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## Saturdays with Jim: Success In Any Investment

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### Saturdays with Jim

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Prof. Meir Statman provided the inspiration for today's SWJ. In his recent book, [What Investors Really Want](#), he presents three distinctly different rewards investors can get. We've been focused on the first - utilitarian benefits - but looking at the broader picture, we can see how expressive and emotional benefits play to an investor's overall measurement of her success.

Utilitarian benefits - dollar gain, percent gain, and goal attainment relative performance are all quantitative measures. We believe that you evaluate us on the ability to deliver "the numbers." In our relationship, because you have given us the day to day investment decisions to make, you don't feel the expressive or the emotional benefits beyond feeling the gratification of seeing your account balance or your income rise. You do not have a "favorite horse" on whom you attach emotion - no Googles, Apples and other names with which you might be familiar. Frankly, the way you probably evaluate us is much the way you'd evaluate your accountant, doctor or lawyer - if you're getting what you need and expect then we're all doing the job for you. The emotional dimension of our relationship is not at all negligible, but it's not tied directly to the investment process. You and I feel a bond of trust if we are doing our work honorably and well.

Expressive benefits tie you, the investor, to other investors. Sometimes this tie expresses in herd behavior, like the speculations of the last decade which drew investors into financial and real estate markets in droves - most not knowing the risks of being in markets. Expressive benefits also derive from investing for values, such as avoiding companies which produce or handle alcohol, invest in defense, have a positive effect on the environment, and so forth. People want to belong - and investors are no different. Individual investors throng to chat rooms and blogs to be part of a movement or to fill their investment activity with meaning.

Emotional gratification can be seen in the on-line broker ads so popular in the late 90's, ads that extolled control, independence, limitless profits, power and status. The lure of these things is very powerful and tweaks at our emotions to bring us in to the activity. Simply the act of investing with a chance of winning can be an emotional high, much like that of the slot machine player. Too bad slot machines are rigged, too bad that individual investors may be buying securities from wiser hands than they, from institutions selling to them. But being "in the game" is a super emotional high and feeds self esteem.

Now here's the rub. An investor cannot be doing well in the utilitarian department but is getting 10's in

expression and emotion. Is this investor successful? We'd argue no, because we are focused on utilitarian benefits and goals. We say no because most individual investors either lose money or do not make even what a passive index makes (according to data Statman presents, much the same data from Dalbar and others that we have shown you over the years). If individual investors make money, they might do so on a stroke of luck or happen to be hitting a streak. This said, some individual investors seriously apply themselves to their work. They learn to seek utilitarian benefits above the others.

Success, then, is in the eye of the beholder. Once someone begins the investing process, it's like pulling teeth to get them to stop - unless they have the ultimate catastrophic experience which shakes them into reality. But most will not have this epiphany that markets are for the disciplined people who "do their homework" and can control the behavioral quirks that lurk within to spoil utilitarian success. Investment success, like beauty, is surely in the eye of the beholder. In this sense, then, anyone can be successful at investing. Some people just need to change the measurement a bit.

Thank you for investing with us.

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