

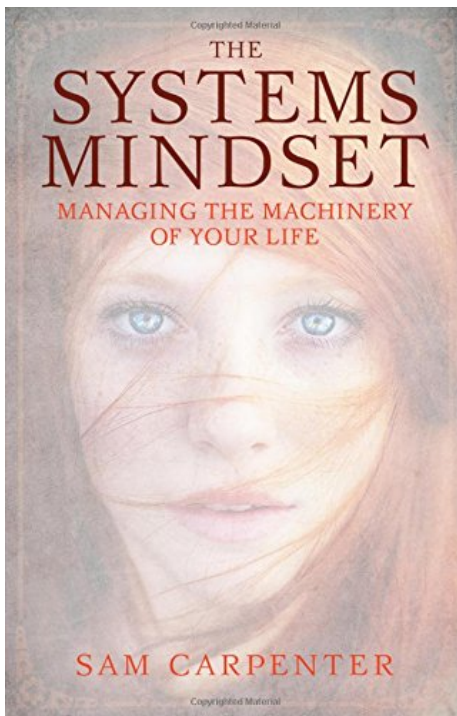


FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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The Systems Mindset



I recently finished reading The Systems Mindset: Managing the Machinery of Your Life by Sam Carpenter. It's a great book and one of the most important that you could ever read, though it is a bit repetitive. Sam is a man who didn't figure out how to live life until he was 50 (which is about when I figured it out), but now he has it figured out in spades. He describes the transformation as a veil suddenly being lifted from his eyes. The book replicates this by using a thin, translucent dust jacket to partially obscure the actual cover, which has a stunning photo of a redhead young woman.

Sam's thesis is that where you are at any time in your life is the result of various systems executing in a linear process (with the formula $1 \rightarrow 2 \rightarrow 3 \rightarrow 4 = \text{Result}$) over time. Almost everything is part of a system: your body, health, family, relationships, finances, career, house, car, etc. Most people are unaware that these systems exist, and since they are not managed, they produce random

results, most of which are not consistent with a person's long-term goals. So the vast majority of people spend most of their time and energy putting out fires and trying to correct the random results of these unmanaged systems instead of managing, tweaking, building or removing systems. For example, spending time, energy and money trying to recover from a sudden health crisis instead of performing the daily habits that are necessary to have good health.

Sam uses two analogies. First, everyone lives in a house with a single floor, where they see the results of their lives. Most people are unaware that their house has a basement that is full of various machines that actually produce the results they see on the first floor. Those who are the most productive, effective, efficient, calm, and in control of their lives spend the vast majority of their time in the basement, maintaining and improving their machines, instead of on the first floor, putting out fires.

Second, each person is in an open field, surrounded by a circle (which is the limit of that person's sphere of influence). They shouldn't worry about anything outside their circle since they can't do anything about that. The circle is divided into wedge-shaped slices, each representing a different area of their life, or system. (BTW, if you'd like to do some planning/visualization/tracking using this methodology, check out [Goalscape](#).)

Every day, a number of “task wheels” appear around you. Your job is to push them out towards the edge of your circle, generally as soon as possible (especially if it can be done fairly quickly). In the Army, we called this “starting necessary movement.” Ideally, you should spend most of your time deciding what needs to be done and then starting necessary movement on each task, but not actually doing all of the task yourself. Instead, you should try to delegate as much as possible (such as hiring out the work). For example, I decide that my truck needs some maintenance, so I call my mechanic and schedule the work to be done.

After you set your wheels in motion, each moves towards your circle at a different rate of speed. The task is complete when its wheel reaches the edge of your circle. As you become more efficient and effective, your circle of influence expands outward. If you neglect setting your wheels in motion, they quickly accumulate around you, eventually boxing you in until you can't move and it's difficult if not impossible to push any wheels outward (think of someone who has no income or money, is obese and unhealthy and can't physically move, and a hoarder who never disposes of garbage or cleans their house).

Sam makes a couple of statements that I think are either too simplistic or that I disagree with. First, he says that things in the world work remarkably well and systems work 99.9% of the time. There are several problems with this. First, as a system (such as life or the world) becomes more complex, the risk of its sudden collapse increases exponentially. Yes, most simple machines that operate with a linear function work 99.9% of the time, but not complex systems that are becoming increasingly complex and interdependent by the day. He never mentions the term “Black Swan.” When a Black Swan does occur, then not only does one system fail, but most or nearly all of them do, and at the same time. Just ask our friends who were recently without power for a couple of days due to a Winter storm what that's like.

Second, he says that unlike systems (which are the primary driver of results), your personal attributes (IQ, attitude/enthusiasm, personality, job, close friends or friends in high places, parents, wealth, education, work ethic, disability, etc.) don't matter that much. I agree that IQ and formal education are highly overrated, but I think the other factors matter a great deal.

In conclusion, this is a book you'll want to include in your Read Again stack. I already bought a copy of Sam's earlier book Work the System: The Simple Mechanics of Making More and Working Less (4th edition)--which is aimed at businesspeople—but haven't read it yet.

The Zeitgeist

I love to listen to random people talk about what they're thinking and doing. It's such a fascinating little window into the spirit of the times, and my contrarian antenna are always highly attuned to insights, threats and opportunities.

One evening this week I was playing pickleball when two young men drove up in cars that looked brand new. They appeared to be in their late 20s or early 30s (so the last time there was a real estate crash, they were probably living at home with Mommy and Daddy). As they played, they talked a lot (and loudly) about the real estate empire that one of them is building. Apparently, he had just made an offer of about “1.3” (million dollars) for a house that's not even on the market, and one that won't be his primary residence. He talked about all of the options that were available to him, including using it himself, renting it out, totally redoing the kitchen and other renovations (in this area at least, it is virtually impossible to get a contractor to return your call and then get them to do work for a price that is not extortionate), flipping the house in a year or two, or even tearing the house down. “Even if I do a teardown, the land itself is still worth \$2 million.” It was *adorable*, like watching a cute little girl playing with a puppy in a field of wildflowers. The confidence, the youthful bravado, the charming inexperience all harkened back to a time of innocence.

They have no idea what's in store for them. At the top of a market, people talk (a lot, and loudly) about their investments, probably because they're seeking an ego stroke and social validation. At the bottom of a market, they are so depressed and despondent that they don't even open their monthly statements for months at a time.



Interest rates have started to spike (see the chart of the yield on the 10-year U.S. Treasury bond at left), and the Fed is losing control. Higher interest rates makes nearly all investments less attractive, especially the stock of corporations that have gorged on (artificially cheap) debt since 2009. Another harbinger of a bear market—small cap stocks—are in the tank: the Russell 2000 index hit a one-year low on Thursday. Bitcoin has lost 41% since hitting a high just 2.5 months ago, and investors seem to be returning to the commodity that has been used as money for 5,000 years: precious metals.

What You Should Be Doing Now

1. Continue to accumulate food with a long shelf life while it's still available and affordable. I'm starting to see shortages of things like chicken, turkey, orange juice and food products made by Kraft. Don't forget essentials like vitamins, toilet paper, soap, dog food, batteries and first aid supplies.
2. If a large percentage of your portfolio is in equities, review [Financial Preparedness Issue #5: The Case Against Equities](#). If a large percentage is in fixed-income investments, review [Financial Preparedness Issue #34: The Balance Comes Due Someday](#).
3. Documentary to watch: [Above & Beyond](#) on Amazon Prime Video.

Question For You

What sort of systems have you set up that allow you to be more productive and efficient, and minimize time and energy spent putting out fires? [Let me know!](#)

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I would love to hear from you! I thrive on feedback from readers. If you have any comments, suggestions, insight/wisdom, or you'd like to share a link to a great article, please [email me](#).

Generally, I don't have time to answer questions about your specific situation, but if you have a general question that I think other readers also have, [let me know](#) and I will provide an answer in a future issue.

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Investments carry risk, are not guaranteed, and do fluctuate in value, and you can lose your entire investment. Past performance is not indicative of future performance. You should not invest in something you don't understand, or put all of your eggs in one basket.

Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or

personal trainer.

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