

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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Ego vs. Humility

Everyone has an ego, one purpose of which is to defend our reputation and social status. According to Grok AI, "Humans evolved in complex groups. A model of the self supports . . . reputation management, cooperation, and strategic self-presentation. Social rejection activates pain-related brain areas; status and validation engage reward circuits—showing how tightly the self is wired into social survival."

The strength or size of the ego varies from person to person. Based on what I've read about studies regarding self-regard and self-efficacy (generally, the more competent someone thinks they are, the less competent they actually are), there's a negative correlation between the size of one's ego and their actual performance.

In this issue I argue that the stronger or larger your ego is, the more difficult your life will be, especially in the areas of interpersonal relations and investing. There's a book by Ryan Holliday called Ego Is the Enemy. It's in my tsundoku, as I have it but haven't read it yet. It's easy and fun to relish in your pride, but that's not going to help you get what you want in life.

When I came up with a list of my values in the early 1990s, I listed *clarity* first (more recently I added *self-awareness* to this, because in order to successfully and efficiently

engage with the world, you must first have a good understanding of *reality*. My favorite definition of clarity comes from the character Captain Willard in the movie *Apocalypse Now*: "seeing clearly what there is to be done and doing it, directly, quickly, awake, looking at it."

One problem with your ego is that it tells you a *story* that makes you appear better than you actually are. If you're trying to become a better version of yourself, that is not helpful.

Your ego will tell you that you know what you're doing, that you're fully capable and competent, that you're up to the task at hand, that you know what's going to happen and that you'll be very successful, so there is little or no risk. In the domain of investing, *that's an extremely dangerous and potentially costly (even perhaps ruinous) perception to have*.

Your ego will hear your friends bragging about how much money they've made investing in the mania *du jour* (while failing to mention how their other investments have performed) and say, "Oh my god! We've got to keep up with the Joneses! We need to buy a lot of what our friends own so we can earn the same return they already have [this is based on Recency Bias], and we need to do it now!"

[We interrupt this newsletter to bring you a public service announcement: When it comes to investing, your goal should be to earn a *long-term* average annual return (after taxes and expenses) that's high enough for you to reach your financial goals while minimizing risk. Your goal should not be to outperform your friends' portfolio.]

You can never go wrong in life by being humble; in fact, you should court and cultivate humility and make it a cherished companion. First, it will improve your relationships with others because people won't be turned off by how self-involved you are. It's extremely difficult to have a fruitful friendship with someone who has a big ego, even if they're otherwise a decent person.

Second, you'll spend less time and energy basking in your own (perceived) glory instead of doing things that actually help you reach your goals.

Further, you'll have greater clarity because your perception of the world will be closer to reality. In other words, you'll be navigating through life with a significantly more accurate map.

Additionally, when it's acceptable to say "I don't know" or to be agnostic about a question, you'll be more willing to do some research and obtain more and better information. As Benjamin Disraeli said, "As a general rule, the most successful man in life is the man who has the best information."

Finally, when you're more circumspect about your ability to handle a situation, you'll avoid excessive risk and will thus stand a better chance of avoiding ruin.

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