

WHAT'S THE DIFFERENCE BETWEEN INVESTING AND SPECULATING?



In his classic work, *The Intelligent Investor*, Benjamin Graham states that the most *unintelligent* thing you can do with your money is to be speculating when you think you are investing.

Since Mr. Graham is considered the father of value investing (a strategy successfully pursued by Warren Buffet and many other notables), his advice is worth listening to.

However, to be sure we're not confusing speculating and investing, we need to understand the difference between the two. Drawing the distinction is not quite as easy as opening the dictionary and looking up their definitions, since the two words carry different connotations for different people.

Jason Zweig, who writes for *The Wall Street Journal's* "Intelligent Investor" column, favors the definition provided by former trader Fred Schwed Jr.¹ Mr. Schwed lost all his money in the 1929 crash, but kept his sense of humor, and a decade later penned what is considered the funniest book ever written about Wall Street, *Where Are The Customers' Yachts?*

He differentiated the two terms this way: "Speculation is an effort, probably unsuccessfully, to turn a little money into a lot. Investing is an effort, which should be successful, to prevent a lot of money from becoming a little."

Though somewhat tongue-in-cheek, it's one of the best quotes for capturing the difference in mindset that exists between speculators and investors.

Two Different Views Of The Future

While the definitive definition of how speculation differs from investing remains elusive—many brilliant people disagree—it seems to boil down to the individual's attitude and an understanding of probability within the risk/return framework.

An investor takes into consideration, as much as possible, the inherent future risk of an investment and embraces the understanding that an investment's expected return is a reflection of its risk level. What is the likelihood of it losing all its value within his timeline horizon? For gauging this, the instrument's past track record is useful but not a guarantee of future performance.

On the other hand, a speculator is most interested in the future upside of a transaction with less emphasis or clarity about its inherent risks. His/her hoped-for big gains rely on an unlikely event that somehow has not been priced into the instrument. For example, people who back new inventions are speculating because they are counting on the creation, demand and market viability for something that has not existed before.

Writing for Forbes, chief investment officer John Buckingham observes that because the term "investment" sounds so much more legitimate than "speculation," the former is often used in dishonestly advertising the latter.²

Should collectible plates really be called an investment?

Be Honest With Yourself

Speculation is not inherently wrong. It's part of how innovative products and companies get their funding. It's just risky highly inconsistent, especially if it's allowed to impact your long-term retirement plan. So recognizing the difference between speculation and investment is fundamental to shaping your expectations and allocating your risk capital accordingly.

To help manage the greater risks, Graham recommends that if you're going to speculate you should set aside a portion (the smaller the better) of your capital in a separate fund. He says, "Never mingle your speculative and investment operations in the same account, nor in any part of your thinking."

Some people refer to this as their "play money" and their "serious money." Serious money should be invested in broadly diversified strategies with calculable risk-return histories and specific, measurable goals in mind. Play money, if you can truly afford to lose it all, is more akin to what you'd budget for an entertaining weekend at the casino.

Have a great weekend!

Source: Efficient Advisors

Golf Tip of the Week



Strengthen Your Legs to Add Power to Your Drive

If you're looking to improve your drive, strengthening your body can give you the boost you need. Specifically, your legs can affect how well you drive. Follow this exercise to improve your muscle and posture:

1. Stand so your back is fully erect and straight.
2. Hold your driver vertically flat against your back—removing any curve in your spine.
3. Do a lunge by stepping your right foot forward and dropping your left knee down.
4. Make sure your right shin remains perpendicular to the ground with your back and club completely straight.
5. Step back into place and do the same motion by leading with your left foot and dropping your right knee.
6. Repeat sequence 3 days each week with 20 reps each time.

Follow this straight-back stance when you swing and add extra power to your drive.

Tip adapted from Blair O'Neal | Golf Magazineⁱ

Recipe of the Week



Eggplant Stuffed With Bulgur and Cashew

Serves 4

Ingredients:

3 tablespoons olive oil
3 garlic cloves, crushed
½ cup golden raisins
½ teaspoon curry powder
¾ teaspoon salt
1 cup bulgur, quick-cooking style
2 cups water
2 medium-sized eggplants
½ cup cashews, shelled
Fresh mint, chopped

Directions:

1. Warm 1 tablespoon olive oil on medium heat in a small saucepan.
2. Toss in garlic, raisins, curry powder, and ¼ teaspoon salt, and cook for 2 minutes, stirring constantly.
3. Add 2 cups water and bulgur. Heat until mixture simmers, then cover pan and simmer for 15 minutes (or until bulgur becomes tender).
4. Halve both eggplants lengthwise and remove seeds.
5. Line baking sheet with aluminum foil, and place eggplant halves face side up. Brush each eggplant with remaining olive oil and sprinkle with ½ teaspoon salt.
6. Set oven to broil, and once heated, place eggplants in oven, 6 inches away from heat. Broil eggplants for 7 minutes or until they become tender.
7. Take cooked eggplants out from oven and cover with foil.

8. Fluff bulgur mixture with fork, adding cashews.
9. Stuff bulgur into each eggplant and top with mint to serve.

Recipe adapted from Good Housekeepingⁱⁱ

Health Tip of the Week



Manage Anemia

Anemia occurs when people have too little healthy red blood cells (hemoglobin), which affects 3.5 million Americans. A variety of issues can cause the condition, including iron deficiency and lead poisoning. In some cases, bigger health issues can trigger anemia, such as hemorrhaging or cancer. To help you manage your health better, here are common symptoms to look out for:

- Abdominal pain
- Insomnia
- Leg cramps
- Low energy and fatigue
- Nails that curve upward
- Pale skin
- Tingling sensation in hands and feet

Other symptoms exist and vary depending on the cause of anemia. Consult your doctor if you have any of these symptoms.

Tips adapted from WebMDⁱⁱⁱ

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ⁱ <http://www.golf.com/instruction/blair-oneals-fast-easy-move-strengthen-legs-super-size-drives>

ⁱⁱ <http://www.countryliving.com/food-drinks/recipes/a34038/bulqur-cashew-stuffed-eggplant-recipe-ghk0215/>

ⁱⁱⁱ <https://www.webmd.com/a-to-z-guides/understanding-anemia-basics#1>

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