



Perception is Reality

- Gary Klaben

Perception is reality. It's taken me more than half a century to understand this frustratingly cruel fact. We believe what we perceive. It's that simple. Today's complex world is seen through multicolor lenses — 7 billion of them, all different. The 7 billionth baby was born this October. Every one of us perceives uniquely, with our own definitions of fact versus fiction.

A definition of *perception*? “A unified concept regarding an individual and his or her experience.” Reality, on the other hand, is the actual essence of something, the fact. Our fiction-reality is most often derived from our own experience and our emotional attachment to this experience. In the financial world, fear is at the top of the emotional list.

In 1954 a small high school basketball team went on to win the Indiana State High School Basketball Championship. The 1986 film “Hoosiers” chronicled this Milan team’s rise through its successful season, ending in capturing the championship against a much bigger and more talented basketball team.

In one movie scene, the head coach played by Gene Hackman walks his team onto the large basketball arena court the day before the championship game. Players’ mouths are agape with expressions of awe and fear. They’ve never seen, let alone played, in front of a crowd greater than a few hundred people in a small high school gym.

Their opponent will be right at home in front of a large crowd in a huge arena.

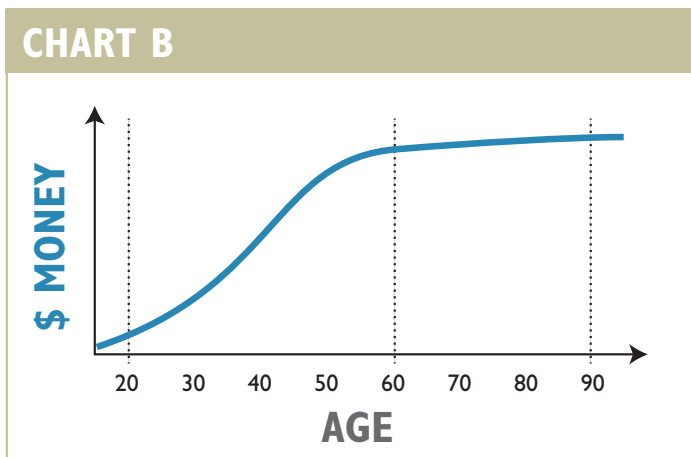
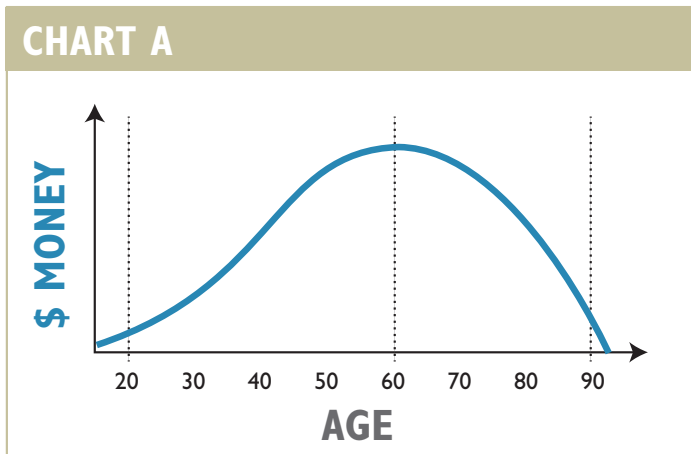
Coach Norman Dale (Hackman) grabs a chair and a tape measure, then asks one of his players to stand on the chair under one of the hoops to measure the basket’s height. It measures the regulation 10 feet. He goes on to have them measure the free throw line and so forth. Hackman is changing the team’s perception from fear of impending defeat to one of confidence in their ability to continue winning on a very familiar size basketball court. Perceptions alter. Fears subside. Confidence returns. A smart coach.

Perceptual fear this past summer began to escalate: the “fictional” 2011 recession. Many people fervently believed Chicken Little’s sky was headed downward. Yet no recession materialized. This episode reminds me of Orson Welles’ “War of the Worlds” that aired on national radio on October 30, 1938, alleging the invasion by Martian aliens of the small town of Grover’s Mill, New Jersey. The following day, Welles apologized for creating such

fear and panic surrounding his science-fiction entertainment.

But aren't we just that way? If we hear about something bad, it must be true. Fear, tension, anxiety and elevated blood pressure quickly follow. Rationality goes out the window. Consumer confidence erodes. Stock markets plummet. Suddenly, "everyone" we know is either being foreclosed on, has lost a job, is getting divorced, or has some awful terminal disease. Life suddenly isn't worth living.

I'm being more than a tad over-the-top here, but you get the picture.



According to scientists, we engage the outside world as a consequence of transformations performed by our senses. As humans, we experience electromagnetic waves as images and colors. Actually, says Dr. Jorge Martins de Oliveira, MD, PhD, our universe is "colorless, inodorous, insipid and silent." He even answers one of the questions of traditional philosophy: Does a sound exist when a tree falls in a forest if nobody is present to hear it? No, the fall of the tree only creates vibrations. The sound occurs if vibrations are perceived by a living being.

Perception is just one of those things we actually do not realize we may have wrong. To discuss or argue about it is to attack our belief system. We live in our belief system. Our grasp of reality is firmly anchored to our individual experience, based on our belief system. It has taken me decades, but I now wholeheartedly believe no good ever comes from attacking someone else's belief system. Believe it!

However — helping others discover incorrect assumptions that underlie the elements that comprise their belief systems frees them to perceive accurately. This empowers them to embrace a new reality. An example:

Most pre-retirees' collective belief system about retirement is illustrated in Chart A. We start out in the workforce with no savings or investments in our early 20s. Over the next 40 years, we keep our nose to the grindstone and save for retirement. We then retire and hope we will not run out of money until after we die. But we're apprehensive — worried and convinced that it WILL happen if we live too long.

After a quarter century of advising and coaching hundreds of retired clients, this is the rare exception, not the norm. — Even though the last decade has caused more stress than the norm. Most often, assets do not diminish rapidly. Very few ever run out of money. The far more likely result is Chart B. Retirement occurs around age 60, and assets typically grow slowly or level out over the next 20 to 30 years.

The problem with projections as well as perceptions is — they rarely pan

out as envisioned. Over time, external events and personal factors intervene to recalibrate our decisions. Unfortunately, over the past decade, with the stock market's historic under-performance, many retirees have had to adjust their lifestyles to make their money last. They do. It does. In like manner, in the 1990s, money was spent more freely due to above-average market returns.

My point is, the world changes and perceptions change, leading to a change in reality. Sure, these changes are not always welcome. A wise man once told me that most money-related fears derive from one or two concerns: Either we believe we will not get to where we want to go, or we will lose what we already have (a happy retirement with lots of money). Either or both can place us in a paralyzing state of fear. We become reactive instead of proactive, on edge instead of calm, worried instead of confident.

Many of us have a difficult time thinking about certain aspects of life and livelihood. There isn't always a family member, a friend or an expert there to assist in formulating our thinking. These days, even the experts disagree about everything from vitamins to climate change.

The emerging field of behavioral finance has documented how disastrous perceptions can be when it comes to selling a stock position. When we become attached or fall in love with a particular stock, it's hard to see it for what it is — just an investment. If the stock begins to drop in price, we take no action with the firm belief it will recover to its former glory. The more it drops, the more certain we are it will bounce back. We will hang on to the bitter end, even when it is trading for pennies and is headed to bankruptcy court.

Regrettably, this is one of those perceptions that, when not grounded in fact, can utterly destroy an estate concentrated in one stock.

We see the world, not as it is, but as we are.

- TALMUND

It is not that we are unable to think about the issues. Rather, it's the way we go about processing information. The problem is not the problem, the solution is not the solution. The solution is how to think about the problem!

We need some boundaries, something concrete, something easy to recognize. We need our own personal canary in a coal mine.

It's about changing our frame of reference. — From “nothing looks positive” to “making lemonade out of lemons.”

Permit me to recommend a new movie to you: “Moneyball,” based on the true baseball story of how the low-budget Oakland Athletics in 2002 became a Major League contender. The movie premise: The combined wisdom of baseball insiders over the past century is largely hooey. Statistics such as stolen bases, RBIs and batting averages are relics of the 19th century. “Moneyball” shows the Oakland A's' front office taking advantage of a young Yale economics graduate's more empirical gauges of player performance to field a team that succeeded against far richer competitors. By re-evaluating the strategies that produce wins on a field, the 2002 A's beat teams that out-spent them by over a factor of 3. The



key: Find undervalued players who do certain things well.

Alas, other teams soon caught on to the A's' "sabermetrics," so the strategies of general manager Billy Beane (actor Brad Pitt) didn't remain proprietary for long. Recently, the St. Louis Cardinals, a sabermetrics practitioner, took the World Series. I promise you will enjoy this "underdog" film, even if you're not a baseball fan. For sheer amusement, watch "scientific" grand unified field theory trump Big Baseball's traditional bullpens.

Now, of course, the point of my digression is this: When our perceptions turn negative, we spiral into inertia and indecision. If we don't like the status quo, we must try to take charge and change it. The structure of scientific revolutions is based on "paradigm shifts," educator Thomas Kuhn famously remarked. Just as Galileo trumped Ptolemy, and tanks trumped cavalry, today's Internet is turning the tables on harsh dictatorships' propaganda.

It is a daily struggle to not allow the outside world to take control of our emotions. The 21st century's relentless stream of daily information doesn't help. Consider this: Of the 300-plus words for "emotions," two-thirds of them are for negative emotions. Want to become emotionally distraught? Constantly watch cable news!



Kevin T. Coyle

In their "Parallel Universe" song lyrics, the Red Hot Chili Peppers observe, "Deep inside of a parallel universe, it's getting harder and harder to tell what came first...." Today, in our highly fragmented, social-media-saturated world, separating fact and fiction is often hard. Communications guru Marshall McLuhan warned us decades ago this would happen: "The printing press, the computer and television are metaphors through which we conceptualize reality....They classify the world for us, sequence it, frame it, enlarge it, reduce it, argue a case for what it is like....We do not see the world as it is. We see it as our coding systems are."



Edward J. Kelly, Jr

Recently, an Illinois appeals court dismissed criminal charges against Chicago's E2 nightclub owners for the February 17, 2003, disaster that resulted in 21 people dying as the result of panic. A deadly stampede was caused by fear of a poison gas attack by terrorists. In fact, pepper spray had been used to break up a fight. Neither the deceased nor the survivors perceived the danger of being crushed to death. Sadly, these deaths could have been avoided if nightclubbers' perceptions of the real danger had been noticed. What is real? What is perceived? Sometimes, unless we stop to examine our assumptions and beliefs, things spin off in unpredictable directions.

A cautionary reminder — *perception is reality.*

On closer inspection, things often may not be what they first appear to be.

George and Ira Gershwin even wrote a song about this puzzlement: "It ain't necessarily so."



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