Code green: Building financial independence

Ten investing lessons learned (the hard way).

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"Only a fool learns from his own mistakes. The wise man learns from the mistakes of others." – Otto von Bismarck

It's late 1999. Technology investors are despondent as they parse their ravaged portfolios. The phone rings. It's my father, a respected neurosurgeon, who has been eagerly anticipating a comfortable retirement. But something has happened. He tells me that he has been wiped out. He wants to know why. After all, he asked his advisor to position him very conservatively.

We found out—far too late—that 90% of his portfolio had been invested by his stockbroker in the infamous company Nortel. Ouch. The result has been very upsetting: despite working hard all his life, my dad has never traveled off this continent and is even reluctant to launder his clothes! This is because he is terrified he will run out of money. This disaster taught my family the first of many lessons.

Over the past 2 decades, David and I have been motivated students of the capital markets. We have been struck by how similar the practices of medicine and investing are, particularly in terms of the burgeoning importance of decision science. We have certainly made our share of mistakes and unforced errors.

We would like to share 10 lessons we have learned (mostly the hard way) in the hope that the reader might not stumble where we have.

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Don't expect too much, though! It's our consistent experience that most of us have to make our own mistakes: geniuses are truly rare.

1. No one cares about your wealth as much as you do. Like a patient under general anesthesia, your financial position needs careful monitoring.
2. Think about the downside risk first. In other words, before you go down the path of an intervention or investment, try to imagine what could go terribly wrong and how that might play out. Do you have an edge? Is the risk worth the benefit?
3. If it sounds too good to be true, it probably is. In the medical world, single-centre RCTs have often yielded impressive results that entice early adopters, only to be overturned by subsequent research. Financial opportunities are no different: the devil is in the fine print. Delve deep.
4. Is there a margin of safety? Remember the idea of a therapeutic window in pharmacology? The larger the therapeutic window, the safer the drug. The margin of safety in finance is analogous: it's a financial backstop of sorts.
5. The tougher things get, the calmer you should be. The best investment opportunities occur during market panic. Similarly, the best clinicians are kind and empathetic, yet cool as a cucumber under pressure.
6. The tougher things get, the more patient you should be. William Osler famously said, "What is patience but an equanimity which enables you to rise superior to the trials of life."[1] In markets, having a long-term focus is an enormous competitive advantage. The average investor's holding period of a stock has dropped from 8 years in the 1960s to only 8 months in 2016!
7. Simple is better than complicated. If you don't understand it well enough to explain it to an 8-year-old, don't do it.
8. "You can't make a good deal with a bad person." A quote from Warren Buffett that applies to all avenues in life: integrity matters. A lot.
9. Recognize your limitations.
10 It's actually true: money isn't everything! Your most precious assets are your family, your health, and your time. Guard them, invest in them, and cherish them.

We think these lessons have made us much better doctors and investors. ■

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Competing interests

Drs Porayko and Wingnean are founders of 3P Financial, a pension advisory company for professionals. They are also registered dealing agents for McElvaine Investment Management Ltd., a portfolio manager.

Reference

1. Silverman ME, Murray TJ, Bryan CS, editors. The quotable Osler. American College of Physicians, Philadelphia; 2003.