



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 Barbell Strategy

The first imperative of both a human being and an investor is survival. If you don't live to fight another day, then nothing else matters.

The second imperative (for both) is to grow and become strong. If you're not strong and thriving, you're alive but you haven't reached your full potential and are not living life to the fullest.

This dual but conflicting imperative of survive and grow comprises The Gambler's Dilemma. A gambler wants to grow his wealth, which requires putting (at least some of) that wealth at risk. But if he runs out of money, he has to stop playing the game, so growth is no longer possible.

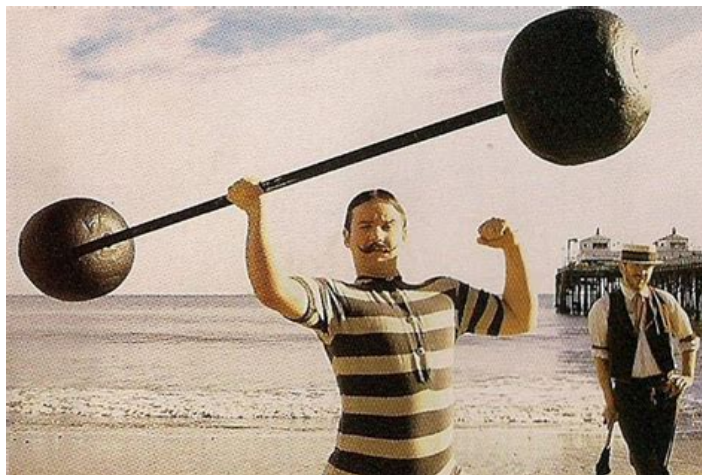
The words *gamble* and *gambler* sound risky and have a negative connotation. Vocabulary.com defines *gamble* as "to risk something of value on a game of chance," and *gambler* as "someone who risks loss or injury in the hope of gain or excitement." These words come from the Middle English word *gammlen*, which meant "to play or be merry," which was derived from the Old English word *gamen*, which meant "game."

Since nothing is certain in life except death (unlike Ben Franklin, I don't think we should

include “and taxes” at the end because it habituates us into believing that we will never be able to evolve into a coercionless society), isn't *everything* in life a gamble? Don't you risk something of value (time, energy or money) in pursuit of gain, play or happiness (merriment) with almost everything you do? If so, then we should embrace the gambling mentality and learn how to become good gamblers.

So how do we first survive to fight another day? Nassim Taleb (author of The Black Swan and a number of other books) recommends a barbell strategy for both investing and exercise, which allows you to both survive and grow.

A black swan (which is an unpredictable event that has widespread ramifications) has a negative connotation because the only time you hear the term used is to describe a very bad event. But black swans can be positive or negative. A positive black swan is an event where the downside is limited but the upside is unbounded. A negative black swan is an event where the upside is capped but the downside is unlimited. A barbell strategy provides significant protection from negative black swans as well as significant exposure to positive black swans.



What should you obtain to protect yourself from negative black swans? First, basic necessities: clean water (and ways to make water potable), lots of food with a long shelf life, household supplies (e.g., toilet paper, soap, firewood), medical supplies, and tools (including weapons).

Second, things that can't be taken away from you: health (physical and mental), knowledge (including potential knowledge in the form of physical books), skills, friends and a network, your reputation, experiences, memories.

Which financial assets can help protect you from a negative black swan? Humans have freely chosen (no legal tender law was necessary) precious metals to use as money for about 5,000 years, so chances are good that they will never lose the “precious” part of their name. Most people would be willing to trade you something for precious metals, especially during hyperinflation or after a currency collapse. Even if the government banned their ownership, they would still be prized on the black market. They can't be destroyed and are not someone else's liability. Their value doesn't depend on other people performing some action, and is not contingent on the occurrence of some event. If you hold physical precious metals yourself (but not in a bank deposit box), they provide unparalleled privacy (which is rapidly becoming rare).

Cash provides *optionality*, and allows you to quickly buy assets when they become cheap and hated. Cash in a money market fund benefits from rising interest rates (though after inflation and taxes, its real value is still shrinking). Physical cash provides privacy and

may allow you to buy some necessities (though perhaps only for a few days) if/when the electronic financial system is temporarily or permanently disrupted.

What are some examples of investments that provide exposure to positive black swans? Small companies that would benefit immensely from some new discovery, invention or breakthrough in technology, energy, medical research or mining. Venture capital or private equity. Investing in an independent film (which I have done myself). Writing a book (which I would like to do). Deep out-of-the-money call options. Your downside is limited to the amount of your investment, but your upside is unlimited.

Today the vast majority of investors have way too much exposure to the muddled middle (e.g. S&P 500 index funds and bond funds), and virtually nothing (other than cash) on the extreme ends. These investments provide the *appearance* of growth and safety (respectively) when in fact many companies in the S&P 500 are now being looted by management and/or managed as de facto nonprofits (which caps their potential upside), and most of the bonds have been issued by bankrupt (or soon to be) governments or overly-indebted corporations or consumers (which turns a “safe” investment into one in which you could lose your entire investment, especially during a time of rapidly rising inflation and interest rates). It's no wonder that a portfolio with the standard asset allocation of 60% in stocks and 40% in bonds is on the way to having its third worst year in the last century. I have been warning about this.

Interestingly, Taleb recommends the same barbell strategy for an exercise program: long, slow walks and lifting heavy weights. I'm currently reading the terrific book [The New Primal Blueprint: Reprogram Your Genes for Effortless Weight Loss, Vibrant Health and Boundless Energy](#) (2017 version) by Mark Sisson, which I'll write about in an upcoming issue. Sisson also recommends a barbell approach to exercise: just lead an active lifestyle (move frequently, go on walks or hikes, mobilize and stretch, do some housework or yardwork, play in unstructured ways, avoid prolonged sitting), maybe do some non-aerobic exercise such as yoga or pilates, lift heavy weights twice a week (for 10-30 minutes), and do some short (8-20 seconds) sprints (of some type) once every seven to ten days. You should avoid cardio exercise (especially lengthy sessions) that causes your heart rate to exceed 180 minus your age (with some minor adjustments).

In conclusion, whether it's investing or exercise (or perhaps some other domains), you should spend your time, energy and money obtaining exposure to things that help protect you from negative black swans (or keep you alive or provide a solid foundation) and expose you to positive black swans (or allow you to grow, thrive and live life to the fullest).

What You Should Be Doing Now

This week I bought a number of dividend-paying stocks in the UK and Switzerland, and a bit more gold. Things are starting to get interesting, and I continue to research stocks.

Documentary to watch: [Take Your Pills](#) on Netflix.

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](#).

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

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