Posted to the Gilder forum - September 25, 1999

Risk:

I have read quite a bit about investing but I still don't understand the concept of risk as defined in the scholarly tomes. Scholars define risk using Alpha, Beta, Standard Deviation and Volatility (I think) and I suppose that this definition will satisfy a mathematician. But it does not help me. I cannot reconcile those convoluted definitions with my gut understanding of risk: "the possibility of losing." I give this explanation because I will use my gut understanding of risk and not the scholarly definition in what follows.

Jeremy J. Siegel in his book "Stocks for the Long Run," has a very interesting table which shows the current value (for 1992) of one 1802 dollar:

- Stocks: $260,000
- Bonds: $563
- Bills: $250
- Gold: $1.14
- Dollar: $0.09

He adds a curious commentary: "Ironically, well-preserved paper money from the early 19th century is worth many times its face value on the collector's market, far surpassing gold bullion as a long term investment. An old mattress containing 19th-century paper money is a better find for the antique hunter than the equivalent amount hoarded in gold bars!"

It would seem reasonable from the above table that investing all your "disposable" capital in stocks and only in stocks is your best strategy. If you put one half of your investment monies in gold you will only earn one half of the maximum possible.

Before these statistics were discovered it was argued that a "balanced" portfolio containing risky stocks, safer bonds and rock solid gold was the prudent investment. It seems to me that this "prudent" portfolio is a guarantee that you will retire with less that you could obtain with a low risk (remember my definition) all stock portfolio.

I think Smitty and Sloop-60 might agree. Anyone else agree or disagree?

Denny