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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Process and Results

Over the last decade, I've played an individual sport (pickleball) at a competitive level. Eventually, I realized that the more a player focuses on winning (the result), the worse he performs. That's why legendary coaches such as John Wooden, Bill Walsh and Nick Saban stressed focusing on the process instead. Do that and the results will take care of themselves.

Most investors don't have a successful investment experience because they're focused on returns (the result), usually to the point of chasing them (instead of chasing value). Not only do they not focus on their process, most of them don't even have a process. They're like a ball in a pinball machine, bouncing off each new story from the financial media.

Having a process that has delivered good results over a long period of time (and for logical reasons, instead of just luck) keeps you grounded and calm. Instead of panicking when things go sideways, sticking to a trusted process keeps you focused on actually taking the necessary actions that will produce the desired result.

Plenty of times, my team has been down 10-0 during a pickleball game, but has come back to win. For me, during a game, the current score is just some random, irrelevant numbers that I have to announce before I serve. I try to stay focused on *being present and playing* *well* during the current point instead of thinking about the past or the future (which is what the score is about).

For many players (especially those who are primarily concerned about winning), a losing score is a threat to their ego, which lets their body (which is actually playing the game) know its displeasure. A player's ego will verbally criticize the player's body and cause it to literally spank itself using the player's paddle. All of this distress puts the player in Fight or Flight mode, which shuts down their prefrontal cortex, preventing them from thinking rationally and making good decisions. Their body tenses up, which inhibits their ability to get into Flow and stay there.

Investing with Mr. Market in the house is like playing a doubles pickleball game with a partner. You never know what mental or psychological state they're going to be in each day. Often you're surprised by their elation or despair. Sometimes you can see how their ego is riding their body like a rented mule (instead of sitting quietly in a corner and allowing the body to play), but you can't say or do anything about it. Sometimes your partner makes some crazy decisions or wild shots (such as buying an IPO), but you can't worry about that. Often your partner's poor play (or the illogical prices that Mr. Market quotes to buy or sell) will tend to make you look bad as well. But you can't control your partner (or Mr. Market), so you have to stay focused on the only thing you can control: your play (or your investment process).

As a pickleball player, my goal is not to win, but to *play well* (as an investor, my goal is not to earn a high return, but to *trade well*). If I focus on that, the score (and my returns) will take care of themselves. So I devote about 1% of my attention to the score (or my returns) and 99% to my play (or my investment process). If I devoted any more of my attention or energy to the score (or my returns), it would be counterproductive.

For example, gold just hit another new all-time high of $2,377.39 (I recommended that readers buy it way back in Issue #2 when it was selling for $1,759). Gold (and silver) just so happens to be the second and third largest holdings (after cash) of the vast majority of my clients. Most investors would be ecstatic, but I've barely reacted to the milestone. Part of it was due to the fact that my decision to load up on precious metals since 2008 was like shooting fish in a barrel. Duh, what did people expect? It's a linear equation: X leads to Y which leads to Z. History is the story of governments debasing their currency and defaulting on their debt, so it wasn't rocket science.

But I am also wary of celebrating my victories, because that can lead you to start thinking that you're very clever, which is dangerous. When another player compliments me for making a good shot, I politely acknowledge it with a brief “thank you,” but I don't let it go to my head. I'm too busy getting ready for the next point to bask in the compliment. The game of my investment career (both personally and professionally) still has a *very* long time to go (at least 45 years), so after I score a touchdown, I need to stay focused on my process instead of celebrating in the end zone.

Ideally, you should invest (and play sports) like a stone cold stoic. Nothing is inherently good or bad. Briefly acknowledge your wins, but then quickly return to your process.

Learn from your losses by performing a mini-after action review. Use your lessons learned to develop a process that delivers good results over the long term, and then just wash, rinse and repeat. Following a process systematizes your decisions and actions, allowing you to make them more efficiently, and with much less stress.

In conclusion, if you want to earn high (risk-adjusted) returns, develop a good process and stick to it; the returns should take care of themselves.

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