

# Be Greedy When Others Are Fearful!

If there is ever a time to turn to the great Oracle of Omaha it's in times of market volatility. Warren Buffett reminds us as investors that **"It is wise to be fearful when others are greedy and greedy when others are fearful."** This goes against human instinct, as most of us panic in times of crisis - we do the exact opposite of Buffett's advice and panic-sell *out* of our investments. But one of the biggest lessons I've learned from reading every single shareholder letter Buffett has ever written is the importance of doing a whole lot of nothing for long periods of time.

Like Buffett, I'm constantly looking for my "margin of safety" when evaluating opportunities for capital deployment, which reminds me of another Buffet quote: "The best chance to deploy capital is when things are going down." A lot of selling has happened these past few weeks. At its recent lowest, the S&P 500 was down ~30% from its all-time high. This market volatility paired with (driven by) the COVID-19 virus outbreak has a lot of people fearful and in full panic mode. Yet, I find myself licking my chops as I have been in de-risking mode for the past few years.

The concept of looking for a "margin of safety" in investments is what ultimately helped me develop my own philosophy of viewing all investments and capital deployments through **a lens of risk mitigation first**. Due to my risk mitigation approach, I have been positioning my family's financials to be in a position of strength for the eventual market downturn. I wanted not only to be positioned to take advantage of market turbulence but also able to secure my family's lifestyle before I took the leap of faith to start my own business. I didn't want any pressure to have to make money to pay the mortgage or other bills.

So, five years ago I developed several rules to guide my family's financial decisions, to put in place a solid financial foundation. These rules were put in place to maximize our optionality and decouple our daily decisions from financial pressures that typically dictate the actions of most people's lives.

## **The Rules**

- **The Law of 50/50** - This law has been the linchpin to our financial success over the last five years. The law says that we must save 50% of our after-tax

income but are free to spend the remaining 50% guilt-free.

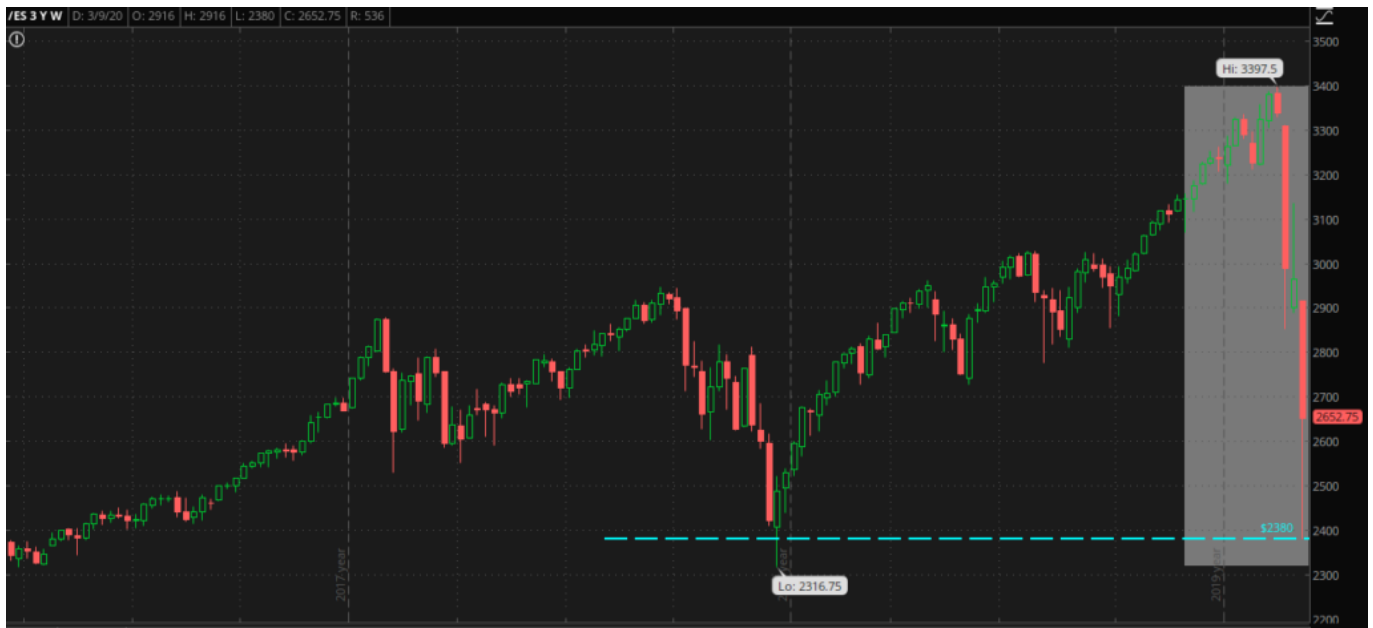
- **Aggressively Grow Income** – I realized early on that extreme frugality was not for me and my family. I also realized that focusing so much on the expense side of the equation put me in a mindset of scarcity, rather than a mindset of abundance. [The reality is that there is a floor in how low you can cut your expenses but no ceiling in how much you can increase your income.](#)
- **Eliminate all Debt** – Debt reduces options...and I want maximum optionality. My wife and I have carried very little consumer debt over our financial lives. We have had a few car loans, but have never carried any credit card debt or other consumer debt. And although many will argue that mortgage debt is good debt, I think it still handcuffs you. I won't argue against the position that over a long period of time you are likely to do better financially by carrying a mortgage and investing the difference you could have used to pay it down early, but I will argue that most will never do that. I personally wanted to be [mortgage-free](#) as it is a big part of [my financial freedom plan](#). Again, I'm optimizing for optionality and I never want to be at the mercy of someone else because of debt. That's why as I type this my family has absolutely zero debt with a [net worth as of February 28, 2020 of \\$1,815,003](#).
- **Risk Mitigation First** – I view all investments and capital deployments through a lens of risk mitigation first. This requires being very patient and doing a whole lot of sitting on my hands. It also requires a contrarian personality. My actions over the years of writing on this blog may come across as being very risk-averse but my results show the upside of my strategy. Plus, I tend to make very big moves when I do make them. Sam at Financial Samurai once warned me (back in 2015) that one day I would feel the pressure to deploy capital more aggressively in order to hit my goal of \$10M, yet I have yet to feel that pressure (all the while compounding my family's net worth by ~60% per year since then). I make investments when I see asymmetric returns – opportunities that offer a risk of 1 to make 3 or more. This is why I like hard money lending so much, as I only invest in loans with a 60% LTV, meaning the property would have to lose 40% in value before my money is ever at risk of loss.
- **Be Contrarian** – Simply put, I don't do it just because everyone else is doing it. Also, I'm not afraid to do things that may be unpopular. I chose to aggressively pay off my mortgage starting in 2015, completing that in May of 2019. The stock market had incredible gains during this time period, but my

belief was that peace of mind and optionality would be worth the potential underperformance of the extra capital I plowed into paying the mortgage off. I have also always viewed [a paid-off mortgage as a bond substitute](#) as we have zero exposure to bonds, and bonds are thought to be a part of a well-diversified portfolio. Lastly, I believed that over the seven-year time horizon I set to pay the mortgage off that we could potentially outperform the stock market as returns reverted to the mean. I was also okay if I was wrong because I would still have a paid-off mortgage either way.

These are the rules whether explicitly or implicitly discussed and documented on this blog that have governed our financial lives these past five years. They will continue to guide us for many years to come. It is because of these rules that as everyone was piling on the risk for the past five years we were de-risking, and we now find ourselves in a position of strength to be greedy when others are fearful.

At the end of last month (2-2020), we found ourselves with \$666,000 in cash and **zero** debt (beyond monthly credit cards we pay off monthly). I had also liquidated my 401k to cash back in [November of 2019](#) in anticipation of both a market downturn and my eventual rollover from my previous employer's 401k plan to my personal IRA. When you consider this additional \$172,000 sitting in a money market, and an additional \$25,000 sitting in another IRA, we really had \$863,000 in cash - about 48% of our net worth. A great position to be in when the world and the markets are in full-on panic mode.

We saw the S&P 500 (and other major indices) hit lows this past week (on 3-12-2020):



From peak-to-trough the S&P 500 (futures) saw a total decline of ~30% - in a four week period. The price action was quite interesting and spectacular to watch as the markets melted down in a rapid clip. I began deploying capital once the S&P 500 was down 20% and continued as it moved towards its lows thus far. So far, I've deployed approximately \$107,000 into equities (all this past week). Below are the investments I made:

- I purchased 200 shares of SPY at an average price of \$253.58 (\$50,716)
- I purchased 300 shares of LUV at an average price of \$36.41 (\$10,923)
- I purchased 500 shares of KO at an average price of \$47.88 (\$23,940)
- I purchased 1,000 shares of USO at an average price of \$6.86 (\$6,860)
- I purchased 100 shares of VTI at an average price of \$146.27 (\$14,627)

Total = \$107,066

In the spirit of maximizing my "margin of safety," I paired each of these purchases with calls sold against them, which is referred to as a covered call. In the past, I have said that I believe that every investor should learn two options strategies: the [covered call](#) and [the short put](#). By selling calls against all of the stock I purchased, I effectively reduced my cost basis in each of those stocks and ETFs listed above, while at the same time capping my upside to 12% or higher. Here are the options I sold:

- I sold 1 call on SPY with January 2021 expiration and a \$254 strike price for \$29.26 (\$2,926)
- I sold 1 call on SPY with January 2021 expiration and a \$253 strike for \$30.36 (\$3,036)

Net Cost Basis on 200 Shares of SPY = \$223.77 (34% below its recent high with a max gain of ~11.7% + Dividends)

- I sold 3 calls on LUV with January 2021 expiration and a \$37.50 strike price for \$7.70 (\$2,310)

Net Cost Basis on 300 Shares of LUV = \$28.71 (51% below its recent high with a max gain of ~24% + Dividends)

- I sold 5 calls on KO with January 2021 expiration and a \$50 strike price for \$4.33 (\$2,165)

Net Cost Basis on 500 Shares of KO = \$43.55 (28% below its recent high with a max gain of ~13.5% + Dividends)

- I sold 10 calls on USO with April 2020 expiration and a \$7 strike price for \$0.41 (\$410)

Net Cost Basis on 1,000 Shares of USO = \$6.45 (47% below its recent high with a max gain of ~8%)

## Conclusion

If you have been reading this blog for any length of time and have adopted any of the philosophies that I've shared, you likely find yourself in a similar situation where you have dry powder to take advantage of the market turbulence. If you find yourself fully invested without any dry powder I do encourage you to consider the rules and philosophies that I have shared on this blog that govern my own financial life. During the Great Financial Crisis, I was just graduating from college and in no position to capitalize on the investment opportunities that presented themselves back then, but I vowed to be sure I would never be unprepared for an opportunity like that again.

I also saw people I cared about get absolutely murdered during the Great Financial Crisis, because they were over-leveraged, and lived a lifestyle that didn't have a margin of safety built in. Not only did these people I care about struggle to keep the

things they had, but they were in no position to take advantage of the sale of a lifetime. This is part of the reason why I am so averse to debt. Without that experience, I'm not sure if I would have the same beliefs and philosophies that I have today. However, I am grateful that I got to witness and learn from the past before ego and hubris got the best of me.

I know we are in the middle of some scary times but I continue to remain optimistic that this will pass and that there are still many decades of prosperity ahead of us. I just encourage each and every one of you to be prudent with your financial lives. If you are not where you want to be right now, use this as motivation to take the steps needed to build the financial foundation you desire.

I wish each and every one of you good health as we all take precautions to stop the COVID-19 virus in its tracks. Please remain calm and remember that this too shall pass.

- Gen Y Finance Guy



## Gen Y Finance Guy

**Hey, I'm Dom** - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)

