

The concept of risk is thrown around all the time. It can commonly be quantified as: *"I'll risk \$100 to bet on the Steelers"; "My risk tolerance is high, like 8/10"*. Or rather opaque: *"Yeah sure, I'll walk across this old suspension rope bridge"; "I'm quitting my job to start a juice company. Can't wait to hit it big!"* We usually talk about risk like it's just a thing we can do anytime - like an action verb. It's black and white in our decision making:

If I jump out of this plane, I could die. Or my chute will open and I'll be fine.

I take risk with my money now, but when I retire, I won't take risk anymore.

At Doxa, we see risk through a **completely** different lens. It's not an action you can just *do* when the time is right. We see risk as a personality trait. To us, risk is solely defined by the experiences of the beholder. There's no magic age where risky switches to risk-less. There's not a defined dollar amount that makes someone risk adverse versus risk tolerant. When and how you take risk is much more about your own experiences rather than outside variables.

Ok, enough with the abstract thought. Think about it this way:

Risk is learned. I didn't go skiing much as a kid but when I did, you bet I would fly down the mountain. Until I was buried under snow with one ski 50 yards from me. Again, and again, and again. There is only so many times you can get buried until you stop going so fast. Without the time training and building skill, speed = crash. I learned risk. *And yes, these days I take my time going down the mountain, thanks.*

We've all been there! Touching hot stoves, flying around mountain curves in your first car, or making that first 10-team parlay bet¹ that said "bet \$10 to win \$11,347". True understanding of risk is developed over time through all your experiences, which makes everyone's definition of risk unique. Of course, some people are more naturally adventurous or risky than others, which really just means the adventurous folks will try something more times than the risk adverse folks.

That's neat. But what does this have to do with business and investing?

Everything.

How do you **get** rich? You take a lot of risk and it happens to work out. How do you **stay** rich? Buy the sure thing, minimize risk, and don't be dumb. This is what is so ironic about risk – **getting** rich and **staying** rich require two completely opposite personalities. In the 90s, Elon Musk started an internet company called Zip2 with his brother rather than finishing his physics Ph.D. at Stanford. A **huge risk**, but it paid off! They sold it a few years later and he rolled **all** of his gains into a new company, PayPal. That was sold to eBay (another big risk but again, success!) and....*he took his \$165 million payout and retired, focused on staying rich and investing safe?* Nope, he rolled that

¹ A parlay bet is when you combine multiple bets into one, increasing the payout but minimizing the likelihood.

whole amount to start SpaceX (whose mission stated: *create a true spacefaring civilization*) and Tesla, where his business plan was: *build a sports car (yes, that's actually what it said)*. Maybe it's just me but I don't think Elon is a "cash out and put it in savings" kind of guy. He took a massive risk to drop out of Stanford, and it worked. He took huge risks again and again with his small fortune, and that worked too. Whether it was lucky timing or crazy genius (both), he kept skiing down the mountain at full speed without crashing; therefore, he's going to keep at it! Elon can't flip a switch and transition to "stay rich safe mode" – that's just not who he is.

Since risk is self-reinforcing, it is very rare that someone who takes huge risks to *get rich* is the same person that scales it back to *stay rich*. Risk tolerance doesn't magically change at 65 or because some blog says "all people under 30 buy Bitcoin." People are who people are, there is never a right or wrong, better or worse. **Our job at Doxa Capital is to marry these two personas for our clients.** Are you an Elon Musk type - flying down the mountain full speed every run? We don't want to slow you down, we want to ensure that all the safety gear is in place so if you crash, you get right back on the lift and go again. Our focus is never to change anyone's tolerance, but rather match a financial plan to life goals and make sure we get there.

Risk doesn't stop with financial plans. We use this exact same philosophy managing client portfolios. We want to marry *getting rich* and *staying rich* in our investing strategy too. In portfolio terms, this means we don't look to take big risks over the short term, but will absolutely take risks over the long term. Get rich in the long run, stay rich in the short run.

Taking "get rich" risk: identifying economic cycle beginnings and ends, following demographic trends, positioning for secular shifts. *More on this [here](#).*

Taking "stay rich" risk: Follow our allocation discipline. Safeguard against the events no one sees coming. Real risk to our portfolios rarely comes from something that is known. Behavioral management is a must, ignore FOMO and Oh-No.²

Our goal is to keep these two things in check. Since the Covid-19 recession began in March, we've been saying **stay optimistic, but allow for setbacks** - and that continues to be our theme. Said another way, let's be risky on those big long-term trends like deployment & distribution, electrification, & "data everything". Let's bet on economic progression and success. But allow for setbacks. Stay cautious in the short term, never recklessly play the "[all-in or all-out](#)" game, and stay focused on your financial plan, not the daily news or what Johnny at the County Club said last Saturday.

Head down the mountain at your own speed - embrace **your** risk and how you see it. The team at Doxa has your back, providing optimism but allowing for setbacks along the way.

By the way, that 10-team parlay bet? It really never hits, I promise.

Chase Lee

Director of Research

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² "Ignoring FOMO (Fear Of Missing Out) & Oh-No" is another way of saying: don't worry about what someone else is doing. Stay on your own path and follow the plan.

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