Important Topic: Low Expectations – A key to Happiness?

(with thanks to Morgan Housel)

When in 2009 Charlie Munger told Elon Musk all the ways Tesla would fail, it "made me quite sad," Musk tweeted last week. "But I told him I agreed with all those reasons & that we would probably die, but it was worth trying anyway."

When Charlie Munger was recently asked "You seem extremely happy and content. What's your secret to living a happy life?" 98-year-old Munger replied: The first rule of a happy life is low expectations. If you have unrealistic expectations you're going to be miserable your whole life. You want to have reasonable expectations and take life's results good and bad as they happen with a certain amount of stoicism.

I think these guys are making the same point. And it's an important one.

Musk is right that some things that will probably fail are worth trying anyway. That's true for everyone in almost all areas of life, because we live in a world where a few events drive the majority of outcomes. It's a world that demands you become comfortable with a lot of things not working, lots of things failing, lots of uncertainty and constant disappointment, because "success" means you tried ten things and eight of them failed miserably but two changed your life.

Munger is right that unrealistic expectations assure misery, and for two reasons. One is that the world is a fragile and volatile and complicated place, and the only way to avoid disappointment is to expect it. Second is that progress tends to move the expectation goal post. So the only way to enjoy the modern world is if your expectations rise slower than its progress.

The common denominator between both guys is the superpower of having low expectations.

That's not intuitive, because low expectations make you think of a mopey pessimist who's accomplished nothing. But I want to convince you: it's the opposite.

1. Tails, you win

Late last year Musk was asked about one of the hardest problems on SpaceX's plate. Its massive Starship has to cut weight everywhere it can so that the cost of each launch becomes low enough to launch the things all day. Step one was cutting the landing gear.

Rather than the rocket returning to Earth and landing on its own, the new design means it'll come down with its bottom exposed, aiming itself at a giant tower on the ground. Just before hitting the ground, two enormous rods shoot out of the tower and grab the rocket like a parent catching a falling child.

It's wild. Musk explained: We're talking about catching the largest flying object ever made on a giant tower with chopstick arms. It's like Karate Kid with the fly, but much bigger. He then laughed, and added the most important line: "This probably won't work the first time."

He says that often about his endeavors. When a rocket failed to land five years ago, he said, "Didn't expect this one to work, but next flight has a good chance." Talking about Starship's challenges last month, he said "success is one of the possible outcomes."

He tweeted two years ago: To be frank, in the early days, I thought there was >90% chance that both SpaceX & Tesla would be worth $0. The press & aerospace / automotive industry at the time (correctly) agreed with me.

I don't think any of that is casual irreverence or cocky risk-taking. Purposely low expectations is the only way to survive in a world that's not kind enough to reward every ambitious person with success.

When people say, "higher risk equals higher return" they should actually be saying, "higher risk means I'll probably earn lower returns most of the time but there's a chance I'll earn very good returns some of the time that more than make up for it."

That's the distinguishing feature of higher risk: the greater prevalence of failure. The chance (expectation?) of offsetting success is the reward, but this plays out slower and over time.

The key part is that low expectations and accepting frequent losses increase the odds of sticking around long enough to eventually be right enough to make up for it, and then some.

And that applies to ordinary people, not just people like Musk.

In a boring index fund of 500 stocks, fewer than 20 companies make up most of the returns in any given year. Sometimes it's fewer than five companies. The rest – literally 80%+ of companies – provides returns that range from OK to disastrous. So if you track every individual company, bring pitifully low expectations. That's how the world works.

2. Getting the goalpost to stop moving

President James Garfield died in 1881 because the best doctor in the country did not believe in germs, and probed a bullet wound with an ungloved finger, likely contributing to his fatal infection. This is one of many examples of the primitive lives the most privileged people lived in different eras. It is astounding.

When Charlie Munger was born in 1924, the richest man in the world that year was John D. Rockefeller, whose net worth equaled about 3% of GDP, which would be something like $700 billion in today's world.

That is a lot of money but he had to live in 1924. A short list of things that did not exist in Rockefeller's day: Sunscreen, Advil/Tylenol, Antibiotics, Chemotherapy, Flu, tetanus, measles, smallpox, and countless other vaccines, Insulin, Blood pressure medication, Fresh produce in the winter, TVs, Microwaves, Dishwashers, Overseas phone calls, Jets, Computers, Internet, Colour movies, Cell phones and smart phones.

If you're honest with yourself I don't think you would trade Rockefeller's $700 billion in the early 1900s for an average life in 2022.

But that's hard to admit, because all the insane luxuries Rockefeller didn't have are now considered basic necessities. Everything works like that. All luxuries become necessities in due time. It's why "everything's amazing and no one's happy," as Louis C.K. says.

The only way to counter that truth is going through life with purposely low expectations. Don't expect a lot of economic growth. Don't expect great investment returns. Don't expect a ton of innovation. Don't expect politics to improve. Expect occasional catastrophes. Be OK with things staying roughly the way they are right now, or worse. Because for most people the way things are right now is indistinguishable from magic relative to how things used to be.

Then any little improvements that happen to come along feel incredible. You appreciate them more.

Low expectations don't make you depressed – they do the opposite, making little gains feel amazing while bad news feels normal.

It's not easy, because the knee-jerk way to set expectations is to anchor to what everyone else has right now. But imagine the tragedy of unbelievable progress throughout your life and enjoying none of it because you expected all of it.

It is said of marriage and friendships: They only work when both people want to help the other while expecting nothing in return. If you both do that, you're both pleasantly surprised. It's a good model for a lot of things.

Market Update – September 2023

Markets in September posted predominantly negative returns, continuing the downward trend experienced in August.

While the US economy remained strong, the markets became increasingly concerned about the short term future with interest rates being held higher for longer. The market's short-term concern is that the higher interest rates will finally, and soon, cause a slowing economy, and therefore lower earnings. Remember that earnings are directly correlated with stock prices.

Whether this concern proves to be valid or yet another incorrect expectation, will be seen during the last weeks of October when companies release their earnings. On the positive side companies will post their earnings compared to last year's results and given how low those were it is more than likely that the earnings compare favorably. Whether the absolute numbers are sufficient to push stocks higher, in the short run, is unknown.

What interests me is the fact that the correlation between stocks is very low. Usually stocks are highly correlated with each other as they move in response to macro-economic data, political news or general headlines. Such movements minimize the focus on the individual company and instead focus on the macro environment. The lack of such correlation points to the opposite. Investors are paying much closer attention to the value of each individual company. Investors are more focused on fundamentals like competitive advantages, financial health, profitable execution and company positioning. This bodes well for our portfolios as we, rightly in our opinion, focus on fundamentals at all times.

But all of the above is, in our opinion, short-term. And whatever does happen (and we do not know the future), we will stick with our long-term plan, confident that we will get to where we intend to be, just not knowing which path we will take to get there.

And so, the focus remains, and must remain, on the long term. One's investment focus should be on strong entities that have opportunity and potential, and can weather the inevitable storms and still prove profitable. Invest for the long term and ignore short term fluctuations.

Mostly one should focus on one's own life, plan, and goals. At the end of the day that is all that truly matters.

Looking forward, we are neutral on the short term, but remain positive in the medium and long term. We continue to invest new funds (finding some good opportunities) and monitor our positions closely.

Have a great month and let us know if there is anything we can do for you,

- Meir & Adam

Index	Month	Year to Date
Bonds FTSE Canada Universe Bond Index - CAD	– 3.80%	– 1.50%
Canadian Equity - S&P/TSX 60 Index - CAD	– 2.60%	2.90%
US Equity – S&P 500 - USD	– 3.50%	12.0%
International – MSCI EAFE Index - USD	– 4.90%	6.90%
Emerging Markets - MSCI Emerging Markets Index - CAD	– 1.80%	1.20%
Real Estate - Dow Jones® Global Real Estate Index - USD	– 6.10%	– 4.10%
S&P/TSX Preferred Share Index - CAD	– 1.30%	– 1.10%

Meir J. Rotenberg, MBA, CFA®
Senior Investment Advisor
TD Wealth Private Investment Advice
T: 416 512 6689
meir.rotenberg@td.com

Adam D. Shona, B.Comm
Investment Advisor
T: 416 512 7645
adam.shona@td.com

Nelson Gordon
Client Relationship Associate
T: 416 512 6813
nelson.gordon@td.com

Jon Bentley
Client Service Associate
T: 416 308 7064
jon.william.bentley@td.com

TD Wealth Private Investment Advice
5140 Yonge Street, Suite 1600
North York, Ontario M2N 6L7
Fax: 416 512 6224
Cell: 416 602 1614
Toll: 800 382 4964

TD Wealth

BC24-135