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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Patience

This Summer I haven't placed many trades or had many get filled. A casual observer might conclude that this investment advisor has been derelict in his duties. For most people, the mere act of trading is *prima facie* evidence that I'm on the hunt, working hard to make money for my clients. The more I'm chasing after the mechanical rabbit, the harder I must be working for them.

Here's the problem with that notion: Contrary to what most investors believe, significant opportunities and high expected returns are not available whenever you want them to be. In fact, it's precisely at the times that the vast majority of investors strongly want them to be available *now* (due to high recent returns combined with Recency Bias) that they are the least available, due to excessive valuations and investor sentiment.

The vast majority of days, nothing much happens in the financial markets and I don't have any trades fill. Yes, there are a number of days when some random limit order will fill when the market opens, or when an order to buy or sell shares of an obscure and lightly traded ADR will unexpectedly fill during an otherwise sleepy afternoon. But most days, nothing happens.

That doesn't mean I'm not doing anything, however. I spend most days doing two things:

research (reading and updating [both data and functionality] my massive stock tracking spreadsheet) and *being patient*, waiting for a significant (or even better, life-changing) opportunity to come along. Significant opportunities happen about once a year, while life-changing opportunities happen about once a decade.

During my 36 years of investing, I've been able to take advantage (I bought heavily during all of them, which required plenty of courage) of about four life-changing opportunities: the buildup to the Gulf War in 1990 (which I came very close to having to fight in), the Dot Com bust that ended in 2002, the Great Financial Crisis in 2008-9, and the COVID panic in early 2020. All of those periods were dominated by fear, when virtually no investors were interested in putting capital at risk in an attempt to earn a high return, which is exactly what made them enormous opportunities.

The long periods of relative quiet in the markets give me plenty of time to develop and maintain my buy list, which is just what legendary fund manager Sir John Templeton advised. So when all hell breaks loose and there's blood in the streets, I have a plan (which provides discipline) and can calmly execute it. On the days when the vast majority of investors want to get out at any price, I can spend all day placing trades to buy instead of listening to the hysterical stories in the financial media and trying to figure out how I'm going to react. I have a process and I execute it, pretty much automatically.

Patience is the greatest virtue an investor can have. I cultivated it during my many hours of fishing as a boy. (Fishing is fairly similar to investing: lengthy periods of effort, discomfort and boredom punctuated by brief moments of excitement.) Generally, over the long term, the market rewards patience and penalizes impatience.

At a time when our attention spans have never been shorter and our desire for instant gratification has never been greater, having patience is a huge strategic advantage. If you're younger, you'll know the hit song "Patience" by Guns N' Roses from the late 1980s. That song would never fly today, which is music to this contrarian's ears.

I often think of patience as having to slog through long periods of time without anything happening (and thus no reward), which is unthinkable to younger investors who today place a continual stream of bets on everything from zero day options to the most arcane play-by-play statistics during a sports game.

On my "commute" to work this morning, I was paddling down a long finger of the lake when I spotted a great blue heron at the end. I stopped short instead of going to the end like I normally do because I didn't wish to disturb its fishing, which I respect, as they are patient, masterful hunters.

For years I've compared myself to a spider that weaves its web (by placing limit orders) and then waiting for them to fill. But upon further reflection, I'm like a cross between a spider and a great blue heron, because I do spend a lot of time quietly, patiently and methodically hunting prey, and when an opportunity presents itself, I'm ready to strike quickly and instinctively, as if my own survival depended on it (because it does).

For a great blue heron, at least 99% of the time, no viable opportunities exist. Unlike many humans, they are wise and patient enough to accept that fact and deal with it instead of wasting time and energy trying to force something to happen that isn't physically possible, at least not right now. Eventually, however, with enough hard work, persistence and patience, the heron can put food on the table. Investors would be prudent to mimic the heron.

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