School's Out

Wisdom for New Adults on Investing, Life, and Standing Out in a Crowd

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CHAPTER 1

Why Trying and Failing is So Important

> A person would do nothing if he waited until he could do it so well that no one would find fault with what he has done.
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> —*Cardinal Newman*

Eugène Boudin was a well-known art schoolteacher in Paris in the 1850s and was a mentor to Claude Monet. On the first day of each school semester, Boudin would divide his class into two groups for a one-month project. The first group was told they would be judged on the *quantity* of paintings that the group could produce in one month. The second group was told they would be judged on the *quality* of one painting only.

At the end of the month, Boudin noticed consistently year after year that the best paintings came from the group that focused only on the *quantity* of work produced. Why? Because the quantity group, through voluminous work, trial, and error, gained much more experience in the actual creation of art. They were free to be creative, free to paint what they wanted to, and free to gain experience from many attempts. They were unencumbered by a goal of perfection. Basically, they tried and failed much more than the other group.

The quality group, however, sat and pontificated about the perfect painting they wanted to create. They researched what the masters had painted before them. They argued about what the painting should look like. They were stressed out about each brush stroke. Their goal was perfection, so they picked up their brushes to paint far less often. They did not gain the experience from trying and failing. That experience is what's needed to eventually create a great work of art.

An apprenticeship for a newcomer in any field can be a messy endeavor. Only by throwing a lot of paint at a lot of canvases, do we gain the experience needed to be able to create something truly great and unique later on.

Legend has it that Pablo Picasso was sketching in the park when a woman approached him.

"Oh, It's you! Picasso, the great artist! Oh, you must sketch my portrait! I insist," she said.

Picasso agreed to sketch her, and after studying her for a moment, he used a single pencil stroke to create her portrait. He handed the women his work of art.

"It's perfect!" she gushed. "You managed to capture my essence with one stroke, in one moment. Thank you! How much do I owe you?"

"Five thousand dollars," Picasso replied.

"What?" The woman moaned. "How could you want so much money for this picture? It only took you thirty seconds to draw it!"

Picasso responded simply, "Madame, that thirty seconds took me thirty years."

Masters in any field do not acquire their talents overnight. It is only through trial and error, continual learning, and failure that anyone gains the skill that is required to be a great master in a field. And inspiration is overrated. Professionals show up to learn and practice their craft every day. Amateurs in a field only show up when they are inspired.

A famous author was once asked about the role of inspiration in his writing labors. The author replied, "Yes, I do only write when I am inspired. But I happen to be inspired every day at 7 A.M."

Words of the Wise: There are no shortcuts. Only by continual practice in any field does someone become great. The people who show up day after day, attempting to do meaningful work, create enough mediocre work to get through to creating the good stuff. Show up. Do the work. Create. Learn. Fail. Then succeed.

CHAPTER 2

Write Your Own Story

Stephen Curry is an NBA superstar. He wears three NBA championship rings and owns two NBA MVP trophies. Curry is widely considered to be the best pure shooter in league history. Choosing Curry to start games at the best basketball colleges and as a number one pick in the NBA draft seems like an obvious choice now. But his road to superstardom did not begin under bright lights or with the cheering of adoring fans.

Curry was born in 1988, and is the son of a former NBA player, Dell Curry. Curry loved basketball from an early age and attended Charlotte Christian School in North Carolina. Curry excelled on the court in high school and was named to both the all-conference and all-state teams. He led his high school team to three conference titles and three state playoff appearances. But although he now stands six feet, three inches tall, Curry says he was always the littlest guy on his team growing up. He always felt like an underdog and constantly wanted to prove the naysayers wrong. As a high school freshman, he chose to not try out for the varsity team because he lacked the confidence to risk failure, and he regretted that choice by mid-season. He realized that he took the easy way out and vowed to never sell himself short again.

Because of his father's storied basketball career at Virginia Tech, Curry wanted to also play college basketball for the Hokies, but he was offered only a walk-on spot on the team. Smart basketball evaluators did not see hoops greatness coming from a short, wiry player with a skinny 160-pound frame, so he did not get much attention from the big college basketball programs. He ultimately chose to attend nearby Davidson College, which had aggressively recruited him beginning when he was in the tenth grade. Curry thought he deserved accolades and scholarship offers from the top basketball programs in the country, but those offers never came.

Curry confided to *MasterClass* in 2018,

> I didn't get recruited by any Division 1 schools and that was very frustrating. It was not a great feeling. I ended up at Davidson, which was a small school, and no one knew about them from a basketball standpoint. But I was able to create my own journey and write my own story there. I learned to appreciate the power and the beauty in that, and to embrace it. It taught me patience; it taught me to appreciate the opportunity I had, and that everything happens for a reason. And it taught me to fully embrace whatever your story is, and to make it yours.

Words of the Wise: For every superstar player that is recognized as brilliant at an early age, there are many more people that have had to work hard to overcome challenges and perceived shortcomings along the way. Every person is born unique, and everyone must appreciate the joy in writing their own story and walking the road of their own journey. Everyone's path to greatness is different. Make your story your own.

CHAPTER 3

What is Investing?

Saving money rather than spending it is surely the best way to grow wealth over time, whether you are a sixteen-year-old new-adult who has just secured a first job, or a sixty-year-old factory employee who has been working for forty years. You can only invest money and watch it grow in the future if you save some money in addition to spending it. If you have a dollar and have decided to save it instead of spending it, then good for you. But it is not a good idea to put that dollar in a drawer and leave it there for a long time. You need to actively invest it. But what is investing? What is the point of investing money, and what are the different ways to invest?

Investing is the act of using money to purchase an asset or to commit capital to a company, business venture, or real estate purchase. Investing is done with the expectation of generating an income or profit in the future. An investor anticipates that employing this capital now will allow the capital to grow as the business grows and generate profits as the value of the investment increases over time or as the investment makes interest payments. Purchasing an antique car that an investor expects to rise in value over time could be considered an investment. However, buying a new sports car is not considered an investment as its value is certain to decline over time if there are many similar models in the marketplace.

There are many ways to invest capital, but when making an investment an investor must strive to generate a return on that investment that clears two important hurdles. First, the rate of return on the investment must be higher than the inflation rate. Second, the rate of return must compensate the investor for the risk that he has assumed in making that investment.

An important concept to understand when evaluating an acceptable return on an investment is the rate of inflation. During most of the last two-hundred years in the American economy, price levels of goods and services have risen over time, which is called inflation. The rate of inflation today is low at about 2 percent a year, but even that moderate level of inflation will cause a dollar to be worth less over time than it is worth today. If a hamburger today costs $1 with a 2 percent inflation rate, then one year from today that same hamburger may cost $1.02. The dollar that you own can be used to buy a hamburger today, but a year from now it will not be enough as you will need $1.02 for that same purchase. In two years, that same hamburger may cost $1.04 and so on. If a bank pays a 2 percent interest rate on your deposit of that dollar, and the inflation rate is also 2 percent, then you are merely matching the inflation rate and are generating a real rate of return of 0 percent. The investor is not making any money but is not losing any money to the impact of inflation either.

Because of the negative effects of inflation, the minimum rate of return for the investment of a dollar is a rate that at least keeps pace with inflation. Inflation erodes purchasing power. If your ancestors put a dollar in a drawer in 1819 and you found that same dollar locked away in 2019, then it is still worth a dollar and you can spend it. That dollar may have purchased twenty hamburgers in 1819. In 2019 that dollar may only purchase one hamburger. That is how the effects of inflation diminish purchasing power over time. You must invest your dollars to generate a return that at least matches the rate of inflation to achieve an equal level of purchasing power over time.

The second investment return hurdle that must be met is that an investment must compensate the investor for the risk that the investor assumed by making that investment. Investment returns tend to be lower when the assumed risk is low and should be higher when an investment is risky. If an investor purchases a United States government bond, then payback of the principal of that bond is virtually guaranteed due to the good faith and credit of the United States government. However, due to the low level of risk, the interest rate that the investor will earn is low, around 2 percent in 2019. If an investment is made in an unproven oil drilling business venture, then the risk of loss is very high as it could be later discovered that there is no oil in that hole in the ground. Because of the higher level of risk, the potential return to the investor also needs to be high. As a basic rule, the higher the level of risk that an investor assumes, then the higher the return that an investor should demand and expect to receive. When investing money to generate a return on investment, there are no free lunches. If an investor desires a higher return on investment, then the investor must assume more risk.

As an investor, there are many ways for you to invest a dollar. You could save it and deposit it in a bank account where you would receive a small amount of interest for every day that the cash is at the bank. You could loan it out to someone else and receive interest on that loan until the principal is paid back to you. You could purchase a bond that's been issued either by a company or government entity, and you would receive interest on your investment until you sell the bond or it matures. All these investments of cash are loans. A bank account is the loan of your money to the bank for the time that your cash is at the bank. When buying a bond, you are loaning money to the issuer of the bond. Loans of this type typically carry a lower level of risk, so the return from lending your money to creditworthy entities is also low. While loaning money to others to earn a return on investment may be lower in risk, the return on investment that you will receive over time is capped as you will not receive more than the interest payments that were established at the time of the loan.

Or you could take that dollar and invest it in a business where you would become an equity owner of that business. You could open a lemonade stand where you would invest money to purchase the raw materials in order to sell your products. You would hopefully earn a return on your investment but only if your sales exceeded your costs. Or you could use your dollar to purchase a stake in another person's private company where you would assume part ownership of that company and receive your share of the profits of that business. Or you could use that dollar to buy shares of stock in a public company where its shares trade on a stock exchange.

Words of the Wise: While loaning money to others may offer a lower risk profile for the investor, the most powerful way to grow investment capital over time is to make investments in the ownership of a business. That is how the great fortunes of the world have been built and compounded in value over time. It's through the founding, growth, and profitable reinvestment of great businesses. Investing in the ownership of a business is certainly a riskier investment than loaning money to a bank or government, but the potential return to the investor is much higher. A new adult is blessed with a very long period in which to invest, and an investment in a business or the publicly traded stock of a business is the best way to generate and grow wealth over the long term.