

Hello Everyone,

This is a weird missive...even by my standards. Christopher Columbus, the Tainos of San Salvador, and a Brongobar serve to make our investing point today.

If, however, you read it all the way through I believe you will understand human behavior a little differently---- and become better investors.

Signed, Your-It's-Not-Always-Easy-To-Come-Up-With-New-Ways-To-Explain-Investor-Behavior Financial Advisor,

Greg

KKOB 12.03.2018 Columbus, SEP, Taino, & Debt

Bob: OK. So, this morning you want to talk about Christopher Columbus and investments. I can't wait to hear where this one goes.

Greg: OK. Here we go. In 1492, Christopher Columbus moored his ships off the island of what today we would call San Salvador.

The Taino (tay-no) people who inhabited the island had never seen sailing ships, cannons, or matchlock muskets. Now, you would think this tremendously new sight would cause all kinds of excitement...maybe some fear...possibly even some panic. But records show the opposite occurred. Columbus's ships were ignored.

So, the question is why?

Psychologists tell us that humans have a natural predisposition to not see things they don't want to. They also say, humans tend to deny things they weren't expecting...or, can't explain.

Translation----apparently our brains have breaker switches that won't allow us to see things that would upset everything we thought to be true. Thus, the brain edits it out.

Some call this the "Somebody Else's Problem" syndrome. In short, "*I can't handle it, so I refuse to see it--- and somebody else must deal with this.*"

Bob: So, let me see if I understand this. On a small scale, inner-cities have graffiti sprayed everywhere---and no one seems to notice. The graffiti is ugly, but people don't think they can't do anything about it, so they stop seeing it.

Greg: Right. That falls into the "It's so big, I don't want to see it," category. Now try to imagine something you can't explain.

Let's say you are at a football game and giant purple object shaped like an upside-down porcupine hovers over the parking lot. Someone next to you says, "Hey, that's a Brongobor with phastron mixelplixes." At that moment, you would be no different than the Taino who were told, "That's a European sailing ship with 40 cannons." And, yes, I made all those weird words up.

Bob: So, you're saying that thing hovering over the parking lot would be so outside my wheelhouse, my brain would go into a defensive mode. I'd refuse to see it. And, even if I did see it---and tried to warn others in the stadium-- they would just tell me to shut up and watch the game. Is that right?

Greg: Well, that's what the researchers would say. So, let's test it. Is there evidence we are prone to this type of denial today? Or, are we more sophisticated than the Taino?

Let's link this concept to my world of finance and investing. Researchers are relatively certain humans cannot grasp the concept of trillions. In fact, after about a million, the numbers get so big the brain can't grasp the number in any meaningful way.

Thus, when the term "trillions" is thrown around to describe debts or deficits, we may as well be talking about inner-city graffiti. It's too big....it's somebody else's problem...so, as investors, we tend to ignore it.

Oh, and if you get to quadrillions, which is the current state of derivatives exposure around the globe, you may as well be talking about the hovering purple Brongobor. We don't just ignore derivatives, we refuse to believe they exist.

Yet, trillions in debt-- and over a quadrillion in derivatives---could be as dangerous to your financial health as Columbus's cannon and muskets were to the Taino.

Bob: OK. So, let's pretend I have grasped the magnitude of the problem. I know Columbus's cannons are dangerous. I see that purple thing over the stadium. Even if no one will listen to me, shouldn't I do something? I mean, what are my options?

Greg: Well, if you were a Taino, your best option was to run. You were outgunned.

With respect to investments, I'd offer the same advice. The trillions--and quadrillions-- I mentioned have a common denominator which is debt. You're outgunned. Run away. Avoid any investment burdened by excessive debt....otherwise I fear the phastron mixelpixes will get you.

Bob: And, none of us wants that! How do people reach you?

Greg: My number is 508-5550, 508-triple-5 zero, or go to my website at zanetifinancial.com.

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