Investing Can Be Like Parenting A Toddler

Neither are easy. Neither come with an instruction manual (but there are thousands of books on both topics), and everyone's experience is a little different.

Nonetheless, there are parallels to be drawn between the irrationality of the stock markets and the irrationality of toddlers!

If I think back many years ago, I can say that my children were great kids, but like most parents I didn't have anything to compare them to. So in absolute terms, they were great. In relative terms, who knows? But of course, I'm just as biased as the next parent.

But recently, I've started to notice some similarities between investing in the stock market and my time being the parent. I think this is may be catharsis for me, but the parallels keep showing up.

If you are a parent, you'll probably recognise some of these similarities as well. And if you don't have kids, you'll probably recognise the random walk that stock markets take and easily connect it to how it relates to young children.

So, sticking with that random walk theory for a minute - and borrowing the term from Burton G. Malkiel's book titled "A Random Walk Down Wall Street".

Imagine a small child who's only been able to walk for 50% of their life, two years at the most.

The truth is they can walk just fine at age three and a half, four, but they don't walk in a straight line. They're moving randomly left, right.

They're speeding up. They're slowing down. They're stopping, always at the most inappropriate moments. Kids move to the beat of their own drum, and just when you think you have it worked out, something changes!

You can draw an immediate parallel between this behavior of children and the behaviour of stock markets. What you don't have with kids that you do have with stock markets (and probably a bit too much of it with stock markets), is that there are limitless observers and commentators, all trying to make sense of why any particular stock and/or index ran, or walked backwards, or just stood still, or ambled sideways.

These market commentators are all too happy to provide their well thought-out and logical reasoning for why the market moved, or didn't move, or went up or went down.

Back when my children were small, there was no such newsletter for a child's behavior, but I suppose that was just part of the fun of being a parent. Of course, if they were anything like the many market commentators on-line today, they probably wouldn't have given me too much useful information anyway!

One thing we were adamant about as parents, was that we needed to be consistent. If behaviour and routine was consistent, then we have a tighter range of expected outcomes with our children.

Some days were better than others of course, but it all came down to routines like bedtime being at the same time every night. And if we wanted any chance of things remaining calm, we needed to do a bath before the bedtime routine.

Another routine which worked well was reading a book prior to dinner.

This came about because the children in a routine where they almost automatically refused whatever they were given for dinner.

“I don't want that. I don't like that. I'm not eating that.” were an everyday occurrence. But having the book there kept their minds off what food was being put in front of them.

Investing in the stock market isn't that much different, (although you can't put the market on the ‘naughty step’ like we had to do with the kids occasionally!) ... Only governments can really do that. But the markets might decide to go wild at a time when you would prefer them to stay calm - There's not much we can do about the behaviour of stock markets.

But if we can keep our behaviour consistent, we can create good money habits, things like investing at regular intervals.

Putting a consistent amount of money into the same investment vehicles on a regular schedule over time has had a history of tightening the range of expected outcomes.

Of course, it's still possible to have negative outcomes or outcomes that are less positive than we expect. But if you're automatically investing money on a regular basis, it gives you the chance of having a better outcome.

Now, since neither the world of investing nor the world of parenting come with any guarantees, we should strive to be consistent with routines, behaviours and habits.

That consistency just might reduce the range of possible outcomes with our kids and with our investments.

In addition to being consistent, planning is another possible way to effect some change.

I can't remember who said it, but I've heard something like this;

"Risk is what you have left over when you think you've thought of everything".

There are always surprises in both investing and parenting, but planning helps you stay consistent - So have a plan, know how much money you want to invest and stay consistent.

The fact of the matter is, if you're doing it consistently, you're tightening the range of expected outcomes and doing that over a long period of time has shown to have some well above average results.