



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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Seeing

It is not what you look at that matters. It's what you see. ~ Henry David Thoreau

Every day in the late afternoon, my son and I take our dog for a long walk (or a saunter, as Thoreau called it). We are fortunate to have many routes to choose from. During the cooler months of the year (when ticks and copperheads are not a threat), we hike through the woods on a neighborhood trail behind our house. During the warmer months, we stick to local streets.

To the casual observer (which would be most people), everything would look the same each time. But if you're open/receptive, unhurried, present in the current moment, and curious, your body will notice the subtle signs that nature and man leave behind.

What kind of animal left those tracks? Notice the hair, seeds or small bones in that scat. What kind of bird just made that call, or left this feather? Notice how the rays of sunlight strike the rocks and sand at the bottom of the creek, and the water striders that are moving on the surface. Notice how the leaves on that maple tree turn red at the top first. What kind of animal ripped apart that rotten log looking for insects? How did all of these pine cones get shredded into small pieces? How did a spider spin a horizontal strand of web about 30 feet across?

Usually when we come home, I tell my wife, “We've got some [name of trail or street] news.” And it's always something small and subtle, but it's “news” in our quiet life.

Most Americans are lost in a Blue Pill/Feelies world of addiction, distraction, trivialities and a meaningless existence. They're alive but not living. They're “woke” but not awake. They look at or watch things (primarily TV and social media), but don't *see* anything.

The remainder of Americans are awake and would like to remain abreast of what's going on in the world, but are awash in fake news (e.g., “the Fed is fighting inflation”), largely ignorant of economics, history and human nature, and generally passively accept the official narrative provided by the government, the legacy media, and Big Tech without much critical analysis or independent thought.

The world (especially the financial markets) is full of subtle, unnoticed signs and signals. The typical investor reads the wire stories in the newspaper or watches CNBC, thinks to himself, “I'm going to place a trade based on the information I just read or heard, because few other investors have that knowledge or insight.” Not only is that information already priced into the market by the time you hear about it, the market has probably overreacted to it.

I spend most of my working days doing research and looking for the subtle, little-noticed signs. For example, I recently told my son that I was looking at a company's annual report, and he asked me, “Where was the CEO's photo?” He knows that generally, the closer the CEO's photo is to the front of the report and the larger it is, the lower the expected return from the stock. That's because a CEO that has a big ego is very expensive for shareholders (due to empire building, luxury perks, etc.).

Here's another example: Generally, high insider ownership is ideal because it automatically aligns the incentives of management with the interests of shareholders. But what if the company is struggling? Could that large ownership stake incentivize management to cook the books in an attempt to make the stock attractive to investors? Currently there are six dividend-paying U.S. stocks in my Beneish doghouse (the Beneish M-score is a measure of how likely it is that management is manipulating reported earnings). For four of those six companies, insiders own between 7.8% and 34.7% of the



This cute little guy was recently found in a neighbor's garage. I am constantly looking for them (I dispatched about four in the last year), but hope to never see one.

stock (which is very high). Coincidence? Probably not.

Another example: Lately I've been watching a number of webinars (for financial advisors) to earn continuing education credit. During the webinars, they often ask a polling question to see what advisors think will happen in the future. Consistently, the vast majority of them seem to hug the current numbers (Recency Bias) or seem to engage in wishful thinking about the future. They seem to think that financial markets are in what Nassim Taleb calls Normalistan (with normal, Gaussian, bell-shaped distributions) instead of Extremistan. For example, if the current inflation rate is say 8%, virtually none of them think that inflation next year will be greater than 10%. But if you're a student of history, politics and human nature, you already know [how this movie ends](#), don't you? And it's not with "transitory" inflation, it's with a collapse of the currency (and everything that goes with that).

My contrarian antennae are constantly watching for anecdotal evidence of signs and trends that will impact financial markets. For example, divorces tend to peak as the economy and stock market peak, when people feel confident that they could make it on their own. I often ask my wife how crowded the stores are, whether any items were out of stock, and what the employees are saying about labor issues. If I hear average Joes suddenly talking about cryptocurrencies, IPOs, SPACs, etc., then I know we're at the top. If a relative who I never hear from calls me out of the blue and asks me what she should do with her portfolio, then I know we're near the bottom.

How can you become better at seeing? I think it helps a lot if you're an introvert, as you're more likely to just remain quiet, observe, and pay attention to details. (Blaise Pascal wrote, "All of humanity's problems stem from man's inability to sit quietly in a room alone.") My Myers-Briggs personality type is [ISTJ](#), which is nicknamed The Inspector.

You need to minimize noise, distractions and crises, clear your mind of mental clutter, get a lot of good sleep (so your brain can consolidate new information and make connections) and make time to [pause](#), think and reflect. You need to be *present*, so forget about the past and the future, put your phone down and turn off your TV, and commune with the now. You need to be open and receptive to new information, and willing to consider any new idea (but engage it with facts and logic). You need to have your contrarian antennae constantly scanning in the background, listening for faint and subtle signals. You need to read deeply and be familiar with the *zeitgeist*. You need to know history and understand human nature, so you can recognize the recurring patterns.

News Items

[Ex-Precious Metals Traders at JP Morgan Convicted of Fraud](#) Oh, sorry about that! Note how they were allowed to plead guilty to just one count of each crime when they probably committed them hundreds or thousands of times.

[A Deeper Dive Into the CDC Reversals](#)

What You Should Be Doing Now

Documentary to watch (if you're a sports fan or interested in excellence): "[In Search of Greatness](#)" on Amazon Prime Video. I loved this. It says it costs \$4 to rent, but it only cost me \$0.98.

Watch [this 21-minute report](#) on the medical mystery linking TikTok to an explosion of severe tics in teenage girls, which is another unintended consequence of COVID lockdowns and social media. (NB: Contains some profanity. And if you post a link to this on Facebook, your account may be restricted for "showing sexually explicit content.") At best, this seems like a form of [mass psychosis](#). At worst, could it be some type of new military-grade psychological warfare weapon, spread by the Chinese government on its social media platform, as a trial run for a future offensive? As a Gen Xer, I am so grateful that I grew up in much simpler times.

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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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