

Consequences are More Important than Probabilities

The Wisdom of Peter L. Bernstein

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Physician's Financial News Live: June 16, 2009

Peter L. Bernstein died on June 5th, 2009. This investment pioneer, ninety years old at his death, knew a thing or two about making money. He was trained at Harvard and later co-founded the *Journal of Portfolio Management*. He also wrote six books. He had tremendous experience on his side when he imparted his investment wisdom. "...You have to think about the consequences of what you're doing and establish that you can survive them if you're wrong. Consequences are more important than probabilities," he once advised in a 2004 [interview](#).

Bernstein also knew what he didn't know and used that to advantage. In the same [interview](#), Bernstein said, "Understanding that we do not know the future is such a simple statement, but it's so important. Investors do better where risk management is a conscious part of the process. Maximizing return is a strategy that makes sense only in very specific circumstances. In general, survival is the only road to riches. Let me say that again: Survival is the only road to riches. You should try to maximize return only if losses would not threaten your survival and if you have a compelling future need for the extra gains you might earn."

Bernstein's idea that we do not know the future applies to virtually all investors. This is because most choose optimism over realism as an investment operating mode. Therefore, though investors know in their heart of hearts that they can't foresee the future, they often pay someone else to guess for them, hoping to 'beat the market.' This is paying for prediction. It serves primarily to transfer money from an investor's pocket to someone else's since by and large financial managers can't beat their relative indexes. Investors just choose to hope they can.

Along these same lines, Bernstein gave some further powerful guidance. "You should try to maximize return only if losses would not threaten your survival and if you have a compelling future need for the extra gains you might earn." Many people no doubt wish they had read this and acted on it before the 2008 downturn. My clients who come to me with broken portfolios too full of speculation and not enough backbone in the way of age appropriate asset allocation can be counted in this group. They, and others, are finding that lack of knowledge or just plain greed above the neck can affect an important area below it—the pocketbook. That is because their portfolios were pumped unnecessarily for excess return, even though they could have been comfortable without it. As Peter L. Bernstein said in "Wimps and Consequences" in the *Journal of Portfolios Management*, "Even the most brilliant mathematical geniuses will never be able to tell us what the future holds. In the end, what matters is the quality of our decisions in the face of uncertainty."