

[What is the Goal of Investing?](#)

By [Roger Keays](#), 19 July 2016

The Philippines was hardly the place I expected to learn something about finance. But as luck would have it, the surf at Siargao, a tiny island in the middle of nowhere, had attracted a like-minded person. Although we both went there to surf, we ended up uncovering a slew of common interests, including technology, psychology, and investment.



[Winslow](#) filled some of the gaping holes in my investment knowledge. Those that you don't even realise you have. I hope in exchange, he benefited from the knowledge of psychology and technology I shared with him.

How the conversation diverged from surfing and travel to finance and investment, I can't be sure. I think Winslow mentioned his PhD in portfolio management, causing an itch to surface. It was a long-time unsolved problem of mine: **how do you optimise your investment returns?**

"Aaaah." Winslow smiled, slouched further into his chair and took a sip on his fruit juice. "First you need to think about why you invest."

"So I don't have to work," I replied. That was easy. "The more money other people make for me, the less I have to make for myself."

"What do you invest in?" Winslow asked.

"Index funds. Property, stocks, bonds."

"What is the return on your portfolio?"

"About eight percent before inflation. Nine if you include tax credits."

"Cryptocurrencies returned 600% last year." Bitcoin was Winslow's thing. I understood why. It's a secure digital currency free from regulation by any single authority or government. It's a fascinating possibility, but still very volatile.

"Hmmm... yeh..." I equivocated.

"It could make you wealthy," Winslow said.

"*Could*," I stressed.

"*Could*," Winslow agreed. I felt we were getting to the crux of the thread. He paused for a moment to make sure I was listening. "**There is no best investment**," he said finally. "**Only a trade-off between risk and return**."

I sat, thinking on the problem. What Winslow was telling me was elementary finance. I wasn't satisfied. "There must be an optimal solution," I insisted, "a way to maximise your return."

"No." Winslow shook his head. "The goal of investing is not to maximise your return." This statement threw me. I waited for him to finish. "**The goal of investing is to maximise your risk-adjusted return**."

Suddenly I understood. I saw why the solution had eluded me for so long. I had been trying to solve one equation with two unknowns. What I really needed was another equation: risk. Now I had two equations and two unknowns. This was a problem I could solve.

To be continued...

About Roger Keays



Roger Keays is an artist, an engineer, and a student of life. He has no fixed address and has left footprints on 40-something different countries around the world.

Roger is addicted to surfing. His other interests are music, psychology, languages, the proper use of semicolons, and finding good food.