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Noel Swain: Risk, Real and Perceived

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Four of my siblings and I had just completed a 17 mile bike ride the day before. My 79 year old sister, Carolyn, had fallen

four times over the course of the ride. She looked pretty beaten up, with scrapes, scratches, bruises, cuts and a black eye. But she had completed the ride. That night I showed them the video of the tandem sky-dive I, along with my daughter, son and grandson had participated in last summer. I announced that the next time we siblings all get together we're going to have to do a tandem jump. Carolyn said, "no way, it's too risky." That made me think about risk, and how we, as humans, perceive it.

The bicycle trail (Virginia Creeper) we rode on was mostly a downhill trek. But there were many dangers along the way. Riders have been injured (and in at least one case, fatally) riding off the steep embankments along the route. Even though I cannot find any statistics for it, there are newspaper articles that bear this out. The falls like Carolyn took could have been much worse than they were. However, since the first tandem sky-diver was taken up in 1982 at the airfield we were at, there have been no injuries more than a sore bottom from people landing on them.

The perceived risk of jumping out of an airplane at 13,000 feet is much greater than that of riding a bicycle on a trail. But the statistics point out that a tandem jump is much safer overall.

Everyone has seen the statistics pointing out that flying to a destination is far safer than

driving. So why do some still prefer to drive? It's because they perceive the risk of flying to be vastly higher than it is.

I believe it's the same with investing. Many people buy a financial product that is sold with a "guarantee" and feel safer. But in the long run, are they? If someone buys a so-called "investment" sold with a guarantee that the value can never go down, the entity making that guarantee has to build that product in such a way as to "guarantee" them a profit from its sale. They do that by greatly limiting what that "investment" can make. So the risk doesn't go away, the investor simply trades one form of risk for another.

Everyone would love to live their lives without risk, but there is risk in everything we do. Whether it's driving a car, riding a bicycle, who we marry, what we do for a living, or how we invest, there is risk involved. The trick is to understand the risks we are assuming so we can make even better choices.

When choosing a financial advisor one should look for someone who can and will explain all the risks and potential rewards of his recommendation in a truly honest way.

Now that I have thoroughly explained all the risks involved, I expect my sister to be eager to go on the tandem sky-dive with me. Yeah, right!