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Business Adaptation Mechanism

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There is a concept in biology about the ability of organisms to adapt to **changes in the environment.** This adaptation process increases the odds of survival for organisms under stress due to environmental changes. A similar mechanism exists in finance that allows economic organizations, otherwise known as companies, to survive and thrive in changing or shifting economic landscapes.

A key element in financial success is **building a portfolio of assets** (mutual funds, segregated funds, etc.) that grow over time at a rate greater than inflation and taxes. This is something that a portfolio of companies (a mutual fund or segregated fund) may provide when the companies represented in the portfolio experience consistent profit growth over a long time period.

The reason equity investments (such as corporations) are **adaptable** is that the mechanism for economic survival is very simple. For example, when input costs, such as labour, materials or taxes rise, a business manager has only a handful of responses to maintain profits: cut costs, increase prices or reduce profit margins or some combination of these.

This adaptive process is true no matter what product or service is provided. It can be as complex as building an iPhone or as simple as making a pencil. Over the last few decades you can see this adaptive process in action in the movement of manufacturing jobs from the developed world (USA, Canada, Europe) to Mexico, then China and most recently Vietnam.

For individuals with the goal of achieving long term financial success - and a comfortable retirement - the best plan is usually to invest in a diversified portfolio of companies (via mutual funds, segregated funds, etc.) whose profits are strong today and expected to rise over time. **Investing is simple but not easy!** One key impediment is people's emotions which get in the way of holding onto their investments over time through the ups and downs of the economy which inevitably goes through booms and recessions and busts.

But there is a catch! Most corporations eventually go out of business. This can be due to many factors such as changing technologies, for example the change from VHS videotape to digital and CD's. Today there are not many video stores left.

Business schools train people how to assess profits today and the expected profits in the future. They then can calculate if a business is cheap or expensive relative to those expected profits. However, deciding when to sell an investment either to lock in capital gains or to protect invested capital is often more important than when to buy. The next article will look at the role of professional investment managers in terms of their contributions and influence on long term investment performance.

Questions about investment planning?
Contact our office! [2]

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