



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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Fantasy vs. Reality

In the book/movie [The Big Short](#), there's a scene where some guys from a hedge fund fly down to Miami and walk around recently built subdivisions, talking with the homeowners. They discover that they are owned by people who have no income; a stripper brags that she owns five houses. At that point they realize that the narrative *du jour* is false: creditworthiness matters, debt creates fragility, you can't eliminate (or even reduce) risk by repackaging it, buying houses is not the way to wealth, and whatever the government touches turns to crap. They discovered that the sound-looking structure was actually [ate up inside with termites](#). They then went against the crowd and made a fortune.

As I continue to [review the Sustainability Reports](#) of publicly traded companies, I have been developing a nearly identical epiphany. It's astonishing how (quietly and quickly) about 98% of these companies have transformed themselves from profit-seeking corporations to de facto social justice nonprofits. And the vast majority of those have quaffed copious amounts of [ESG](#) Kool-Aid. This could be the most underreported and least understood developments of the last decade. The scope and potential consequences are enormous.

Mom & Pop investors have virtually no idea that the investment companies they hired to invest their capital have been violating their **legal** fiduciary duty for years by forcing

management to spend time, money and energy on not just unprofitable activities (which will destroy their capital), but projects that will (sooner rather than later, given ESG warriors' obsession with massive action now) lead to the demise of the free market and their sovereignty. The world has never seen anything like this stealthy and insidious global coup.

After Trump took office, a commentator on Fox News noted that the federal government was now transitioning away from fantasy and back toward reality. For example, away from the idea that men can have babies, that you can allow criminals to commit crime and still have a society, that you can import ten million unvetted illegal aliens and still have a country, that you can spend trillions of dollars that you don't have every year for decades, etc. That transition is now underway (at an unprecedented and astonishing pace and scale), but now that same transition needs to happen among publicly traded companies.

The idea that you can convert profit-seeking companies into de facto social justice nonprofits and shareholders won't eventually notice the results is a fantasy. The idea that management can divert its time, energy and money away from satisfying customers to irrelevant and wasteful activities and still survive as a going concern is a fantasy. The idea that a company can provide better products or services at a lower price by hiring and promoting people who are less qualified is a fantasy. The idea that you can enhance employee teamwork and morale by indoctrinating them in (Marxist) Critical Theory and requiring them to get an unproven vaccine (which apparently [was the cause of hundreds of thousands of deaths and injuries](#)) is a fantasy.

Last November, Pete Hegseth (now the Secretary of Defense) said: "Any...general, admiral, whatever--that was involved in any of the DEI woke shit has got to go. Either you're in for warfighting, and that's it. That's the only litmus test we care about." Similarly, any board members or corporate executives who were involved in any of the woke shit have got to go. The only thing that rational shareholders should care about (or *will* care about after the next stock market crash) is maximizing shareholder value, especially by generating free cash flow and dividends. The reason it hasn't happened yet is because Larry Fink and the rest of the woke asset managers (which amazingly, is the vast majority of them) still control the proxy votes.

Just like the change that Hegseth spoke of required an election to bring about, this transition will also require an election of sorts. The easy, gentle way would be for investors to replace their woke investment advisors with people who are actually trying to maximize their return and minimize their risk. But that would require a significant education effort that most investors would not be receptive to at a time when the stock market is booming (just like the story above from [The Big Short](#), during a time of euphoria, few investors want to know why their investments should have a negative expected return).

The hard, traumatic way (and the most likely in my opinion) would occur after investors realize that the advisors they have entrusted with their life savings have squandered it on investments and activities that were *obviously* unprofitable, at a time when valuations were close to where they were before the Dot Com crash. This epiphany will require a

massive repricing of stocks and bonds. Financial markets are a lot like Mother Nature: eventually, they deal with excesses (especially those that are unnatural) naturally and in their own way. Just as a hurricane will erase the buildings of those who were imprudent enough to build on a beach in Florida, the market will erase the capital of those who foolishly entrusted it to investment advisors who were no longer grounded in reality.

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