The Tour de France & Capital Preservation Tips

Money is the capital and like in cycling – it's the losses that matter

To reach your financial goals, you don't have to outperform every benchmark every year. For long-term investors, avoiding and mitigating losses is a key factor in achieving ultimate success in your portfolio.

Held every July, the Tour de France is a great illustration of this concept of capital preservation, of which the main purpose is to avoid loss. Cyclists ride for 21 stages over 23 days, this year covering 2,000+ miles. The cumulative leader at the end of each day gets to wear the maillot jaune – the yellow jersey – the next day. The rider who covers the total distance in the least amount of time is the ultimate winner.

In the Tour, time is the capital, and managing it correctly is as much about riding quickly as avoiding unnecessary losses. For investors, money is the capital and like in cycling, it's the losses that matter. Here's why.

Gains are Easier to Lose than Make

In cycling, a rider can lose his or her hard-won time advantage in a split second if an accident happens, such as a mechanical breakdown or crash. Competitors put much effort into avoiding these.

In investing, a 50% growth in the value of your account can be wiped out by only a 33% loss in your account. For example: $1,000 to $1,500 is a 50% growth. $1,500 to $1,000 is a 33% loss. It only takes a 33% loss to wipe out a 50% gain.

Losses are Hard to Overcome

If a cyclist finds himself at the very back of the race pack, or the peloton, it takes exceptional effort to get back into position with the main group of riders. The additional effort can take its toll on the rider's performance in the following days.

In a down market, if an account value drops from $1,000 to $500, that's a loss of 50%. To return to $1,000, you now need a 100% increase. It takes a lot more gain to overcome loss.

Mitigating Large Losses is a Factor

Mitigating large losses is a factor in outperformance over time. At some point during the Tour de France, one rider pulls ahead with a key strategic move. He grabs the time advantage away from the others. This move often comes when riders' legs are most exhausted and at their weakest. Then he focuses on keeping the lead, on not losing time, for the rest of the race.

During your personal financial journeys, to have the greatest outcome, your focus should be on outperforming in weak markets, and keeping up in strong markets.

Losing less, or not losing at all, is the key to understanding and benefiting from capital preservation, in the Tour de France and in finances.

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The winner of the Tour doesn't have to race ahead, day after day, looking for major victories. Just as investors don't have to make big, spectacular returns on their investments to win over the long term.

You need to make sure you are well diversified and adequately protected from a downturn. That's so you either don't lose, or don't lose as much, in falling markets. You are like the cyclist winning by avoiding crashes.

Slow, steady positive returns coupled with little or no losses along the way lead to a win over time.

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