



Opinion

Better By Mistake: The Unexpected Benefits of Being Wrong

By Alina Tugend

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Oops.

You made a little mistake at work.

Okay, it wasn't so little. It was gargantuan.

Clients bailed, money was lost, everyone's mad at you. It was so bad, so colossal an error that you're sure you're going to lose your job over this. Which means you'll lose your house, you'll lose your family, you'll lose your dog and your truck, and your life will basically sound like a bad Country-Western song.

That kind of thinking is called hindsight bias, and you can just stop it.



By Mistake" by Alina Tugend. That "little" error might be a huge opportunity.

So you made a mistake.

Welcome to the club, says Alina Tugend. The truth is that, from the time you wake up until you go to sleep, there are so many choices to make that the chance for error – no matter how small or large – is huge. Therefore, just face it: you're going to make mistakes.

But we, as a society, don't make much of a distinction between "good" mistakes and "bad" mistakes. The bigger the boo-boo, the higher the fear of punishment, which is

Revisiting the advice to buy real estate

In 2010 I published a column entitled "Now's Still the Time to Buy a House." Investing is like chess in slow motion. It is important to review your moves to see how they turned out. Sometimes they don't turn out well. Our prediction about real estate, however, was brilliant.

A year ago I advised, "If you are looking for an easy recommendation for an investment vehicle, try the Vanguard REIT [real estate investment fund] exchange-traded fund [ETF] (symbol is VNQ). The expense ratio is only 0.15 percent, and the yield is 3.6 percent. This is by far the simplest way to take advantage of this trend." Using that objective measure, the 12-month return on VNQ has been 22.7 percent compared to the S&P 500's return of 17.2 percent.

We currently invest about 23 percent of our allocation to hard assets in VNQ. For a typical 40-year-old, 17 percent would be invested in hard assets and 3.91 percent in VNQ. An allocation of less than 4 percent in VNQ may not seem like much because most people don't have a balanced portfolio that uses all six asset classes. Our allocation to VNQ actually overweights REITs by 9.2 times the normal U.S. stock allocation.

Our typical 40-year-old allocates 32.2 percent to U.S. stocks. Financials represent 15.5 percent of the U.S. stock market. REITs represent about 9.5 percent of the financial sector. This means that most investors mimicking the S&P 500 have only 1.5 percent in REITs. And because our U.S. stock allocation is only 32.2, they would only have 0.5 percent of their portfolio invested in REITs. Thus our additional 3.91 percent allocation overweights REITs by 9.2 times.

My father's investing advice was always "Make half a mistake." These

strategic allocations to overweight certain sectors of the economy are attempts to balance the hope of superior return against the mistake of putting all your eggs in one basket. Novice investors holding only five funds might put 20 percent in REITs. Perhaps that would do well, but there are many sectors to overweight, and there are gains to be made from rebalancing between diversified allocations. In fact, a study by David Swensen, chief investment officer for Yale University, revealed that their endowment earned an additional 1.6 percent annually simply due to rebalancing transactions.

We haven't always been excited about investing in real estate. Early in 2005 my father George Marotta and I explained the coming subprime debacle and predicted "the bubble, if it is a bubble, could pop as late as 2006 or 2007." Our forecast was accurate. Real estate continued to rise that year. But it was relatively flat in 2006, underperforming the markets that appreciated over 15 percent.

In April 2007, I wrote, "Many homeowners with adjustable rate mortgages have seen their monthly payments increase 50 percent, due to the higher rates. With the sudden jump in monthly mortgage payments, many are finding they can no longer afford to stay in their homes. The rate of late payments and foreclosures has continued to rise, leaving many lenders on the brink of bankruptcy themselves." In February 2008 in my column "For Now, Avoid Real Estate Investment Trusts," I warned again to stay out.

These dire predictions annoyed local realtors up until well after the financial implosion in July 2009 when I suggested to readers that now it was time to buy. I wrote, "Nathan Rothschild offered the

The Bookworm

By Terri Schlichenmeyer



something our parents and teachers might have inadvertently instilled in us, our personalities intensify, and our workplaces perpetuate.

What helps, says Tugend, is to look back and understand where you went wrong and why the mistake happened. Did the aftermath make up for the initial panic? Can it be fixed? Did you learn something from it?

If you learned to avoid everything for fear of making a mistake, Tugend says that's normal. But fear not: millions of neurons in your brain evaluated the weight of that error, which will cause you to slow down next time. Making a mistake, therefore, automatically changes your behavior. The other good news is that our ability to monitor errors increases as we grow and age.

But what can be done about the mess you made? Tugend says that a real apology – one that's sincere, acknowledges the offense, admits regret and responsibility, and is offered immediately – goes a long

way to patch things up. Saying "I'm sorry" is complex and tricky, but that's often all the offended person really wants.

So you say you ain't no saint. Neither were the saints, says author Alina Tugend in this lively, interesting (albeit occasionally off-track) little book.

Through old test results, experiments, expert opinions, and case studies, Tugend explains how mistakes can be both mortifying and fortuitous at the same time. She studies mistakes that can – literally – mean life or death. She looks at how reactions to a mistake can color the perpetrator's ability to take risks in the future, which is important and helpful information for all managers. When something goes wrong at work, do you question an error or quash an employee?

"Better by Mistake" won't prevent you from goofy gaffes or spectacular snafus, but it will make it easier to learn from your lapses and put things into perspective. If you need that reminding, it would be a slip-up to slip past this book

MAROTTA ON MONEY

BY DAVID JOHN MAROTTA

contrarian advice to 'Buy when there's blood in the streets and sell to the sound of trumpets.' It is time to consider buying residential real estate. The bottom is forming, although it may continue to do so through early 2011."

Now that it is early 2011, I think we have reached the bottom and the housing market is beginning to pick back up. Personally I've purchased two properties in the last six months that I hope will offer good returns going forward. Buying a house is only slightly less work than having a newborn, and it is certainly much more expensive. For those who are looking to simplify their lives, I highly recommend purchasing some VNQ and going back to fishing.

Investment real estate isn't for everyone. You shouldn't have more than a third of your net worth bound up in real estate. For many families the home they live in provides them with more than enough real estate exposure.

A year ago I suggested you put perhaps 4 percent of your portfolio back in REITs and wait until early 2011 for the other half. Our firm's investment committee has been considering the other half for a few

months now. We are currently looking at Vanguard Global ex-U.S. Real Estate Index (VNQI) that invests in real estate outside the United States. This ETF only started in November 2010, so it is a relatively young fund. But the expense ratio for VNQI is only 0.35 percent and liable to drop from there.

Last year I wrote, "I've heard a number of bleak predictions for the housing market recently. Everyone is expecting real estate to underperform the stock market for many years going forward. Maybe they are right." Now we know they were wrong.

Markets can turn quickly. There's still blood in the street. Don't miss this opportunity to look for a great real estate deal.

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