Take the High Probability Shot

In a previous life, I was an Air Force Pilot and then an Airline Pilot. Rules and discipline I learned in the cockpit are directly applicable to your investment portfolio. This article is excerpted from my contribution “A 30,000 Foot View” to *The New Book of Investing Rules*, which will be published by Harriman House in Autumn 2017.

When two enemy fighter pilots approach each other they immediately start maneuvering for a position behind the other. The contest usually ends when the victor finds himself at the enemy’s six o’clock position. That’s the high probability shot. While very occasionally a pilot might succeed in a head on shot, that’s the hard way to do it, and it leaves him open to additional risk. After they pass each other, the enemy pilot might very well end up on his six. Game over! So fighter pilots study tactics which combined result in strategy with the highest possibility of success.

Whatever you are doing, whether it’s basketball, chess, medicine, law, or home construction there is an elegant solution, a low risk approach, and an easy way.

For investors, the high probability shot is the strategy that maximizes the return per unit of risk the investor is willing to accept. There are a few tactics that individually advance you toward that goal, but used together they are truly powerful:

- Don’t take more risk than you need to and can tolerate.
- Divide your portfolio into risky and riskless parts. The mixture of the two should reflect your risk tolerance, liquidity needs, goals and objectives.
- Diversify both portfolios widely to avoid unpleasant surprises while obtaining market rates of return. The gold standard is global diversification.
- Use low cost collective investments like index funds and ETFs. They deliver market returns at the lowest cost, risk, and tax costs possible.
- Utilize tax free or tax deferred accounts where ever possible.
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Start early because time is the most valuable commodity for investors wishing to accumulate assets.

- Accept market returns. Don’t try to time markets or identify mispriced securities. It’s a loser’s game. The evidence against active management is beyond any reasonable doubt.

- Consider overweighting your portfolios to favor small companies, cheap stocks (value), and more profitable companies. Those tilts have been shown to reliably enhance returns over reasonable periods of time.

- Stay the course. Don’t react to headlines, herd mentality, market predictions, fear or greed.

These simple rules have stood the test of time. They are the high probability shot, and the best course for a successful investment outcome.

Excerpted from “A 30,000 Foot View”, Frank Armstrong’s contribution to *The New Book of Investing Rules*, which will be published by Harriman House in Autumn 2017.