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Adviser to students: 'You're your own best investment'

By Rob Rikoon | For The New Mexican

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Just before Christmas, I traveled to one of Santa Fe's established charter schools to speak to a group of high school seniors who are studying economics and how money works. I asked each of them how they would invest $1,000 in cash, given current circumstances. I was surprised at how many of the students opted to keep their hypothetical long-term investment funds in a bank savings account or CD; even though they understood that it was an almost sure way to end up losing money. They thought earning a negative real rate of return, given inflation, was an acceptable way to go mostly because it was the only sure way to go. While they realized it was a bad option, many of these young people were so suspicious of the market-based alternatives that it gave them comfort to know they would only lose a little and not all of it.

Some of the students were aware of the potential benefits of risk taking, either through entrepreneurial ventures such as franchises or starting their own "one person" retail stands. Very few of them seemed to be aware that the investment field that I work in has ample room for creativity. I did my best to impress upon them a need to be aware of what is going on around us on the entire planet, from the impact of China's decades-old one-child policy on the price of iPods in the U.S. to the impact of the Olympic Games on the economies of places as diverse as Brazil and Vietnam. It is exciting, I told them, that young people graduating from high school the world over all read the same news at the same time, listen to the same music and follow the same fashion trends, and therein stands an investment opportunity.

The risks that adults seem to worry about, such as having government "knuckleheads" drive straight toward a fiscal cliff, seemed of little concern to the students. After some discussion about the potential benefits of driving over the "cliff", i.e., forcing ourselves to deal with the mounting problem of their generation's wages going towards supporting my generation of soon-to-retire baby boomers, the excitement and challenge of dealing with the superficial chaos of the markets got less intimidating and some of the seniors expressed an interest in buying stock in companies that stand to benefit from the coming transitions.

We moved on to discuss the social aspects of investing; what is fair, in terms of who should receive benefits from government programs, and who might be gaming the system by taking out more than they put in. They seemed to instinctively grasp the corrosive influence of complacency and were willing, or so they said, to endure the short-term discomfort of tightening our collective belts in order for the country to live within its means. Why, they asked, didn't the government have the guts to ask people to make sacrifices now in order for their generation to have a brighter future? A very good question indeed, to which I had no answer.

For most of these students, meaningful work is more important than making a lot of money. It surprised them to hear me say, when it comes to investing, that " it's better to be lucky than smart" and they noted with amazement that someone like myself, who manages half a billion dollars, has a cavalier attitude towards the establishment and little respect for institutional wisdom. One of my points to them was that if we can't deal with our debt ceiling as a nation, how can we face the future confidently as individuals? As a result of the difficulties that loom large in their eyes regarding their employment prospects, alternative lifestyles loom large in their eyes.

We talked about other how other countries have already faced the breakdown of their traditional economies, such as Iceland, which thumbed their nose at European bankers and threatened the security of NATO by using the prospect of leasing a naval base to Russia as a bargaining tool. Icelanders ended up throwing their own bankers in jail instead of giving them bonuses. As a result, Iceland is now one of the rare growth economies in Europe. They were pariahs in the international community for a while because investors from southern Europe, who sought ultra-high and "easy" returns in Icelandic bank deposit accounts, were thrown out in the cold and told they couldn't withdraw their funds. That is one aspect to risk and, "make no mistake about it," I told them "everything has its own brand of risk."

The world is not necessarily a fair place, we reckoned, and so talked about alternative stores of value in things like gold, jewelry and artwork. I advised them to learn through experience what they as individuals have a passion for, since investing in themselves remains the best method to know where to put hard-earned investment dollars. Beware of advice from supposed experts, I advised, since that usually involves a sales pitch, one common way that parts investors from their money. "Trust your instincts," I encouraged them, and "watch out for hidden fees and anticipate taxes."

"Most of all," I told them, "try not to be lulled into thinking you are smarter than the next guy" because that probably has little bearing on whether or not you succeed in long-term investing. Together, we decided that while that the future may hold formidable and sometimes frightening challenges, it is bright for those who choose to see it that way — and on that note, we enter the New Year.

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