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What Top Performers Know

Life has its imperfections, but top performers believe things will work out. Their attitude is a choice. An optimistic viewpoint creates positive emotions that deliver more confident approaches and increase the chances desired outcomes will appear. Thoughts, feelings, behaviors. They all flow together. Each impacts the other. Your attitudes determine what you see in the world, how you interpret what you see, and how you react to what you interpret. A positive attitude increases your chances for the desired outcomes.

1. **Facts** Facts are neither right or wrong. They simply are. A fact is something that can be objectively verified. Opinions of events are personal assessments which may or may not correspond with fact. Producing results is not about being right or wrong, nor is it about failure. It's about the results. Decision making is a choice between alternatives when all facts are not yet (and cannot yet be) known. The future depends on today's actions.
2. **Recognition** When individuals face loss they go through stages. There is a book on Death and Dying by Elizabeth Kubler-Ross. She describes five stages; denial, anger, bargaining, depression, and acceptance. Death is a discrete event. Investment management is a continuous processes. Continuous processes have no predetermined ending point, they go on forever. Learning is a process. Think of the differences between these discrete and continuous processes. Understanding will allow you to look forward to tomorrow.
3. **Risk** Everyday life is a risk ("Life is trouble. Only death is not." - Nikos Kazantzakis, Zorba the Greek). Estimating and managing risk is a necessary part of life. Crossing the street is a risk, driving a car is a risk, getting married is a risk, and so is having children. Risk is defined as the possibility of suffering a loss (it's a probability only if you can assign a numerical value to the likelihood of the loss). In many of life's activities there is no guarantee of success or of having things turn out the way you want. Peter Drucker called 'inherent' risk that which is coincident with the

commitment of present resources with the expectation of future results. Investing is a long term event. Traders are in the business of 'making a market'. Speculators buy for resale (flipping - where price appreciation is the sole expected return). Gambling is entertainment (its distinguishing feature is that it deals with the unknown, with pure chance). Investing keeps you continuously exposed to a current commitment of resources in expectation of future results.

4. **Probabilities** Discrete event outcomes are independent. We often overvalue the low probability of a high gain (have you played the Mega Millions $1 billion jackpot?). Further, we tend to overestimate the frequency of infrequent events, and often confuse unusual events with low-probability events. Risk, exposure, and probability: the definition of risk is to expose yourself to the chance or the possibility of an outcome. Unique events don't have a probability. They are non-repeatable. Focusing on your exposure allows you to manage your downside. Expecting the upside does not make it so. Cover your downside. After a long bull market is a bust is inevitable?
5. **Rewards, Emotions and Responsibility** There are only two kinds of rewards in this world, recognition and money. Examine the reasons for the behaviors you exhibit, not your activities. Man is extremely uncomfortable with uncertainty and tends to create a false sense of security by substituting certainty for uncertainty. Emotions are strong feelings that arise subjectively rather than through conscious mental effort. If you don't have conscious control of your actions then your emotions, or your biology, have control of you. An individual who acts after reasoning, deliberation and analysis remains in control.
6. **Rules, Tools and Planning** In the words of financial editor James Grant, "Because the future is always unfathomable, there are always buyers and sellers in every market. If the future could be accurately divined, markets would disband because nobody would ever take the losing side of a trade." Human activities involve risk for the simple reason the future is not certain; it never completely reveals itself. The rules of natural science do not render the future predictable. Successful investing is the result of disciplined speculation. Dividends and interest do not simply materialize. To plan means to think before acting, not to think and act simultaneously, nor to act before thinking.
7. **Decision Making** Decisions you make depend on your goals and objectives. No single method is satisfactory for everyone. Analysis will not tell you what to do or when to do it. Rules should be developed to implement actions. Analysis tools have flexibility in how they are used. But you must develop the ability to identify opportunities and then determine how and when to act. How? By doing your homework. Your action rules should be "if...then" statements that result in well thought out responses to events when met (that's Ray Dalio's Bridgewater's investment approach). Remember, as Peter Drucker reminded us: "There is no perfect decision."

Everyone would like to know the secret ingredients to a successful plan. But it's not just the ingredients, it's the entire recipe. No one plan works for all. But planning in advance provides a clear course based on what you expect. If the future doesn't happen as you expect, you will be prepared and will know how to react. Some say the future cannot be predicted. I say the way to predict your future is to create it. Be proactive. ***"Where you'll be tomorrow, depends on what you do today"***.

Paul Lechner Esq., CPA
Office: 708.460.6686
www.lechnerlaw.com