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Your money: Fear is pretty risky
By Curtis Seltzer

BLUE GRASS, Va.—The Nation's road out of economic recession/depression is flanked with 1950s advertising:

We're in trouble
Far and nigh.
So shut your yap and
Buy, buy, buy.
Burma-Shave

Washington plans to buy improvements to various infrastructures--transportation, energy, education, health care. It is hoped that public spending will stimulate consumer buying, which will reboot the private economy and take over as the stimulus runs its course.

It is also hoped that the billions in proposed 2009 tax rebates and cuts will be spent lickety-split, not saved or used to pay debt.

This stimulus will succeed or fail to the extent that everyone starts buying stuff, preferably American-made stuff.

Just for the record--farms, recreational land, residential housing, second homes, timberland and conservation properties are as American-made as it gets.

But Americans are afraid of buying right now. Those who have lost their jobs, their savings or their homes are scared of what they see in the light, let alone what they can't see in the dark. Everyone is pulling back, economizing, hoarding.

Buying now is too risky, we think, because we're uncertain about our individual economic futures, because things could get worse and take a long time to come back, because something really bad might happen.

We're too scared to buy individually, but buying collectively is the only way out.

Fear makes sense. Nothing guarantees future personal income for most individuals and families. Life, today, is more unpredictable for rich and poor alike.

And if the stimulus package doesn't succeed -- however, that might be measured -- there's no back-up plan.

Fear is useful when it stimulates prudence. It's deadly when it leads to paralysis.

Whether we decide to buy something always involves calculations of risk. Will I have money in the future to buy X if I buy Y now? Is buying property now too risky given falling prices and sales? What are my chances of losing money on an investment?

Risk comes at a buyer like pitches from a Cooperstown lefty—different speeds, curves, sinkers, sliders, brushbacks and beanballs. Hitting for average requires swinging only at pitches well within the strike zone. They are the prudent risks.

One kind of risk is subject to rational analysis. Probabilities of certain things happening or not happening -- like interest rates staying reasonably low for the next year or the need to replace a 50-year-old shingle roof whose warranty expired 35 years ago -- can be estimated with current information. These risk predictions can be made on what we see and our experience.

A second type involves future events that are more uncertain. It's easier to imagine possible events -- like a house fire -- than assess their probabilities.

A third type is what Nassim Nicholas Taleb, author of The Black Swan: The Impact of the Highly Improbable, calls extremely rare events that are essentially unpredictable. Black Swans, he argues, are the unseen happenings that trip us up as well as the good fortune that occasionally shines.

Some risks can be contained, even prevented. Others are shaped, but not controlled. And a few -- like getting hit on the head tomorrow by an asteroid the size of Arkansas -- are just out there, and it's a waste of good hand-wringing to worry about them.

Washington's stimulus program is about creating economic movement that encourages a lot of us to take reasonable risks again with reasonably knowable consequences. The market has stopped doing that.

Federal money is supposed to change the prevailing psychology of fear, which stimulates hoarding, to the psychology of confidence, which stimulates buying. But confidence has to be based on genuine improvement in individual economic fundamentals—not staging and Burma-Shave ads.

No guarantee exists that the stimulus, as proposed, will stimulate either confidence or movement beyond itself.

Critics rightly point out that too much of it is too slow; that much of it is not going into job creation; that it doesn't change the financial system that produced this mess; and that it doesn't do something about foreclosures, which is the hole in the stimulus bucket.

Right now, fear is driving most us to choose what appears to be the least risky decisions—sit tight and wait for things to improve.

We seem to remember the buy-low/sell-high rule in good times, not in bad ones.

The buy-low time is right now when things are bad.

The buy-low stars are in alignment. Prices are off. Sales are slow. Interest rates are down. Money is available. A real-estate tax credit in some form is likely to appear. Population growth will drive up property prices long-term.

While there are always risks in investments, a disciplined buyer can understand and control the two biggest--paying too much and selling too soon.

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