

Smart Money: Probabilities vs. consequences

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Brad Brain: "It is natural to think about consequences rather than probabilities when thinking about shotguns and car seats. But that is not always the case when it comes to financial planning." | Getty Images

This past weekend is one that I always have marked on the calendar. It was the Fort St. John Petroleum Association annual trapshoot. Even on a good day I am just an average shooter, but it is a sport that I enjoy very much.

Trapshooting is target shooting with a shotgun. You are trying to hit a small target that is moving away from you at a high rate of speed. It's quite fun.

As you can imagine in a sport involving firearms, safety is pre-eminent. There is zero tolerance for anything less. It is self-evident why trapshooting has such an emphasis on safety, and the safety protocols are not limited to just the obvious ones. For example, all shooters wear eye protection.

Now, I don't know what the chances are that you might get an eye injury when trapshooting. For sake of discussion, let's say the probability is minuscule. But that's not the point. We wear eye protection anyway.

With firearms, it doesn't matter if there is only a small probability of misadventure. This is not about probabilities.

It's about consequences.

Target shooting is very safe when done properly. The reason that shooting sports are obsessed with safety protocols is not because the probability of an accident is high. It is because the consequences of an accident could be horrific.

This is the correct way to look at events with significant consequences. But not all readers will have firsthand knowledge of the safety protocols for firearms, so I will give you another example.

Why do parents put babies in car seats?

After all, if they are just running down to the mall, the chances of a getting into a motor vehicle accident are quite small. So why bother with the hassle of a car seat?

Quite clearly, parents are not thinking of the probabilities of getting into a car accident. They are thinking of the consequences of a car accident with their kid in the car. And rightly so. The extra precautions are worth it, just in case.

It is natural to think about consequences rather than probabilities when thinking about shotguns and car seats. But that is not always the case when it comes to financial planning.

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On many occasions I have had people say things to me that are based on probabilities, not on consequences. And when the stakes are high, that might be the wrong way to look at things.

Here's an example. Sometimes people say, "I am not worried about life insurance, I probably won't need it."

You could be right. But what if you aren't?

Sure, the probabilities might be that you will live a long, healthy life. But think about the consequence of a premature death. Now your spouse has to raise the kids, all alone, while working full time, and dealing with whatever debts you left behind.

Even if that is not the probable outcome, the consequences are serious enough to warrant attention. Trapshooters wear eye protection because of consequences, not because of probabilities.

Here's another example. Sometimes people say, "I am not worried about retirement, I am probably not going to live that long."

You could be right. But what if you aren't?

Sure, you may have enough money to last until age 80. And maybe you don't have longevity in your family. But what if you live until age 95?

Think about the consequence of running out of money late in life. Now you have lost some control over how you spend your days. You may not be doing the things that you want, and living how you want. You may be doing the things you can afford, and living where you can afford. Is that what you want your golden years to look like?

Even if that is not the probable outcome, the consequences are serious enough to warrant attention. Parents put their kids in car seats because of consequences, not because of probabilities.

When the stakes are high, it's not about probabilities. Its about consequences.

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