

Like a Loaded Shotgun, Capital Protection is Your Best Defense

The adage “defense wins championships,” is perhaps as true in investing and personal security as it is in football. In April of 2012 I explained to readers that investors who understand two critical points about their investment strategy will be better prepared to defend their capital. I wrote:

What’s your competitive advantage? It does not matter what your endeavor, if you do not have a competitive advantage, you must expect, at best, a mediocre outcome. A surgeon who performs a given operation many times a week will always enjoy a competitive advantage over a surgeon who performs that same procedure once per year. A patient who thoroughly understands the concept of “number needed to treat” (NNT) is dramatically more informed than the patient who does not. A homeowner greeting a home invader with a 12-gauge semi-automatic shotgun loaded with low recoil 00 buck has a huge leg up on the homeowner nervously fingering a handgun, regardless of the caliber. A good survival rule of thumb is that the only reason for a handgun is to fight your way back to your shotgun. An investor able to defeat inertia, while at the same time able to be a master of patience and the profound power of compound interest, will always end the day in the investors hall of fame. This investor understands that (1) inactivity is most often his best friend, and (2) not losing money is vastly more important than how much one makes.