

# Inertia & Economics

They teach us all kind of things in grade school, many of which seem boring or useless at the time. Physics is a class I always loved and it came in really handy in driving, especially driving crazy as all teenage boys love to do. We all learn the basic concepts of inertia as drivers if we didn't pick it up in the classroom. It doesn't take a Rhodes Scholar to figure out that the car will need quite some distance to stop if it's traveling down the road at 80 miles per hour. Many teenagers learn the inertia lesson the hard way: they have a terrible auto accident because they misjudged how long it would take to stop, how fast they could take a corner, how much rain and snow kills traction, etc. While we learn these lessons and modify our behaviors accordingly, there is no teacher like common sense. If we are traveling too fast, the car will skid out and plow forward rather than taking the planned turn. If we turn too fast or hit the gas at just the right time, the rear end may begin to fishtail or go sideways – now we really have to deal with inertia. A car that is fishtailing (today 'drifting' is the hot term) or going sideways down the road is quite difficult to get back under control without experience. You need to counter-steer to get the car to go back in line with where you want it to go. This isn't a common sense activity and it takes practice and training to learn this behavior – we don't have this behavior plugged into our DNA at birth. Effective counter-steering takes amazing precision – if you don't do it enough you'll spin around and if you counter too much you'll end up going sideways in the other direction. If you're driving responsibly, the car will likely never go sideways, but I'm guessing most men have had the car in a sideways slide many times! ☺

When it comes to our finances many of the same issues are true. The biggest difference is that with finances, the lessons aren't quick and easy to learn and we really can't practice the concepts to become expert in them. We only learn through real life experiences with real money – there are no "proving grounds, racetracks or schools" to teach people how to be good investors and financial stewards. Right now the financial and housing markets are very volatile and many people are scared. Experienced investors realize the amazing opportunity that exists today, but most of the population is currently afraid and paralyzed by the media blitz telling us the sky is falling. You must take advantage of opportunities like today as they present themselves because they don't come very often. With investments when they seem the safest they're actually the riskiest and when they seem the riskiest they're actually the safest. Volatile times demand precision and skill – you must know how to deploy your resources and make wise decisions. It's like learning how to counter-steer your car as it slides sideways around a turn. While commodities are hot right now and financials have gotten hammered, most people are chasing returns – they buy what has just produced the highest returns and that is commodities. Successful investors do just the opposite – they buy what is a good value and what can be had for less than its intrinsic value. I'm not disagreeing commodities are hot, but do you want to be there when that bubble bursts? We've advised about the current housing bubble bursting for the past three years and now the media claims it to be news. Where do you want to be in the coming years when the next bubble (commodities) bursts? I hope you're learning to counter steer in this environment! ☺ Mike Chadwick, CFP® can be reached at 800.843.4513 or [mike@fiscalwisdom.com](mailto:mike@fiscalwisdom.com)

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