



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

Issue #218
April 18, 2025

Everything in Moderation

One of the key recurring questions in life that everyone must answer many times a day is "How much?" Once you've decided to spend time and energy on some activity, buy something, eat or drink something, etc. you then must decide how much of it you should do/buy/eat.

For example, how much formal higher education should I get? How many children should I have? How many shares of XYZ Corp. should I buy? How many cookies should I eat? How many shells should an artillery battalion use to attack a target?

This is a very important question that we give very little conscious thought to, relying on our subconscious and intuition to make these decisions for us. Different *doses* of an activity could result in everything from no noticeable effect to the sublime to a living hell. It is possible to get too much of a good thing, as Bill Bonner pointed out in the book [Hormegeddon: How Too Much of a Good Thing Leads to Disaster](#). If you consume too much of anything, it will eventually kill or bankrupt you. But if you consume too little, you don't move the needle and you leave utility on the table.

As an investment advisor, I've been trying to think more about this question since [I wrote about it](#) last July. The vast majority of investors and investment advisors spent a lot time

and energy deciding *what* to buy (or sell), but very little time deciding *how much*.

BTW, I recently revised my weighting system. I now have a Total Score for each stock I follow-- which takes into account data availability/confidence—and I use that to calculate the target weighting for each stock in a client's portfolio.

As a quantitative investor (which you could say is an investor who listens to the numbers instead of to stories), using a (massive) spreadsheet and dynamic, automatically calculated scores and weightings allows me to save time and energy and avoid Decision Fatigue.

My mother-in-law likes to cite the maxim “everything in moderation” from time to time. I used to think it was platitudinous, but as I've grown older, I see the practical wisdom in it.

As an investor, moderation will allow you to avoid financial ruin since you'll never have all of your eggs in one basket and thus will be able to live to fight another day (this is known as the Gambler's Dilemma). It will result in a portfolio that has enough diversity so you'll always have *optionality* and freedom of movement. It will prevent you from becoming a victim of your own ego and ignorance and the stories that you either listen to or make up that help rationalize your decisions and actions. It will allow you to sleep at night since your exposure to unsystematic risk will be low.

In recent years, I've applied moderation to my nutrition and exercise. For example, although I eat several dozen different [superfoods](#) and nutritional supplements, I don't overdo it on any one of them. If the recommended dose is say three per day, I take one. Likewise, I try to do a variety of exercise each week: pickleball several times a week, weightlifting twice a week, water aerobics, yoga, [sprints](#), a long walk with my dog every day, short walks before work when I can. A lot of people overdo it on everything from beer to Crossfit, with bad results.

In fact, many companies (especially in the food and technology industries) have spent decades and billions of dollars on scientific and psychological research, trying to find ways to make their products more addictive, everything from Doritos to Facebook. Most consumers are unaware of this, and billions of people around the world are addicted to (or dependent on) something. So it has never been more important to exercise moderation when consuming these products that have been engineered to hack your brain or stomach.

In closing, think before you act, eat or buy. Give your prefrontal cortex enough time to make a better executive decision. Be cautious and circumspect. Don't believe everything you see or hear. Ask questions and seek more information. Delay a decision to another day. Don't put all of your eggs in one basket or try to get too much of a good thing (which will turn it into a bad thing). Your body and portfolio will thank you for it.

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