

BRAIN EXERCISE #1 - The Tortoise and the Hare

A father gives his two sons \$10,000 each to invest. Hare loses 30% in the first year, but makes back 50% on the remaining money in the second year. Tortoise makes 5% in the first year and another 5% on that in the next. Who has the most to show their father after two years?

Bonus question: What is the “average” rate of return for each brother?

Double Bonus question: Would Hare be ahead of Tortoise if he had made 50% the first year and taken the loss of 30% in the second year?

Moral of the Story: Who wins the race? The hare with his volatile, erratic style (run, rest, sleep, run, rest sleep) or the slow, plodding, consistent pace and boring to watch tortoise? Volatility may produce a higher "average" but true NET return is best achieved with small steady incremental movements forward.

Hare:				Tortoise			
1	\$10,000.00	-30.00%	\$7,000.00	1	\$10,000.00	5.00%	\$10,500.00
2	\$7,000.00	50.00%	\$10,500.00	2	\$10,500.00	5.00%	\$11,025.00
			Average				Average
		10.00%	ROR			5.00%	ROR