



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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What's the Worst That Could Happen?

As a risk manager, I often consider two questions? What's the worst thing that could happen? And which perils are most likely? Last week I wrote that since [war is a complex system](#), the odds that it will result in a very bad outcome (for the U.S.) are significantly higher than would be expected from a non-complex system. That's because [complex systems](#) have emergent properties that cannot be predicted in advance; only after agents within the system interact with each other will those properties be revealed. Complex systems have "fat tails," which means they produce an unusually large number of extreme events at both extremes (good and bad).

The problem is that historically, complex systems (such as the weather) were rare, so the human brain still assumes that virtually all domains are non-complex systems that produce a nice, normal (Gaussian) bell-shaped distribution curve that doesn't result in many extremes, therefore limiting the number of nasty surprises. Simple systems have "thin tails," which means the odds of an extreme result are very low—so low that the human brain ignores them since it's not good at understanding very small (or large) numbers. This is why the nasty surprises that complex systems sometimes produce are even more shocking than expected.

[This interview](#) with former UN weapons inspector and Middle East expert Scott Ritter

caught my attention and prompted me to think more deeply about the worst case scenario(s) in the war with Iran. Below I consider what could happen in a number of domains, though they are increasingly interrelated.

Military: I worry about a U.S. aircraft carrier (or other large Navy ship) being attacked or sunk. The USS Ford has about 4,070 sailors on board. If Russia's acceptance of military casualties during WWII (8,668,000 KIA) is on one end of the pain tolerance spectrum, America's current aversion to casualties (which I think is a good thing) is on the other end. If the Iranians managed to sink a U.S. carrier, not only would it be a staggering military loss, it could effectively end Trump's presidency.

There is some speculation that Iran has been using its oldest ballistic missiles to consume the coalition's supply of pricey (e.g., a Patriot missile costs \$4 million) interceptors and has been holding its newest, most destructive missiles in reserve, to be used when the coalition can no longer defend against them. [Iran has cluster bomb warheads](#), and ballistic missiles that [are close to true hypersonic](#), and [Iranian negotiators claimed that Iran had enough 60% enriched uranium to make about 11 nuclear bombs](#) (which would have taken 7-10 more days). Listen to Scott Ritter say “They said they are going to turn Tel Aviv upside down. This war doesn't end until Tel Aviv is turned upside down.” The Iranian regime has spent a massive amount of money and energy over 47 years to besiege Israel, and I have no doubt that it would use nuclear weapons, especially if it was facing an existential threat.

China and Russia could be drawn into the war (more so than they already are) to defend their key ally in the region. Russia needs Iranian drones to fight its war against Ukraine, and China needs Iran's oil. Russia has been providing the regime with intelligence about the location of U.S. military assets in the region, and [China deployed spy ships in the Persian Gulf](#) last June. [Both countries participated in joint naval exercises with Iran](#) in mid-February and could provide Iran with hypersonic anti-ship missiles. Theoretically, this could spiral into WWII.

Iran has proxy militant groups in Lebanon (Hezbollah), Iraq, Gaza (Hamas, what's left of it) and Yemen (the Houthis) that could be used to attack U.S. bases, Israel or commercial shipping in the region, but with Israel's attacks on Hezbollah and Iran on the ropes, it seems these groups are currently mostly suppressed.

According to Brave AI, “Multiple desalination plants [of the ~400] in the Middle East have been targeted or damaged in recent attacks, with confirmed incidents in Bahrain, Kuwait, and the United Arab Emirates....The Gulf states are highly dependent on desalination: Kuwait and Oman rely on it for ~90% of drinking water, Bahrain for ~85%, and Saudi Arabia for ~70%. Desalination plants are large, fixed, and often co-located with power stations, making them vulnerable to both direct and indirect attacks.” Iran could easily target these with its drones, which would quickly result in a humanitarian catastrophe. A drone used against a desalination plant is a weapon of mass destruction.

Technology: The other day [the IRGC publicly targeted the tech companies that provide the AI that the coalition is using to target IRGC assets and plan the strikes](#): Google, Microsoft,

[Iran has been showing off its underground hoard of fast attack boats, mines and underwater drones](#). So it turns out that a number of other crucial commodities are transported through the Gulf besides oil and LNG, including [helium \(used to make computer chips\)](#), [neon](#), [palladium](#) and inputs used to make fertilizer. If there's a shortage of fertilizer this growing season, food prices (which are also very visible to the consumer/voter) could also skyrocket for at least a year.

This is the central problem with continuing to wage or trying to end this war. Like war, [supply chains are also a complex system](#). Never before have humans in developed countries been surrounded by so many complex systems; I've written before that [civilization is a fragile miracle](#). The current situation in the Middle East is an example of how a sudden extreme event in one complex system can lead to extreme events in one or more *other* complex systems, including [the sudden collapse of everything](#). This is what the human brain is not prepared for, either conceptually or psychologically, and thus why [people are not prepared materially](#) and physically.

[Military analysts say that reopening the Gulf may require ground troops](#) along at least some of Iran's 954-mile coast, but that would require an open-ended commitment that would lead to much higher coalition casualties, especially since it would be difficult to defend from Iranian attacks.

Terrorism: According to prolific X poster [Shanaka Anslem Perera](#) (whose analysis of this war—especially the IRGC's Mosaic Doctrine--has been superb), “The U.S. has intercepted an encrypted radio transmission believed to originate in Iran that federal agencies assess may serve as an 'operational trigger' for sleeper assets pre-positioned outside [Iran]. The transmission was relayed across multiple countries shortly after the killing of Supreme Leader Khamenei....The IRGC does not need to penetrate U.S. air defenses or launch missiles at American cities. It needs one operative with instructions to damage a pipeline, disrupt a port, attack a diplomatic target, or conduct a high-profile assassination. The asymmetric cost ratio that governs the drone war in the Gulf...has a domestic equivalent: one pre-positioned asset...against the entire U.S. law enforcement and counterintelligence apparatus. The encrypted signal was sent. The alert has been issued. The question is no longer whether the Mosaic doctrine can project force beyond Iran's borders. The question is whether it already has.”

This week Islamic counter-protesters threw two IEDs (which *The New York Times* described as “smoking jars of metal and fuses” instead of “bombs”) in front of Gracie Mansion, the new home of [New York City's Islamic mayor](#). We will see if Iranian sleeper cells launch a terrorism campaign against soft American targets around the world, but if they're anything like the Islamic attacks in France since 2014 (which killed nearly 300 people), they would grip the American people and prompt a reconsideration of the U.S. commitment to the war. After I wrote this, just like clockwork, [this story](#) appeared about an attack on one of America's largest synagogues, and then [this story](#) about a shooting targeting ROTC at Old Dominion.

Political: Such a reassessment would certainly have political ramifications, including (ironically) at least a partial regime change (Congress) in the U.S. and the third

impeachment of Trump. Just like the Iranian regime is now determined to prevent the coalition from ever attacking it again, Democrats would be determined to do whatever it took to prevent being out of power again.

Financial: When you consider all of the possible bad outcomes from all of the above, it's easy to see how securities prices could decline significantly, especially since [the cyclically adjusted price/earnings ratio for the S&P 500 index is at a historically high 39](#). As I was writing this, I heard that last year over a thousand new ETFs launched, bringing the number of ETFs to more than the number of publicly traded stocks! That's a bad anecdotal sign for future returns, because ETF launches and closures are driven by investor demand.

In conclusion, as ZeroHedge wrote, "It is clear that U.S.-Israeli operations have dealt a major blow to the IRGC's conventional military capabilities, but the lingering threat will be asymmetric warfare, including drone attacks, naval mines, the potential sabotage of undersea cables, and a wide range of other low-cost, high-disruption weapons."

The toughest nut to crack here is the fact that the coalition is dealing with religious fanatics who are stuck (and want to remain) in the Seventh Century. They appear to be [fearless](#), determined to pursue a path of [death and destruction](#) instead of peace and trade like the rest of the modern, civilized world. [One Iranian who just fled the country](#) (instead of staying and possibly taking to the streets) said it best: "I'm not sure you can protest this regime. They have a religious view. So anybody who protests against them is God's enemy. They say protesters are heretics and you can kill them. They killed 40,000 protestors in two days. And in their point of view, they go to heaven for doing this." So buckle up, because the worst outcome from this war could be far worse than anything you could imagine.

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