarctica.com/Antarctica>, <https://www.history.com/news/shackleton-endurance-survival>.

There's more.

To save themselves, the entire crew squeezed into three open lifeboats, which they hauled over jagged pack ice and desperately rowed 350 miles for five days and nights through the howling Weddell arctic sea, vicious wind, and unrelenting cold to arrive at barren, snowy, Elephant Island.

Wow! Yup, there's still more.

Elephant Island had little food options and was far from shipping lanes—they had zero chance of being discovered. At latitude -61° , it would be the equivalent of where Anchorage, Alaska, is—except Down Under. After two weeks of living inside protective caves dug into a stunted hillside to avoid the often 75 mph winds, Shackleton decided their only chance was to take five men and row an astounding 825 miles north to South Georgia Island (a.k.a. the “Alps in mid-ocean”) where he believed a whaling station existed. They arrived at South Georgia after two weeks of navigating the violent seas of the South Atlantic, considered the most dangerous and unpredictable on Earth.

825 miles! That's like rowing from Portland to Los Angeles! Not done though.

Since they landed on the uninhabited south shore, Shackleton and two of the crew had to hike 30 miles over an unexplored, glacier-studded mountain range to get to the northside whaling station. They completed the crossing in two days. Help was secured and all South Georgia and Elephant Island crew survived.

It takes *Sisu* to invest in the market. If you were in the market at the time, how did you react when it melted in March of 2020? “In barely four trading days, the Dow Jones Industrial Average (DJIA) plunged 6,400 points, a beat-down of roughly 26%.”⁴ Did you have the courage to see your investments through? Or did you panic and tap out? On March 18, 2020, the DJIA was 18,592. Yet, little more than a month later, on April 29, the DJIA finished the day at 24,634, a 32% increase from March 18. Too much *Salao* and not enough *Sisu* in your makeup? How can this be corrected? The formula for overriding *Salao* and leveraging up *Sisu* is quite simple: it was developed by the brilliant nineteenth-century chemist Dr. Louis Pasteur.⁵

Luck favors the prepared mind.

⁴<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7343658>.

⁵Paraphrased from <https://www.nhlbi.nih.gov/directors-messages/serendipity-and-the-prepared-mind>.

Preparation boosts *Sisu* and crushes *Salao*, leading to an increased confidence that enables a fresh prism of investment possibilities. Your investment rewards percolate between all the risk elements: systemic-unsystematic, plus your *Salao* versus *Sisu* mindset, as shown in figure 1.1.

Think back to any sport you played or any test you wrote. You likely prepared hard. And the day came for you to compete. You were ready to try out for a starting position on your high school soccer team. Or to take the SAT. The risk of failure was minimized, and your confidence maximized by putting yourself in a position to succeed. In the context of the stock market, the reduction of *Salao* and increase of *Sisu* through preparation moves you from being a gambler to being an investor. We've seen this model play out in other areas of life, for example, in the "peace through strength" diplomatic approach: you can achieve the objective of peace (lowered risk of war and increased benefit to humanity) through advanced military preparation.

The NASDAQ and NYSE together list about 6,000 companies and, on some days, a combined daily trade of over 8 billion shares.⁶ How can the

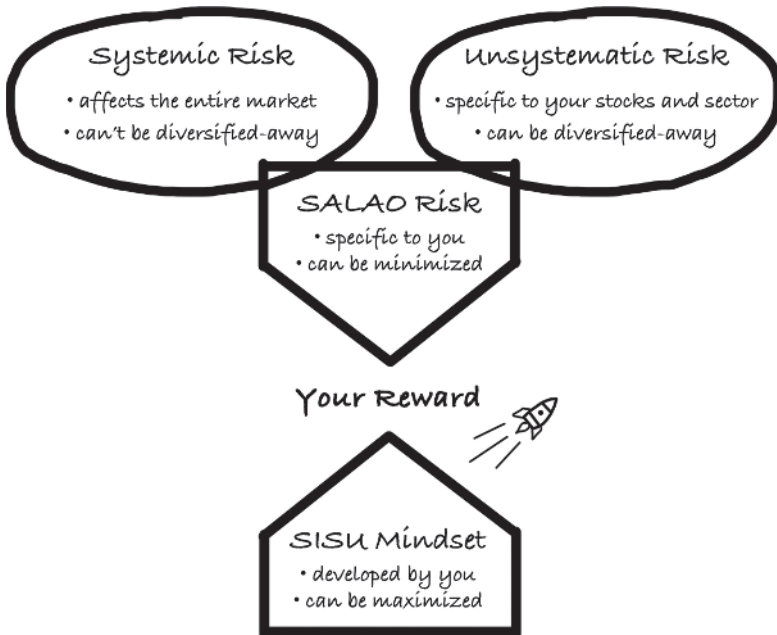


FIGURE 1.1 Risk and Reward

⁶ <https://www.wsj.com/market-data/stocks/marketsdiary> and <https://www.statista.com/statistics/1277216/nyse-nasdaq-comparison-number-listed-companies>.



FIGURE 1.2 *Salao Versus Sisu*

retail investor play in the same arena with the wolf pack of professional hedge funds, trading houses, banks, and mutual fund players and their obvious informational advantages? All your groundwork might still put you at a disadvantage to them. Again, that's where the **EQ**, which we create in part IV, gives you the support you require, because it's not just about the data, it's also how you plan, develop, and interpret your choices. In figure 1.2, your *Salao* and *Sisu* pivot on your preparation and completed **EQ**; as you paint the canvas with deep and wise market insight, your monetary gains will increase.

Of course, it's easy to say: Prepare More! If given the code to launch a rocket, it's useless unless you have the capacity to steer. Or in our case, the **EQ** canvases require that your training incorporates vital constructs, as gifted to you in the following chapters, so that you can maneuver to the Moon.

■ Capsule

- There is the risk the market brings: systemic and unsystematic.
- And just as important as market risk is the risk you bring: *Salao*.
- You must have a courageous mindset to win in the market: *Sisu*.
- Defeating your *Salao* and building your *Sisu* is a function of your preparation.
- Preparation + **EQ** = Rewards (optimal returns).
- Modern Portfolio Theory supposes that the maximum return for a specific risk class places one's portfolio on an efficient frontier curve; regardless, for us, we shall be guided by the following:

As a visual and motivational challenge, in our metaverse, we shall rocket to, and through, the efficient frontier to the Moon!

