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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Buy the Dip?

At the end of a long bull market fueled by artificially cheap money and several compelling stories, there inevitably comes a point where the Smart Money starts to sell, there is no more Dumb Money left to buy, and prices start to decline. This comes as a shock to many investors who have been surfing on recency bias, and creates cognitive dissonance. "Wait, you mean trees don't grow to the moon?" At this point, Mom & Pop investors start mentioning the stock market to their friends, anxiously seeking confirmation from their friends about what to do. I know because I hear it in the gym and on the pickleball courts. It's an interesting anecdotal sign.

Some of these investors are conflicted because valuations and sentiment are still very high (the vast majority of them don't examine or have access to the actual data, they just have a gut feeling that something may be rotten in Denmark), but the pull of recency bias and the allure of getting rich quickly and easily are strong. Talking heads in the financial media start talking about buying the dip.

Investors tend to have a short memory, and there are always plenty of newer investors who have little to remember (especially at the end of a long bull market). In the past, some bear markets have lasted for as long as 15 to 20 years. How long will the next bear market last, starting with a 10-year cyclically adjusted P/E ratio not far from the 1929 high, many corporations heavily in debt after an era of artificially low interest rates and the vast majority of them preoccupied with or distracted by ESG, a large aging and dying Baby Boomer generation with few other investors to sell to, and possibly extended for years by market-crushing policies enacted by lunatic statist politicians (including at the supranational level)?

Here's the thing about investing: Just because you decide you're ready to be an investor now because you have some cash, recency bias and greed, that doesn't mean that good returns are still available to you. In fact, the more that you're simply trying to cash in on "the AI revolution" or whatever the story *du jour* is, the lower the returns you'll earn. Yes, there is always a bull market somewhere that you can take advantage of if you invest in individual securities (the vast majority of Mom & Pop investors don't). And yes, you can also earn a middling return from dividends and money market funds. But if you want to earn abnormal or life-changing capital gains, you have to invest at the point of maximum pessimism when valuations are low and no one is thinking or talking about getting rich quick.

Technology and the easy availability of information have dramatically reduced our long-term perspective and trained us to become impatient. For millennia, the human brain has been rewarded with dopamine for searching and seeking out the novel, even if we're just pulling the handle on a slot machine looking for the triple cherry. But just because you *can* check the value of your portfolio every day or track the price of Bitcoin 24 hours a day doesn't mean you *should*.

Investing is really about doing a lot of research and then watching and waiting for an opportunity to come along. Patience is the most important virtue an investor can have, which is the exact opposite of our Attention Deficit Disordered brains thanks to social media and Big Tech. We need less Jim Cramer, CNBC and social media influencers and more mindfulness, thinking, and walks in the woods. We need to slow down and be willing to wade through time like it was molasses. I think Bill Bonner has always done a great job of conveying this approach in his writing: observe current events, think about them, then wait and see what unfolds. Slowly wade through time.

As a professional investor for the last 30 years, I have found that a decent opportunity presents itself about once a year, and a life-changing opportunity happens about once a decade. You can't just stroll up to the counter, plop your money down and say, "I'll have steady annual returns of 11%, please." It doesn't work like that. You have to place your capital at risk when everyone else is selling, ideally at the point of capitulation. Psychologically, that is a very hard and lonely trade (especially since humans prefer to do what their fellow humans are doing), which is why the subsequent returns are so high.

In conclusion, don't chase returns; let them come to you, in due time. Don't be in a rush. Your return is not a function of how often you check the price or value of your holdings. Don't become wed to any security or story. Be indifferent to your options. Be willing to buy anything for the right price, and to walk away. Don't chase returns; chase value and the returns will come to you.

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