6.1 Black Swans

Even once we have established a completely coherent strategy with respect to spending, education investing and portfolio investing, there are still a lot of things that can go wrong. Major risks include mortality or the risk of dying too soon; longevity or the risk of dying too late; job loss or job obsolescence or disability; the risk of falling market prices; the risk of falling prey to some investment scam; the risk of social collapse and chaos.

Some of these risks have been addressed in the basic plan. The Sustainable Spending Rule is designed to prevent deterioration of financial wealth over time. Thus, if your income projection turns out to be too optimistic, or your realized investment return falls short of forecast, or if you are so fortunate as to outlive your life expectancy, there is a cushion built into the Rule that will soften or even eliminate negative effects on your ability to consume.

In other words, we are starting with a plan that is "robust" (or "anti-fragile" in the terminology of Naseem Taleb, see Chapter 6.7). This cushion if bolstered by making conservative assumptions regarding future income and investment return, as discussed in Chapters 2 and 3.

In addition, it is appropriate to deploy risk management strategies to further protect against extreme events. There are innumerable scenarios. But the bottom line is that extreme events occur more frequently than our training and intuition lead us to expect.