

## THE GRAND CANYON EFFECT

**Extrapolating the current system has its consequences**

Uniqueness is one of the two delusions which prompt investors to view the apocalypse *du jour* as potentially terminal; the other is **extrapolation**. Say we're in a car, a hundred miles east of the Grand Canyon, and we're driving west at 60 mph. Extrapolating our current direction and speed, it's clear that well within two hours, we will drive over the edge of the canyon and hurtle fatally to the floor below. The internal logic of this conclusion is inarguable, but the larger hypothesis is absurd. We will not, in fact, keep to our current course and speed; realizing the danger, we will change our direction and/or stop the car.

Likewise, it's axiomatic that, on its present course, the Social Security system will soon be paying more in benefits than it's taking in, and as the baby boomers retire in huge numbers, their benefits will completely overwhelm contributions from current workers. Hence, the specter of Social Security "going bankrupt" is always a staple topic for alarmist journalism, when nothing more urgent seems to be going wrong.

The flaw is always in the assumptions: you can't, in fact, extrapolate the current system. One way and another, probably piecemeal over a long period, we're going to "fix" Social Security. We'll push back the retirement age, and/or index benefits to the cost of living instead of to wages, and/or raise payroll taxes, and/or means-test future benefits, and/or whatever. ***In other words, as we get closer to the edge of the Grand Canyon, we'll change direction and/or stop the car.***

"All successful investing is a battle between one's need for certainty and one's tolerance for ambiguity. The emotional capacity to function under uncertainty is both the key to capturing stock market returns and a critical test of one's emotional maturity."

- Nick Murray

The extrapolation fallacy therefore rests on three false premises:

- \* **Today's singular crisis** is, all by itself, capable of breaking the American economy
- \* This crisis will continue in a straight line
- \* We are powerless to alter its course

Since none of these things (much less all of them) is ever true, the catastrophist conclusions investors draw from them are never warranted. **Just look at all the past crises.**

**continued on page 2**

# INSIGHTS

We will never be without problems, and some of them will be extremely serious problems. What cries out to us, in evaluating bear markets, is that 100% of the time in history, we've had an endless chain of permanent advances punctuated by temporary declines. In other words... we bend, but we never break. And when we recover, we are more flexible, more resilient, more transparent, and more entrepreneurial than ever.

***The world does not end; it only appears to be ending from time to time.***

*-Excerpt from financial author, Nick Murray*



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