

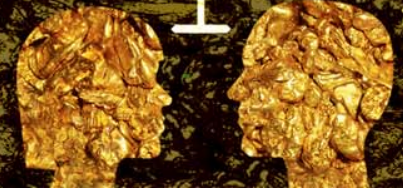
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# **YOUR LIFE CAPITAL**

*An actuarial perspective on your investment in life*

**IAN POLLARD**

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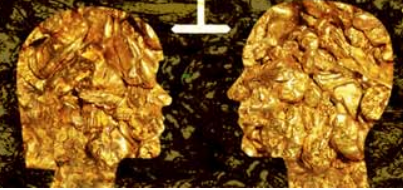
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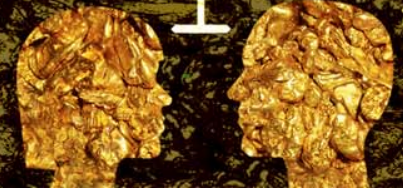
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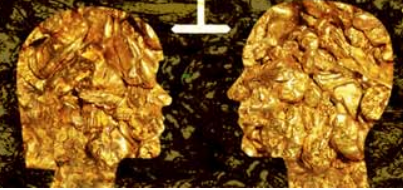
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## Life Capital

### Human Capital

*Who and what you are*

- Cultural capital
- Emotional capital
- Intellectual capital
- Physical capital
- Sensory capital
- Spiritual capital
- Symbolic capital

### Social Capital

*Who and what you're surrounded by*

- Your family
- Network capital (personal and professional)
- Institutional and community capital (bonding and bridging capital)
- Environmental capital

### Financial Capital

*What you own or control*

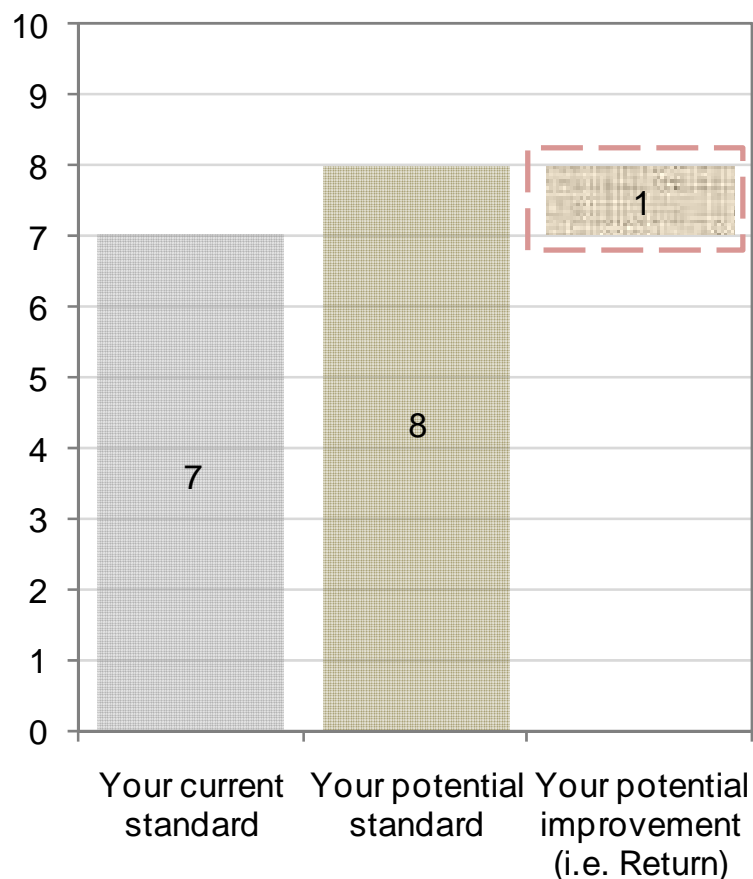
- All your financial assets (such as shares, bonds, property, cash or businesses) less your borrowings (such as bank or credit card debt)



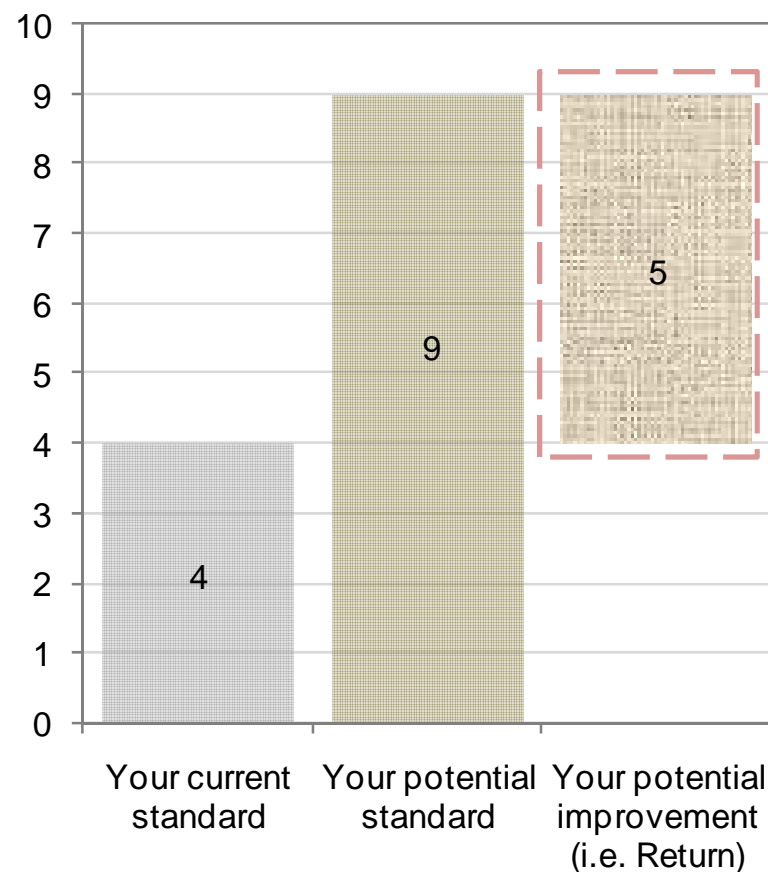


## Your potential return from learning

### Your Perception



### Actual





## Social Capital

**If you are socially connected:**

- You live longer  
*(isolation has a bigger negative impact than smoking)*
- You are happier  
*(connection has a bigger positive impact than wealth)*

Source: Robert Putnam author of “Bowling Alone”





## Drivers in the accumulation of financial capital

- The power of compound interest
- The value of annuities
- The power of leverage
- The value of options
- Awareness of opportunity loss
- Return for risk
- Diversification to spread risk
- Qualified deal flow
- Sound decision making
- Circles of competence
- Margins of safety
- Benchmarking
- Performance attribution

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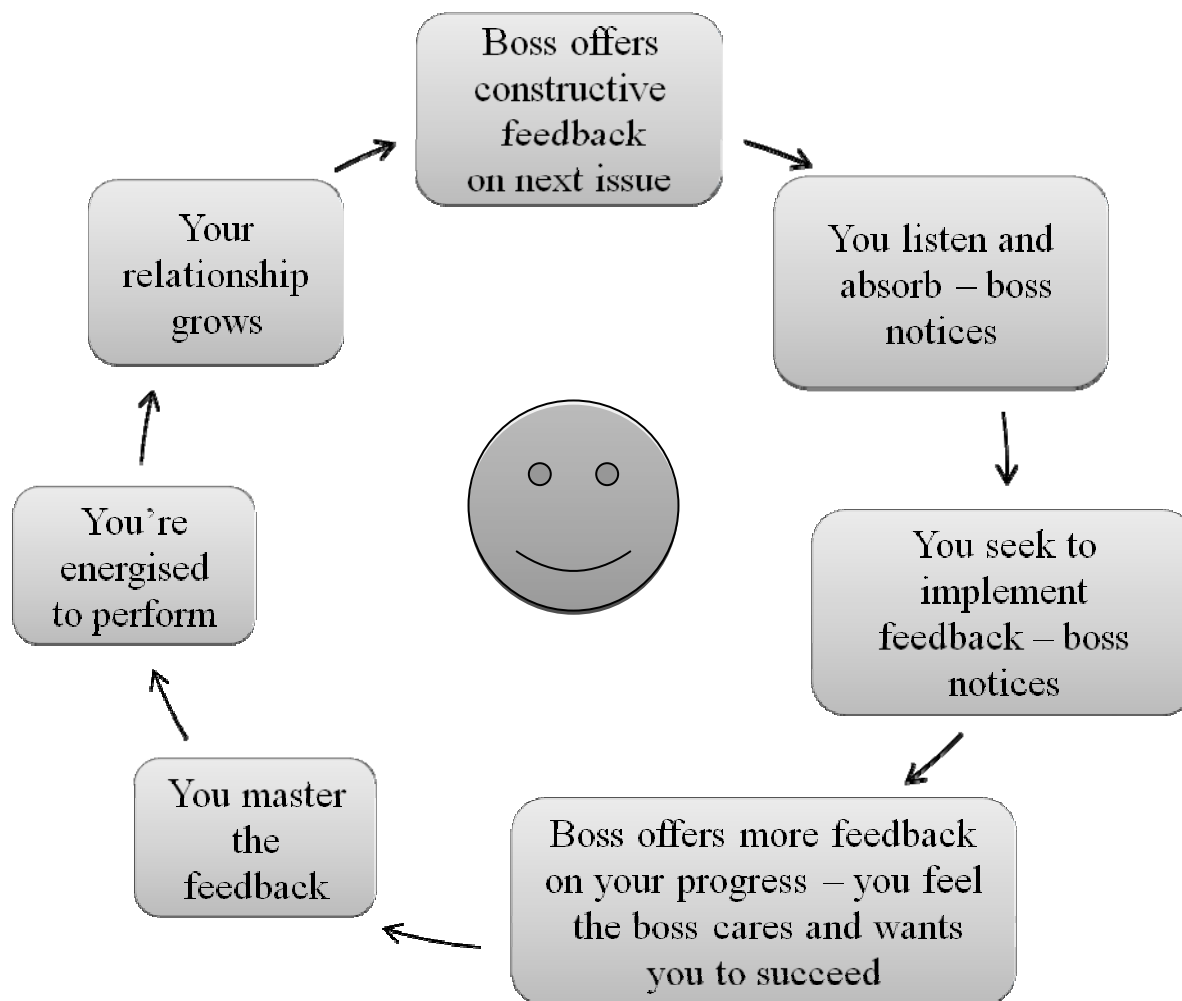


# **THE POWER OF COMPOUNDING IN HUMAN AND SOCIAL CAPITAL**



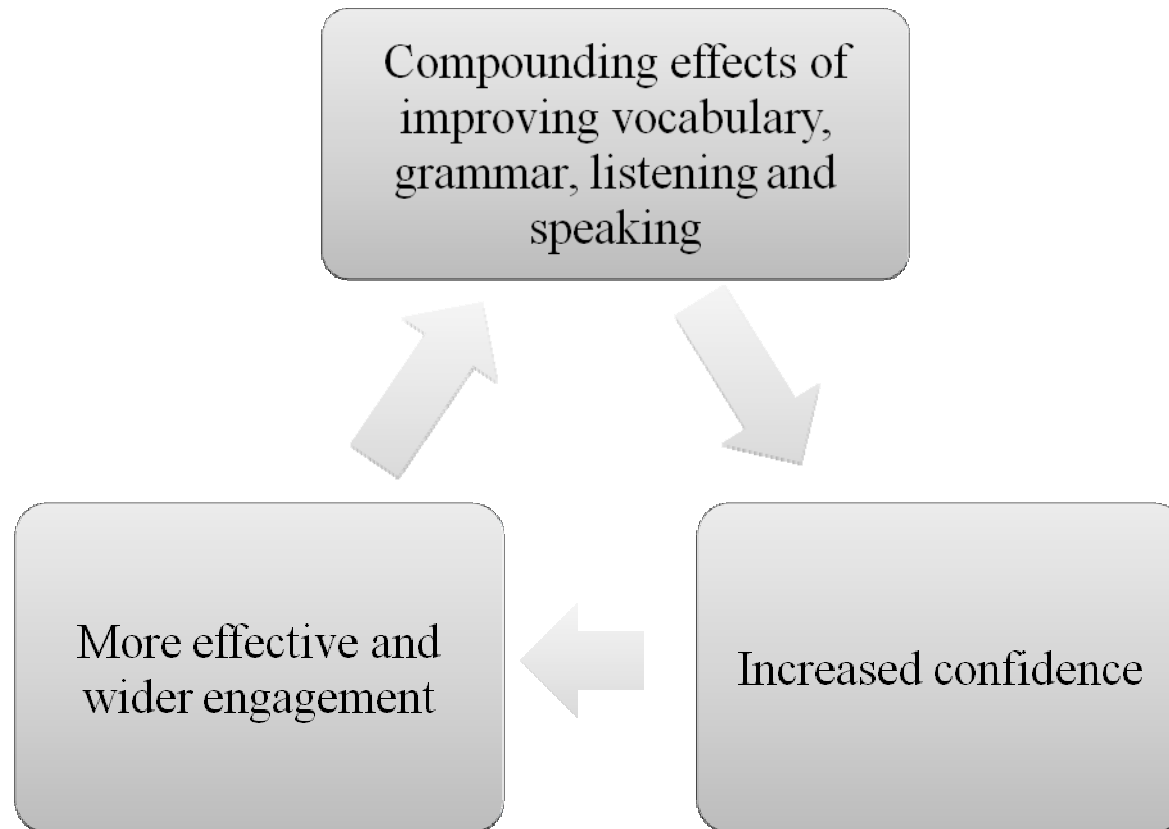


## Virtuous circles in relationships





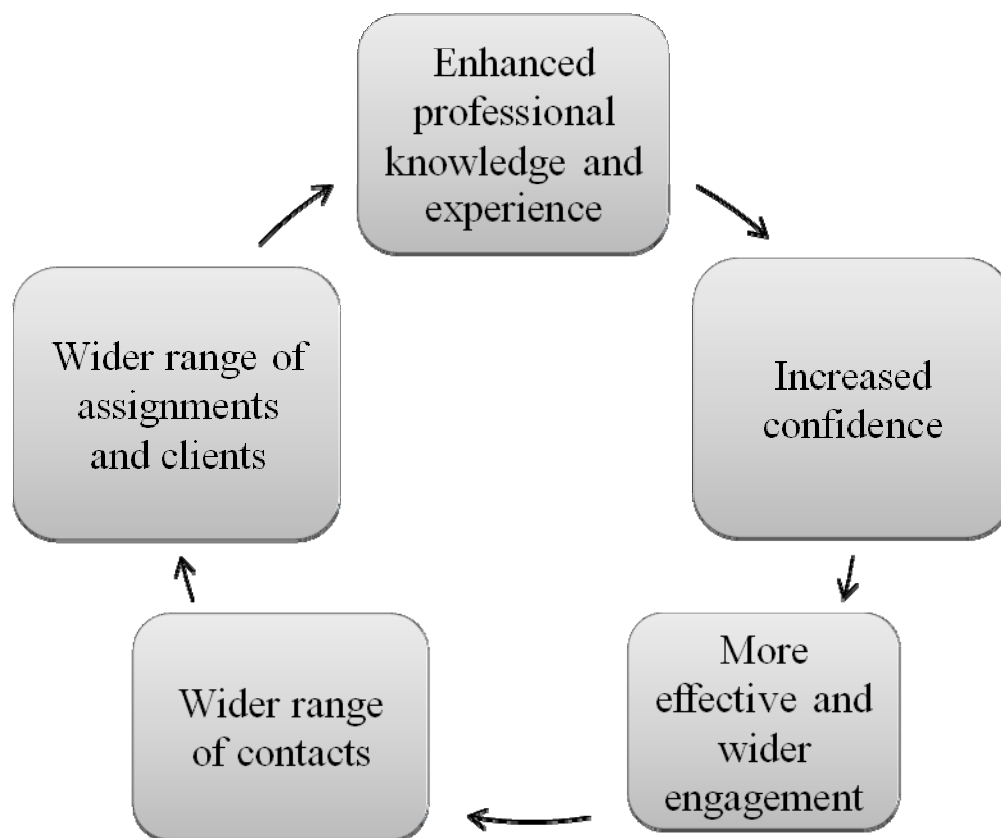
## Virtuous circles in learning a language (equally applicable to learning jargon in your new occupation)







## Virtuous circles in building a professional practice



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# **THE VALUE OF ANNUITIES IN HUMAN AND SOCIAL CAPITAL**



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***“Teach a man to fish  
and you feed him for a lifetime”***



## Good habits lead to an annuity of opportunities

- Good listening skills
- Empathetic behaviour
- An open mind
- Effective learning
- Negotiation or selling skills
- Keenness to help others
- Having the courage to ask
- ...



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# **THE POWER OF LEVERAGE IN HUMAN AND SOCIAL CAPITAL**



## A conversation

- = An opportunity for people to leverage off each other's Life Capital
- Human capital (knowledge, ideas, judgment, shoulder to cry on...)
  - Social capital (introduction – to a network, a babysitter, a blind date...)
  - Financial capital (“mate, have I got a deal for you!”)

*(Note: unlimited potential subjects)*



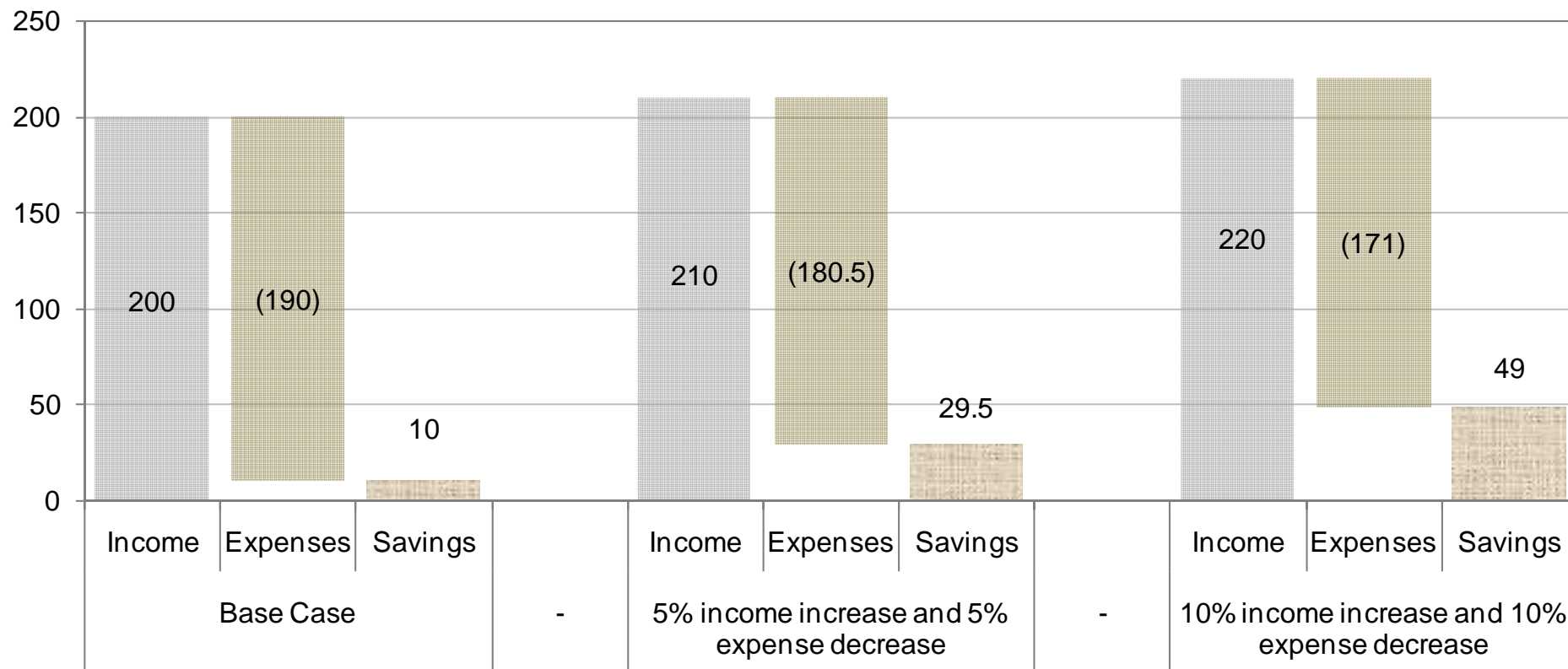


## Leveraged opportunity

### A = B minus C

\$000

Savings = Income less Expenses





## An example of $A = B \text{ minus } C$ leverage

**Client's satisfaction (per *Maister's First Law of Service*)**

= Client's perception (after) minus Client's expectation (before)

### Base Case

Perception	110
Less Expectation	100
<hr/>	
= Satisfaction	10

### "Underpromise and overdeliver"

Perception	120
Less Expectation	90
<hr/>	
= Satisfaction	30

A tripling of client satisfaction



# Another example of $A = B \text{ minus } C$ leverage

**Hours per week available for your passion**

*Example: young single person with ambitions as a musician*

	Base Case (hrs)	Alternative 1	Alternative 2
<b>Total Hours in the week</b>	<b>168</b>	<b>168</b>	<b>168</b>
Less sleep	56	49	49
meals, hygiene	15	13	13
social, exercise	15	15	10
TV	10	-	-
shopping, chores	7	7	4
work	40	40	30
travel to work	10	10	6
<b>Hours remaining for music</b>	<b>15</b>	<b>30</b>	<b>56</b>





## But how do you spend those hours?

	Base Case	Alternative 1	Alternative 2
<b>Hours for music</b>	<b>15</b>	<b>30</b>	<b>56</b>
Formal lessons	3	3	3
Planning and reviewing practice	-	3	4 (Note 1)
Warming up	3	3	6
Practice within existing competence	6	12	10
Practice on objectives just beyond current competence ("deliberate practice") (Note 2)	3	9	33
<b>Ratio of deliberate practice to formal lessons</b>	<b>1 : 1</b>	<b>3 : 1</b>	<b>11 : 1</b>

Note 1: Also uses their 6 hours on the bus for planning and reflecting (unless they have a serendipitous meeting with a music promoter).

Note 2: It takes about 10,000 hours of deliberate practice to become world class in most fields.



## The two numerically most powerful dimensions of the analogy

- The potential magnitude of opportunity loss
- The value of annuities



## Blind spots lead to annuities of opportunity loss

- Poor listening skills
- Lack of empathy
- A closed mind
- Weak learning skills
- Poor negotiation or selling skills
- Disinterest in helping others
- Reticence to ask
- ...





## Example: a job search...

- The power of leverage through conversations
- Return for risk – being prepared to ask
- Margins of safety – benchmarking
- Qualified deal flow
- Big premiums paid for contested assets

...5,000 hours in the new job

***Conclusion: high return on investment on the extra hours invested in the job search***



***“Thorough analysis distinguishes  
investment from speculation”***

Benjamin Graham

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**Example: what are the negative impacts of an absolutely full diary?**





- Your use of your time and energy is poor and you get drained and less effective (vicious circle - negative compounding)
- Poor preparation means meetings are less effective than they should be (opportunity loss and wasted time compounding your diary problems)
- Poor preparation means you learn less at the meetings – about the content and also about the others there (opportunity loss)
- No time for reflection immediately after conversations or meetings means some of the potential benefits are lost (e.g. good opportunities forgotten, soft signals missed, follow-up commitments forgotten) (opportunity loss)



- Consequently others are not as impressed with your contribution and may be less keen to work with you in future (Multiple opportunity loss because of the number of meetings you attend and the number of people at each meeting)
- You're always in a rush between meetings so you are often unengaged in conversations and miss opportunities to help others (opportunity loss)
- In the event of something negative (which is more likely if you're rushed), you don't get any time to process what's happened and clear your head before the next event (potential negative compounding)
- People think you're too busy and unavailable so they don't offer you opportunities (opportunity loss)

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**Example: what are the benefits of more effective negotiation with others?**





- Impact on total workload from negotiating better with clients regarding the basis of assignments, with colleagues re their contributions and re your access to resources, with support staff re delegation, and with your life partner or family re the sharing of the load at home, bringing in outside help or re their expectations....(multiple reductions of the number of hours worked per week)
- Much greater time for your personal and family life and your outside interests (Leverage implicit in the  $A=B$  minus  $C$  formula) leaves you refreshed and more effective and able to complete you work in still less hours (virtuous circle - compounding)
- Avoids the negative impacts of an absolutely full diary (previous slides)

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**Example: what are the benefits of  
widening your circle of competence?**



- More opportunities are potentially available to you (annuity of options)
- The range of people with whom you can engage with confidence widens (annuity of options over relationships)
- There is potential cross-fertilisation with concepts from your existing areas of expertise (virtuous circles – compounding)
- You are less likely to overuse your existing assets (and hence it is less likely they become liabilities)



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**Example: what are the negative impacts  
of thinking you have to be seen to know  
everything?**



- Less enjoyment because of being on guard (annuity)
- Slower learning (which probably compounds the underlying problem)
- Covering up problems and less likely to engage with others to solve issues (vicious circle – negative compounding)
- Less awareness of opportunities and less take-up of opportunities (annuity)
- Your defensiveness leads to less open and ultimately poorer relationships ( vicious circle - negative compounding)



**Example: what are the negative impacts  
of a failure to deal with a significant  
medical discomfort?  
(eg. persistent neck problems)**





- Ongoing discomfort
- Other potential medical problems as a consequence
- Poorer concentration and reduced effectiveness
- Less positive engagement with others and hence deteriorating relationships

All the above are annuities of impact – the term of the annuities is until you have resolved the medical issue.

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