Filename: You Can't Run From Risk (Episode 006)

0:00:18 Andy: Hello, Andy Tanner here. Welcome to The Cash Flow Academy Show, it's wonderful to be with you, I congratulate you for taking some time to invest in yourself, your financial education and gain some thoughts and ideas on how you can improve your financial life and get more cash flow. This is where we speak about all things cash flow, that's what is on the agenda today. Got a great program, great topic, this is a broad topic, we're gonna see how far we can get in to it in the time we have today.

And I wanna speak about one of the 4 pillars of investing, risk. As you know, as I speak about investing and what people can learn about it, I speak in terms of what I call my 4 pillars of investing and they're not mine, I didn't invent them but it's the way I think about things. We have fundamentals which means, that's a fancy jargon which just means, hey, I'm gonna look at an entity like a government or a household or a stock or whatever for some type of entity and I'm gonna look at their income and their expenses, just the fundamental numbers, I'm gonna decide if they're doing well or not. If I look at Google, are they doing well? If I look at Hewlett Packard, are they doing well? If I look China, are they doing well? And that's fundamental analysis. How are they managing their money, how are they handling their income statement and their balance sheet.

Technical analysis is a fancy jargon word for trends and is the trend up down, sideways, patterns of trend, buying and selling, supply and demand, we can study that. Cash flow is how we take positions in the market. Once we look at trends and look at values and say this is how I'm gonna attempt to get some cash flow but that fourth pillar that what we're gonna speak about today and gain some insight on, I think you're gonna love these insights. I hope you feel the same way I felt when these were taught to me and as I have mentors help me discover these. It's risk and that's when things go wrong or there's something that changes suddenly, sudden change is often a big one, maybe there's some you didn't see coming, people say, Andy, what risk do you see in the market? I say, well, it's the risk I don't see that scares me the most, it's called being blind sighted.

And so how do you manage these risks? So that's what we're gonna speak in about today and as we do, I hope you'll come in appreciation and some new context about risk, some new thoughts about risk as I share some of the things my mentors had given me. As you know, one of my greatest mentors is Robert Kiyosaki and this is a great, great principle that he points out is that risk is related to control so the more control I have over something, well, then I'm not gonna have as much risk, I can have an influence on the outcome, I can control it. But boy, if I don't have control over an outcome, well, that's where risk can happen.

There's so many things we can speak about, there's also relationship between risk and probability. For example, I might say, maybe I give you a basic task and I ask you is this more risky or less risky and I say: go down to your local corner grocery store, go to grocery and just pick up a quarter of milk, pint of milk, a liter of milk depending on where you live and bring it back here to me, is that high risk or low risk? People say that's a low risk venture. Not necessarily. When we think of risk, we want to always take the position of pessimism, we want to say what is the worst thing that can happen? So we're gonna use our imagination and say if I go to the corner grocery store, I'm gonna get that liter of milk then what could happen, what's the worst thing that can happen? Well, could I be struck by lightning? That's possible. Could I hit by an intoxicated driver under the influence? Well that could possibly happen. Could a piano fall out of the sky and land on me? These are all things that could happen. Now you say, Andy, that's not very probable. I wasn't asking about probability, I was asking about risk. And that's where insurance companies have to look at things, is there a risk that a city in the United States like New Orleans could be underwater? Well, they're below sea level. Is that can happen today? Probably not, it's probably not probable but is it possible? There could be some type of weather related event or an accident or an act of terror that could take and drain Lake Pontchartrain in to New Orleans and the answer is yeah, it's possible. So we wanna separate our mind probability from the worst case scenario.

And so going down to the corner grocery store is a life, you're taking your life in your own hands any time you get behind the wheel of a car or interact with other people. So people feel comfort levels with probability but nonetheless, we still want to look at risk. Do you think your house will burn down today? Probably not. Are you still gonna buy insurance in case it does in the worst case scenario? Yes you are and that's called risk management.

So when we look at a deal, okay? When you look at an investment, this is great counsel. First thing you say is can I control the outcome? Am I truly gambling if I go to Vegas and I put my money on the roulette table and I pick the color red or black, I really don't have any control over that outcome, do I? I really can't force or influence what that roulette wheel will do and so that's why they call it gambling. So this is the way to think of it, more control – less risk, less control – more risk, no control and now I'm gambling not investing and that really changes the way you look at real estate, it changes the way you look at business, it changes the way you look at the stock market of course, commodities. When you look at how am I going to position myself in such a way that I can gain more control over the outcome.

Now, people, another thing we should speak about is when we move forward on the topic of risk. There's a big deal with self-concept, for example, Blair Singer who's another one of my great mentors, he said this, he says: no one will ever be any bigger than their own self-concept, you act the way you feel you should act so you say, well, I'm just not a public speaker, well, if that's the truth, you probably won't do well speak in public but if your self-concept is: yes, I am a great public speaker, well, and you probably be more comfortable doing that. I can't parallel apart, that's just not something I'm good at and so this is not something you'll attempt a lot or probably get better at.

So when it comes to your self-concept, here's a great question as you're listening doing whatever you are doing, whether you're driving, exercising, what have you, what is your self-concept of risk? Are you a risk taker or are you risk adverse? And do you want to change that self-concept or maybe not do you want to but could you if you wanted to? And maybe your self-concept is at point of no change, I don't know. But there's really 3 ways that you can decide to address risk and that will have a lot to do with your self-concept, you can say, you know what? I just don't wanna take any risk and there's the old saying says: no risk, no reward, nothing ventured, nothing gained and so forth. We say look, I'm just not gonna take a risk, I'm just not a risk taker. So that decision about how you're gonna approach risk in your life, that will be a big deal. I'm just not a risk taker, that's not me, I don't take risk. Other people might say, oh yeah, I'm a risk taker alright, I love to take risk, I love the adrenaline, I'm an adrenaline junkie, I'm a base jumper, I'm a skydiver, I love risk and I'm a gambler, I put the double down man, go big or go home. You can hear the persona, you can hear the self-concept of people and so people often limit themselves to those 2 choices, they either say, well, I'm just not gonna take the risk or I am gonna take the risk, they look at it as black and white, up or down, tall and short, one or the other. Give yourself an opportunity not even to be a wishy washy in the middle but give yourself the opportunity to say I'm really not a risk taker but I'm really not risk adverse, what I am, maybe you say this, I really like the idea and it feels good to me to be a risk manager, in other words, yes, I'll engage in activities where for some people, there might be no control over the outcome but I'm willing to do some extra things to manage the risk, I'm willing to hedge my bets, I'm willing to do some things that might not reduce risk but it might increase probabilities and if it can't reduce risk, well, I'm still gonna get some protection.

So let's look at a very simple metaphor if we can and let's look at your home insurance and let's see which type of attitude and self-concept you've had when you buy home insurance or auto insurance or health insurance. Someone comes to you, insurance salesmen and they say, can I sell you some insurance? You say, well, I'm not a home owner, there's just too much risk, I mean, if I buy a home, it might burn down, there might be an earthquake, there might be a flood, there might be a tornado. And you put million dollars in to your home or half million dollars in the home or whatever your home is, 150,000 dollars in to a smaller home. I'm not just gonna risk that, that's just too much money for something that could be destroyed in a day with a fire or a flood or tornado or an earthquake, it's just not worth the risk. And so that person will be homeless if they rent but they'll never, never have that home.

Other people will say I'm a risk taker, yeah, I would buy a home, I've known celebrities have done this but I don't need insurance because it's just such a low probability, chances are my home would be here for 200 or 300 years before there's a flash or flood or lightning or fire or kids playing with matches or whatever, I just don't feel it's worth spending thousands of dollars or my lifetime to buy a home insurance because I just don't think anything's gonna happen, I'm willing to take that risk. Now, that seems crazy, doesn't it? That seems absolutely crazy.

And so one person says I won't buy the home coz I don't wanna take the risk, the other person says no, I'll buy the home, I just won't buy the insurance, I'm gonna take a risk. Most of us have the self-concept when it comes to housing that it just makes total sense to let's buy the house, let's invest hundreds of thousands of dollars over the years to have a nice place to raise our family or to exist and to live but let's also invest in managing those risks. And so I can't prevent a fire, I can try the smoke alarm thing and get an extinguisher but really when it comes down to it, you can't stop a fire, if it's gonna burn down, it's gonna burn down. But what I can do, well I can't control the fire, I can control my financial outcome by purchasing and maintaining a good insurance policy.

So that's a longwinded metaphor for it doesn't make sense to buy an insurance, well yes it does. And I say that because you likely have a comfort in your self-concept as a risk manager when it comes to car insurance or when it comes to home insurance. So the question I have is as an investor, we've talked about a home owner, as an investor, what has been your approach to risk? Have you said, I'm not gonna get in to the market, that's just too risky for me or if you said, absolutely, I'll jump in both feet and hey, if I lose it, I lose it, you only live once, go big or go home. Or have you taken the approach to saying, yeah, I'm going to invest and I'm gonna put my money out there with a chance to grow and there's risk there so therefore I will purchase an insurance policy for my investments and almost nobody takes that.

I'll take your retirement account for example, could your retirement account, if you're in the United States, you have a 401k or if you're a teacher, you have a 403B or an IRA with mutual funds or Australia you have your Super and maybe in Canada you have your RSP or maybe you're outside the United States and you have what's called the unit trust instead of a mutual fund. And all these things depend on the market moving one way that you can't control and so you're taking risk and not necessarily managing risk.

Well, let's back up a little bit, let's talk about the people that run for risk, run from risk. Can you do that really or are we lying to ourselves if we say we can have a risk free life? Even when we talk about financial matters, is there a way to take no risk financially? It's impossible. If you have a job, you are taking risk that you can be laid off and your cash flow can be cut off. On the other side of the coin, if you inherited a bunch of money or win the lottery, you still have to take care of that money. If we put the money in a savings account, if we put it under the mattress, there's still lots of risk there and there's something called purchase risk. So what I recommend is that that fourth pillar of risk be something that you feel a determination in your heart to learn about yourself.

I really enjoy conversations on risk with financial advisors because it really, I think can help separate someone who is possibly has your best interest at heart or respect your financial education to someone who wouldn't, if you can speak that language. And one of the challenges, we wanna make it fun, simple and real on the Cash Flow Radio Show, on the program, and so I do my best, I'm probably not perfect but when I introduce jargon, I do my best to define the jargon. And by understanding jargon, by learning and increasing our financial vocabulary especially when it comes to risk, it will help you improve the dialogue you have with anyone from the human resource department that's got you, that's where you probably start to go get questions about your 401k, who manages this to a fund manager, to a financial advisor, to a tax advisor. If we can determine to speak the language and enjoy learning terms and enriching our life by speaking that language, boy, that puts you far ahead.

So as you determine to study risk, what are some of the language? I mean, first of all, if you sit down with a financial advisor and you're gonna plan out your life, they'll have you sign a paper usually, they'll do what's called a suitability interview and then they'll have us sign a paper, you and I, that says I hereby understand that investing is risky, it carries certain inherent risk that could result in the loss of some or all moneys invested, all of my principal could be gone, I could lose everything. And so we grab the pen and we sign that saying I understand the risk and I'm not sure that we're not telling a little lie maybe when we sign that paper saying, well yeah, I understand. No, no, you might understand that it is risky but do you understand the likelihood? Again, it's related to probability. When I say, yes, I could lose all of my money, okay, what's the probability that that happen, one in a hundred, one in ten, one in twenty, one in two? When we sign that and say we understand it, what does that mean to understand risk?

So as you study it, let's talk about some jargon and talk about some of the things that go through an investor's mind and it's not just all the risk of losing, there's different types of risk we can identify. For example, let's look at 2 companies, let's look at Proctor & Gamble or let's look at Pfizer. Pfizer makes Neosporin, Proctor & Gamble, they make household products. There's not as much innovation going on in making dishwashing detergent, okay? There might be a little technology there but then you look at a company like Google or a company like Apple, Apple has tremendous obsolescence risk, past Coke is the greatest brand in the world. Well, Coca Cola they try to change, a little people didn't like it, their formula is pretty much there, they really don't add much, their research and development isn't near the priority that it would be with a company like Apple, why? Obsolescence risk. So there's jargon, right? If I'm gonna invest, I'm gonna ask myself, okay, what is the chance this could be obsolete? And it changes the way I think, it changes the way I think about an investment, I think, gee, can I control Apple, can I control their competition? If you recall, there used to be a company called Word Perfect, there used to be spreadsheets called Quatro Pro, if you remember Lotus. You ask for a Botox is probably still around but there's just a different, the vinyl record is obsolete. Even DVDs and CDs now are becoming obsolete, standard definition, the 8 track tape, the 3 ½ inch floppy disk. If you're in the business of making 3 ½ inch floppy disks with 1.5 megabytes of memory available on them, you're obsolete, there's obsolescence risk.

So when you dive and delve in to technology, I mentioned Pfizer pharmaceuticals, who's gonna come out with the next drug that replaces yours, who's gonna come out with the technology? That's an example of being cognizant of, oh, not just could my stock down but what am I gonna do to manage the outcome of what if I buy Apple and they become obsolete? And don't think it can't happen, Word Perfect used to be the best word processer out there, used to be the choice and guess what, they failed to innovate, they failed to compete and they're obsolete. Try to open up a Word Perfect file nowadays, not as easy as you might think.

Even if I hide my money and I say, oh, I'll just hide my money in the bank. Well, purchase risk, there's more jargon. Can you purchase things if you go to the ???[0:19:54] Republic or you go to Zimbabwe which is a famous example, they have inflation. And so someone packs their money away saying well, I'm not gonna take any risk by buying stocks or real estate or starting a business or buying commodities or gold or silver, I just don't wanna take any risk. Well you're still taking risk if the currency itself begins to lose its value which it almost always does in the case of a fiat currency. Perhaps one of the most risky things a person can do is save money. Ask yourself this question, do I believe the value of the US dollar will go up or down, well, people say I think in the long term, 20 years from now, it will be down, they'll have less purchasing power hence the term purchase risk or inflation risk. And so if you had some stock in say Microsoft and you knew that Microsoft stock would lose value, you knew it would lose value over time, would that be a long term investment for you? Would you want to place your wealth in an instrument that you knew was going to lose value over time? Well that's what happens when you put money in a savings account. The chance of interest, outpacing inflation in a fiat currency unlikely, less likely if not unlikely.

And so it's just we can't run from risk, there's legislative risk. If I am in the firearm business and they decide we're gonna increase or decrease legislation on gun control that could help or hurt my business depending on what happens. Legislation, if I have a business practice and an environmental group lobbyist to curtail my industrial emissions, that can have an effect on the bottom line, that is a legislative risk hence the amount of lobbyist that exist in free markets. In any country, there's money trying to change the law to help that law suit you and reduce your risk and so legislative risk is a big one.

Geographic risk, you're growing oranges in Florida and you feel confident with that geography, it's 80 degrees and all of a sudden you have an anomaly, bam, the crop is frozen.

Political risk, if a war breaks out, let's say there's peace or war, it can break out, is that gonna affect markets, can it affect different things? You bet it can.

And so we have all these different types of risks. Political risk, legislative risk, geographic risk, there's interest rate risk if the Federal Reserve or central bank of your choice decides to increase or decrease rates, that can affect things. So we live in a world where the self-concept of saying I'm not a risk taker, well that's just ludicrous coz we're going to have risk exposure regardless of what happens. Savers can lose money, investors can lose money, people hide it under the mattress, they'll have purchase risk.

So we can say, okay, I wanna stick my head in the sand like an ostrich, I don't wanna learn about this, that's a choice, it is. It's an unwise choice because even if I decide I don't wanna learn about risk, I'm still exposed. It's like saying I don't want to participate in the law of gravity, you're going to participate in the law of gravity even if you're on the moon. There's laws that will affect you and risk is just one of those things we don't escape.

And so some people, there's a macho persona and I like to use the Starship Enterprise, the Star Trek, where doctor McCoy was a pessimist, he didn't like risk. He say, Jim, we're not going down there, we don't even know what's down there, it could be sudden death or we're not gonna be clinging on ship and take them on hand to hand, that's crazy, that's suicide. Dr. McCoy was a pessimist, he was risk adverse. Jim Kurt the hero, he was macho, we can win, I can't lose, I'm gonna go where no man has gone before and survive every time and not a good way. Mr. Spock would take calculated risks, logical risk, he was a risk manager, he would use data. And well, he was maybe not the most exciting, it's appealing coz that's the way to invest, just passionate, smart, logical, look at the laws and follow the rules. And so it is, and so that's the approach you get to learn to take with risk, it's a tough thing because it is emotional, no one likes to lose, I don't like it when I lose and so I want to have insurance. No one likes a car accident but rather have an insurance than not.

If I were to give, and we could go on forever on risk but if I were to give a short lesson on risk and you and I were sitting at your kitchen table and I pull out a piece of paper, I'd write down 2 things, I'd write down the word systemic risk, that's a broad, broad, broad brush and non-systemic risk, there's more jargon, let's define it. A good example that I often use when I teach live or in my classes, I'll tell people about the story of British Petroleum, their stocks symbols

BP, I joke that it stands for broken pipe because if you remember, they were drilling in the Gulf of Mexico a few year ago and boom, they burst a pipe and their stock price was cut in half, it fell by half, 50% down it went, 60 dollars a share down to 30 dollars a share. And anyone that had shares of stock in BP, they lost half the money or excuse me, half their wealth that they had placed in that stock yet the computer companies were still doing well, healthcare was going through the roof, other businesses and sectors were doing just fine so this was not a system wide catastrophe, wasn't a system wide catastrophe, it was non-systemic, right? Hence the term, hence the jargon, a non-systemic risk, a risk that was isolated in one area and so all the mutual fund managers they, see, told you so, don't put all your eggs in one basket, if you have had a hundred stocks and this one loses half its value and they were all equally dispersed, there's an equal amount of wealth in each one, you've only lost ½ of 1% instead of 50%. See? Diversification works.

Well, diversification is an answer to ignorance and that's one of the biggest lies about diversification as a risk management strategy because it is also isolated and that it only addresses a non-systemic issue and it completely fails, it is a complete failure, 100% complete and utter failure when it comes to managing systemic risks which are really the type of risk you're trading in for when you diversify. If I buy one stock, I'm taking a non-systemic risk, if I plan on holding it forever. BP goes down, I'm gonna get bit but if I diversify across the system, if I diversify across the market, I'm taking systemic risk or market risk a.k.a. the .com bubble a.k.a. the subprime meltdown. Who could escape the subprime meltdown? It was systemic in nature. And a person who was holding is gonna lose the same 50% of its value from 2007 – 2009 in just 2 years that the BP guy lost suddenly in a month or so. Well, 50% is 50%, at least at BP, it bottomed out earlier, it was less, the pain wasn't dragged out over 2 years wondering what to do.

It's one of the big beefs I have with retirement accounts, mutual funds in general is that they sell the customer a risk managed story but the reality of it is when you diversify like that, you're only managing a non-systemic issue like a BP. If you have a systemic crash, and I'll tell you, as I look at the different storm clouds, if you will, if I look offshore far in to the distance and I see the thunder rolling in and the lightning strikes getting closer, I see many storms that are systemic in nature. Here at home where I live in the United States, we make jokes, unfortunately I hear people joke on late night about Greece and how much Greece, trouble is Greece in. I'll tell you what, that's a type in a shadow, it's a micro cost where the United States will be shortly, in a relatively short amount of time.

So the fiscal irresponsibility of the United States, is that it's gonna affect one company like Microsoft or Dell Computer or P&G or is that likely to burden the entire economic system? So if I'm diversified through the system, I have to ask this would be, I wrote about this in my book

401 Chaos, I like to mention it here, when you are speaking with a financial advisor who suggest diversification, this would be great if you could use this for baiting and say I see that you've recommended a diversified approach to manage the non-systemic risks that are there, that are present, thank you for that however as I look at storm clouds like Federal Reserve printing money, the monetary policy that's been accommodative, as I look at the fiscal irresponsibility of the United States, as I look at the foreign threats such as China and the contagion that can come out of foreign countries, as I look at these storm clouds, what are you doing to manage the system risk? And then stay silent. See? This is, when I speak about financial education, it feels good to be able to speak with people with jargon, right? To expand our vocabulary, to understand systemic risk, non-systemic risk, purchase risk, legislative risk, political risk, geographic risk, interest rate risk, all the inflationary risk. As we speak the jargon, there's a confidence that comes. Where I lose confidence, where I feel less confident is when I'm in discussions that I don't know the jargon and the solution to that is for me to find a mentor, get educated, learn what these terms mean and then I feel better again, I feel like I have more control over what my decisions are and more informed on what I want to do and what you want to do. So it's an interesting world when we look at risk.

Now, so we've talked a little bit about this, how do we deal with risk? How do you go about dealing with risk rather than just acknowledging that it is and being a risk taker? That's the problem with risk taking, we're acknowledging that there is a risk but we have no way to manage it. And so one of the great things you can study is risk management, what do you do about risk? Well, one thing you can begin with is the idea of insurance, insurance is central to the risk management, the risk inherent world and so insurance companies provide value to you and I, true value to mitigate risk. I cannot stop Hurricane Katrina from blowing my house down or flooding it but I can get an insurance policy that will insure me against flood insurance if I'm willing to pay for it so everything will be restored, it's a possibility. Might lose photographs, precious things, irreplaceable but my ability to live and continue and to bounce back and to fight, that insurance is huge. Health insurance, look, there's a risk, all of us are at risk for cancer, all of us are at risk for heart disease no matter how healthy we feel at the moment, all of us are at risk for pancreatitis or whatever you might, stroke, okay? All of us have those risks, how we manage them are huge. Even the risk of death is unavoidable but if it happens, can I create an outcome that is more favorable than not favorable. For example, if I pass away and that's nothing I can do about that, are there things we can do for our children or the things that we can do for our foundations, are there things we can do for our business partners so that they don't suffer in that risk? There's always an insurance angle.

And so I prefer that approach very, very much, there's value in insurance, there's value in the money we pay for it, people say that's an expense. Well that's true, it is but it's an expense that is necessary in my view, it's an expense that's wise in my view, it's like spending money on attorneys, it's expensive but there's value there that's why they charge what they charge coz there's value. And so that's the approach I take because that is the way that I have found that I had learned. The number 1 way so far that I learned about that says hey, whether it's a legislative risk, an interest rate risk, all these risks come down to hurting me somehow and what insurance does is if I get hurt, well, it's like fire, flood insurance, whatever, the house is gone, I want a new house and that's what insurance does. So as you look at your 401k, your IRA, your RSP, your 403B, your SEP, your VIBA, your KIO, all these different ways to setup a retirement plan, what is your insurance plan? If there is a system that crash, what is your insurance plan?

Another thing that's very, very important is what we call position size and this is less about diversification and more about the size of an investment in one place. They say don't put all your eggs in one basket, diversify it. Well, yah, but I like to call it position sizing meaning I'm only gonna have a certain amount of wealth in one place and where that one place is? I'm still gonna be hedged and insured so those are important things.

Plan B-s, exit strategies are very important. Often, an exit strategy is a wonderful way to help mitigate risk. The Titanic tragedy was a result of a problem with exit strategy, right? They couldn't insure it, right? So when there's no insurance, we wanna have an exit strategy. Look, the ship is gonna sink, it's gonna hit an iceberg and that was not the problem, it wasn't that the captain was incompetent, it wasn't that it hit an iceberg, it wasn't that there was a hole in the ship, it wasn't the ship had gone in water, it wasn't even the ship sank that killed everybody, what really killed them is there was a lack of lifeboats, there was a lack of exit strategy. And I also feel that way with the 401k and mutual funds as well, if I handcuff myself to the rail of the Titanic and I say that's where I'm gonna stay, I'm gonna ride it out, can you imagine riding that out as the ship is sinking and as the water level rises we say, gee, I hope this changes, I hope this improves, I hope this turns around. And the word hope brings us full circle to a lack of control. I hope she'll go out on a date with me, you can't control it, it's out of your control. I hope my kids turn out well, again, they have their agency to disappoint you, no matter how much you try to control, those of you who have teenagers know that can be a very difficult fight, you really can't control other people. That's what Russia learned economically, that what China will learn economically, it's very difficult to control. Risk is about control and so it is.

So we deal with risks in these ways, if we can't hedge, let's position size and let's also have an exit. Here's a great word of wisdom, if we go in to a room, maybe beforehand, we should know how to get out. If we get on to a ship, maybe we know beforehand on how we get out. Think about it, if I get in to an investment, I anticipate that there could be a change, how am I going to get out? Which is a wonderful thing about paper because it's liquid and it is by far in my opinion the easiest which is ironic. If exit strategy is the easiest way to get out of paper then why is everyone taught never to get out of paper? Why are we taught to stay on a ship when we could have a lifeboat? And we use this Benjamin Franklin wisdom flavored language of don't panic, stay the course, think long term and we try to act smart. Hey, if the building's on fire, okay? You're not going to think long term. If the ship is sinking, I'm not concerned about the next 6 months, I'm concerned about the next 6 minutes if the building is on fire.

So these are common sense things, you would apply these in every other area of your life, you could apply it to your health, you could apply it to your home, you could apply it to your health and yet when it comes to our wealth, boy, we do not teach risk in schools, we do not handle it well. So how do you handle risk? The last way is education. Think of it this way, this is a good way to close out our podcast and this discussion or good way to inspire us to continue it is to think about what is risky. Are investments risky or are investors risky? Some people say, well, I don't wanna be in options because those are too risky. Whoa, whoa, whoa, whoa, does that mean Warren Buffet is a risk taker, does that mean he's crazy, does that mean he's foolish, does that mean he's fool hearty and flippant because he's in the options market as is George Soros, as are most of the institutions that was, hell, that's just too risky? No, no, no, no, no, it's not about the investment, it's about the investor. It's not about the investment, it's about the investor, who's investing. In the right hands, a weapon can be a wonderful thing if you just left the continental congress and join the continental army and you wanna fight for your freedom, don't bring a knife to a gunfight, okay? If you wanna fight, you wanna have a rifle but in the wrong hands, it's devastating, it's absolutely devastating and that's why it's so hard to have gun control because you can't control people and no matter how hard you try to control guns, you're still gonna have to control the people and you can't. And so risk is related about control and it can be scary because people want control, wanna control, they'll legislate, they'll fight but in the end, you manage risks and that's what you have to do.

So it's an interesting discussion, education is the way to reduce risk. Some people say I'll reduce the reward that I go for, I'll go for less reward than I'll have to take less risk, that's an investment centered mindset, that's an investment centered mindset. An education in investor centered mindset says no, I'm not going to run away, oh, I'm not going to play with fire, playing with fire is too risky, I'm not gonna play with fire, if you play with fire, you'll get burned, not true. If you learn about fire, you educate yourself about fire, you can cook your food, you can stay warm in the cold, you can defend off the wild animals at night, you can keep the bugs away, you can light your path. Fire is one of the most wonderful, wonderful blessings we've ever been able to harness. Does it burn people? When there's no education and no rules involved but with education, yeah, we can handle and we can get a little more control over those flames and we can use them to our benefit, we can even invent a combustion engine and other fun things with fire. So yeah, it's always education and that's always, it seems no matter what conversation I get in to, it always ends down to what did the person know? If a person doesn't know about options then option trading becomes far more risky, if a person doesn't understand real estate investing, real estate investing is far more risky and people often say, Andy, do you have a good investment for me? They always ask what am I investing in, they never asked what I'm studying or what I'm learning. Well, what I'm studying right now? Systemic risk coz I see storm clouds up there.

Well that's a little bit on risk. I hope this was enjoyable, I hope these help you. I hope you gained some insight on little review here, risk is really just control, our self-concept of risk matters and not avoiding risk, not taking risk but managing it. Understanding the jargon was a big part of what we spoke about today. Understanding that there's systemic risk, non-systemic risks and that education is the greatest equalizer when it comes to risk.

Hey, stay safe, I had a tongue twister, stay safe out there and keep your position sizes manageable, wise, manage your risk, we'll see you next time on The Cash Flow Academy Show.

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