

Reserve Funds The Precision Fallacy

First ... About our Book

The chapter you are about to read (next page) is identical to the material in our book "Reserve Fund Essentials". This 94-page book covers a wealth of need-to-know reserve-related wisdom. Its 17 chapters deliver insights, suggestions and processes designed to ensure that co-owned and co-managed properties create healthy reserve funds that can be managed to everyone's satisfaction.

Thirteen chapters can be accessed from our website oliver-group.com/rfund. (Click on Book/Articles). The four chapters that cannot be accessed are "**Reserve Fund Fundamentals**" and "**Reserve Funds: What Does Adequate Really Mean?**" These are major, significant chapters and are included in our "Reserve Fund Essentials" book. To find our more about the book and how to order it, please click [MORE](#).

Now ... About the Authors

You may wish to learn more about the authors of "Reserve Fund Essentials" (and the chapter you are about to read). To do this click [MORE](#).

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Reserve Funds

The Precision Fallacy

Making Life Less Complicated

Not everyone will be convinced that numbers to the umpteenth decimal place should be banned. But if our arguments make sense to you, you could end up with much more intelligible reserve fund plans, with no appreciable downside at all.

“Don’t use a scalpel, when a meat-axe will do”. Kind of a grisly expression, right? But its message is right on. It speaks to the quite common confusion between precision¹ and usefulness. Not to mention that unnecessary precision can consume a lot more time, effort and money for no improvement in results.

This article is all about the fairly common belief that exact-looking numbers are somehow “better” than round numbers. Or that being “out” a little bit from the exact answer will somehow lead to all kinds of unwanted consequences.

How tall are you? Let’s say you’re 5’ 11”. Would it make you feel better to know that you’re really 5’ 11.215784”)? How far is your office from your home? 8½ miles? Actually, it’s really 8.375921 miles. Aren’t you glad we corrected that?

¹ Your authors, like most human beings don’t agree on absolutely everything. For example, JHJ is convinced that “precision” is the word that best fits our chapter — its title and its content. GDO likes “accuracy” better. (One dictionary indicates that “precision” is simply a higher order of “accuracy”. Another source sees them as different than one another). JHJ won the coin-toss so we’ve used JHJ’s word, mainly, but we also sneaked “accuracy” in a couple of times.

Turning to reserve funds, we see a lot of reserve fund plans on spreadsheets that give the yearly balances as \$457,704, \$2,750,312 and \$87,432. Ask yourself — would you really have less confidence in the plan if those figures were exhibited as \$458, \$2750, and \$87 with a little note saying ... all figures rounded to the nearest thousand?

We hope your answer is “No”, and if it is, you’d be solidly in our camp today! Round numbers are an improvement over “exact” numbers, not the other way around. For one thing, the plan looks better. Less ink, faster to comprehend, not as formidable-looking. Book publishers and magazine publishers know when their material is more attractive it gets improved readership. It even gets better comprehension. People grasp the trends and the highs-and-lows better, and a lot more quickly. Your unit owners will appreciate that.

Let’s turn, though, to examples where even the rounded figure does not tally with someone’s idea of what it should be. Well, if it were a bank document, or an investment total, we’d agree that it should be investigated, or fixed. But we’re talking here about a reserve fund plan. Projections of future events. They’re estimates of potential occurrences, not historical reality.

Please don’t misinterpret this. We believe 100% in planning, and we believe a plan should be, in the end, as close to actual future occurrences as it’s possible to make it. But we also believe that nothing predicted for the future ever turns out to be exactly as forecast. To think otherwise, is just, well ... delusional.

Having said that, what lessons can be applied to reserve fund spreadsheets?

To answer this, let's take a real example that we've run into. It has to do with the interest the fund earns on its invested balances. Reserve Fund Specialists use different mathematical models to calculate it. (This is covered in some detail in our chapter "Reserve Fund Investment Interest". Using these different models will give you interest dollars that are not the same as one another's. (And this even assumes that the interest *rates* they have chosen are the same for everyone). So, if Specialist A does your Plan you'll get a certain set of numbers for interest, and if Specialist B does your Plan you'll get another set of numbers. People might ask — "Who's right? Which set should we accept?"

The answer is — they're both right! For one thing the interest figures are usually small compared with the expenditure and funding figures, so no matter what they are (within limits) it doesn't matter. For another thing if you took the total interest dollars they calculated for any 3- or 4-year span, the total interest dollars would be nearly identical, so in the end you're not overstating or understating the interest earnings.

Yet ... (and this is the theme of our article), there would be people that would say, "These figures can't be accurate". Our answer is, they're not supposed to be "accurate" — the Plan itself isn't "accurate", it's a plan for heaven's sake, not a measurement. Plans are supposed to reflect a reasonably good picture of what the reserve fund interest will add up to

in future years. And the plans would do that, even if the dollars appear to be “out” here and there.

Remember, we’re talking about variations — (due to rounding or due to using a different interest formula) — that result in some “inexactness” in the order of 1%, 2% maybe 3%. Far less than the inexactness that’s inherent in the expenditure’s dollar costs for the repairs and replacements themselves. Not to mention the timing of them! The expenditures are the big numbers — the ones that need to be as right as humanly possible. You hear people say ... “Don’t sweat the small stuff”, and we agree wholeheartedly. Get them as right as possible², and then, move on.

To conclude, this whole chapter was engendered by a Reserve Fund Specialist telling us that a certain spreadsheet setup did not conform to “generally accepted accounting principles”! Sort of like saying, “a giraffe doesn’t conform to the generally accepted appearance of a zebra”. Don’t tell anybody, but hey, it’s not *supposed* to.

² See the chapter “Immunizing Your Reserve Fund Plan” for more on this.