



Every Takeoff is Optional, Every Landing is Mandatory (Or why math doesn't always align with real life) – Part 1

Description

Real World Financial & Risk Planning Isn't Simple Math

There is a saying among pilots and aviation enthusiasts:

“Every takeoff is optional, every landing is mandatory.”

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Financial planning is no different. Every opportunity must be scrutinized but the end result – maintaining a lifestyle to which you are accustomed and that meets your basic needs is essential.

The single most important concept in finance is something called the risk of ruin. **Risk of ruin** is defined as the probability of losing your capital to the point where it is no longer possible to recover your losses or continue participating.

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You should never cross the threshold where you are risking that which you need.
Naoshad pochkhanawala



Imagine I came to you with a perfectly ordinary and balanced coin which had a 50% chance of landing on heads and a 50% chance of landing on tails when flipped. And I ask you to make the following bet:

If it lands on heads, I give you \$1. If it lands on tails, you give me \$1. Some people may take the bet for the fun of it, some may not.

Now imagine I come to you with this same coin and ask you to make the following bet:

If it lands on heads, I give you \$4. If it lands on tails, you give me \$1. Only a complete fool wouldn't take this bet any and every day and any other time that it was offered.

Now imagine that once again I come to you with this coin and this time the bet I offer is –

If it lands on heads, I will give you 5 times everything that you own. If it lands on tails you give me your house, car, money, investments – everything that you own. You would have to either have very, very, very little to lose or absolutely zero responsibilities and be a true gambler at heart, to say yes. For 99% of the population, even though the mathematically correct thing to do is take the bet, you would be an idiot if you did.

Good [financial planning](#) isn't about maximizing the return on every investment. It's about maintaining average/good returns when things go up, losing often but never too much, and having the sustaining power to be there for the home run events.

You should never cross the threshold where you are risking that which you need.

The key to any intelligent person's financial plan is first and foremost to avoid financial ruin. Put another way, protect what matters most to you at all costs. No excuses.

Naoshad Pochkhanawala

CATEGORY

1. Financial Planning
2. Wealth Creation & Economic Confidence

POST TAG

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2. gambling
3. investments
4. risk
5. risk management
6. risk of ruin
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