



# 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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## Anybody Can Do This Game

Dave Portnoy is the founder of [Barstool Sports](#), "a sports & **pop culture** blog covering the latest news and **viral** highlights of each and everyday with blogs, videos and podcasts. By the common man, for **the common man**" (emphasis added). Apparently, around November 2019—after the U.S. stock market had risen a great deal and quite steadily since March 2009 (thanks primarily to extremely low interest rates and massive currency printing by the Fed)—he started talking about investing in his videos. Why? Because a lot of people were making a lot of money in the stock market. Investing went viral, became part of the popular culture, and drew in the common man who was seeking a quick and easy score.

Did Portnoy know anything about investing? By his own admission, he had "been doing this for ten minutes." But he had immediate success (perhaps due in part to the trading of his followers, who were probably mimicking and thus supporting his trades), which is dangerous, because you start to believe that you're a genius.

There are lots of things that each person doesn't know. However, the most knowledgeable people are the best at knowing what they don't know and are thus the most humble about their knowledge. As an investor, you want to cultivate an attitude of humility; the more you do that, the less often the market will humble you.



About the only thing I know about electricity is that it's dangerous. But let's say the current (faltering) housing boom reached a surreal level, and there was such a demand for electricians to wire new houses that they were making \$2,000 per day. I would never dream of trying to become an electrician with no education or training, much less encourage tens of thousands of fellow neophytes to do the same on my website. Not only did Portnoy not know, he didn't know what he didn't know. It was the blind leading the blind.

I've been investing since 1990, professionally since 1995. In 1996 I earned a master's degree in Personal Financial Planning and the Certified Financial Planner designation. I earned the Chartered Financial Analyst designation in 2001. I've taught investing at the college level to students preparing to sit for the CFP exam. I've read close to a hundred books and thousands of articles about investing. Unlike Portnoy, I haven't been doing this for ten minutes, yet almost every week (certainly every month) I learn something new or have some new insight. I have a pretty good understanding of what I don't know (which is still a lot).

A client sent me [this video clip](#) (NB: lots of profanity), which is a montage of Portnoy talking about investing in the months since November 2019. Yes, it's very amusing, but I want to take a deeper dive into it and use it as a learning tool.

First of all, the fact that someone who trades in pop culture and the viral and who knows nothing about investing started talking about investing on a regular basis should have triggered the contrarian antennae of investors and set off alarm bells. As Rob Arnott says, "In investing, what is comfortable is rarely profitable." Buying stocks after a large, 10-year bull market is an easy (and crowded) trade. But the market only compensates you (not necessarily immediately) for hard, lonely trades. To the average investor, such trades seem almost crazy, but they're also the ones that have the greatest margin of safety and thus the highest expected return.



OK, let's dig into the video frame by frame. They say that no one rings a bell at the top, but in this case, Portnoy actually does (to be fair, I'm sure he was ringing it to mark the start of a trading day, and the top was yet to come, but still...). To his credit, Portnoy sticks with "the game" through the steepest and deepest stock market crash in history during the first three months of 2020. Fortunately for him, the Fed stepped in with the biggest deluge of currency printing ever, or it could have ended very differently.

Between October 2020 and January 2021, he talks about what a genius he is. In March



2021, he talks about how much money he's making, and extrapolates that into the future. He's become drunk on getting rich. By September 2021, things start to get a little bumpy and he mockingly concedes that some supposedly neophyte short sellers temporarily made a few bucks at his expense. His sweatshirt says "Don't Panic," which may be a message to his followers. In December 2021 he says, "I'm smarter than the algorithms." Again, he doesn't know what he doesn't know.

By February 2022, the wheels have started to fall off, and he's clutching what may be a bottle of over the counter meds. In March he says he hates his stock broker and everybody. By June he throws in the towel on Boeing, a stock that became popular with trend followers and day traders after it went from \$89 in March 2020 to over \$278 one year later. (FYI, Boeing has been profitable in just seven out of the last ten years, has a median 10-year ROIC of 7.7% with a low of -10.6% and a high of 11.9%, has very low scores for financial strength and growth, is experiencing financial distress [Altman Z-score of 1.21] and is considered a possible Value Trap. But who needs to know anything about that stuff when you're a genius?)

In August he shows his non-working computer and asks, "How many top Wall Street firms can't get their computer to work?" Yeah, not only do they work, but they are colocated right next to the computers that run the various stock exchanges in a data warehouse in Mahwah, NJ. Not only are these computers (owned by sophisticated institutional investors such as Goldman Sachs, hedge funds and high frequency traders) faster than you, your own broker is selling information about your trades to these investors so they can sniff out the Dumb Money traders and trade with them. They can also use a number of different exotic order types that you can't (such as Hide Don't Slide), can use sub-penny pricing, and can spoof the market with fake orders. I'm sure you're a genius, Dave, but you can't outsmart that.

By September and October, he's experiencing massive cognitive dissonance: "What the f\*\*\*'s going on, I've lost my mind" and "The whole thing makes no sense, we're living in a matrix."

Note the range of extreme emotions: greed, pride, euphoria, sarcasm, disbelief, anger, capitulation, despair. To even have a chance at being a successful investor, you have to be a stone cold Stoic. If you do have any emotions, you should feel a bit excited when securities prices go down (because it gives you a chance to buy when the margin of safety and expected return is high) and more concerned or even a bit fearful when securities prices rise (for the opposite reasons).

In conclusion, yes, Dave, "anyone can do this game," but not for long, and not successfully. It helps if you know what you don't know.

## What You Should Be Doing Now

This week I had just a handful of trades fill—random fills of thinly traded stocks on which I had a lowball bid. I continue to update and refine my stock tracking spreadsheet, which now tracks over 2,100 stocks.



Enjoy the beautiful Fall weather and get outside with your family and dog.

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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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