

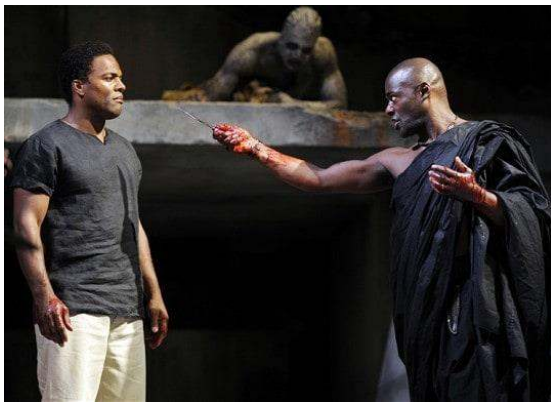


Epsilon Theory

Notes From the Field

Always Go To the Funeral

August 24, 2017



But Brutus says he was ambitious;
And Brutus is an honorable man.
— *Julius Caesar*, Act 3 Scene 2 (1599)

That's Ray Fearon as Mark Antony on the left and Paterson Joseph as Brutus on the right, in the 2012 Royal Shakespeare Company production of *Julius Caesar*. You can see [a video of Fearon's funeral speech for the murdered Caesar here](#). It's an insanely powerful performance of an insanely powerful scene, with the repetition of the famous Brutus lines twisting the crowd like a rope.

The Democrats, the longer they talk about identity politics, I got 'em. I want them to talk about racism every day. If the left is focused on race and identity, and we go with economic nationalism, we can crush the Democrats.

— **Steve Bannon**, from his August 16 exit interview with Robert Kuttner in [The American Prospect](#).

A spirit of national masochism prevails, encouraged by an effete corps of impudent snobs who characterize themselves as intellectuals.

— **Vice President Spiro Agnew (1918 – 1996)**, Nixon's Bannon, the voice of the "Silent Majority" (with an assist from speechwriters Bill Safire and Pat Buchanan). Resigned office in 1973, pleading no contest to bribery and tax evasion charges. History never repeats, but it sure does rhyme.

Death has a cruel way of giving regrets more attention than they deserve.

— **Elisabeth Kubler-Ross (1926 – 2004)**, author of *On Death and Dying*, developer of the five stages of grief: denial, anger, bargaining, depression, and acceptance.

I've gotten three irreplaceable pieces of advice over the years, two for business and one for life. The business advice: 1) Always live to fight another day. 2) It's not about the money. It's. About. The. Money. The life advice: Always go to the funeral. That's courtesy of my partner Jeremy Radcliffe. I'm not sure whom he heard it from. Now I'm passing it along to you.

It's not easy to go to the funeral. Life closer to home has its demands. Travel on short notice is expensive. And god knows I've failed to live up to this advice as often as I've followed it. But every time I've made the effort, I've experienced a uniquely powerful and sustaining human connection that I really don't have words to describe. Let me put it this way. Twenty years later, I remember who was at *my* father's funeral, not in a sense of keeping score, but of abiding appreciation. There's zero negative affect for those who weren't there. Zero. I understand! But there's a nuclear reactor of positive affect and energy for those who were.

Going to the funeral is part of the social contract we have with our families, our friends, and our tribe, both immediate and extended. It's part of the social contract we have with ourselves. **It's part of the *personal obligation* that we have to others, obligation that doesn't fit neatly or at all into our bizarre world of crystalized self-interest, where scale and mass distribution are ends in themselves, where the supercilious State knows what's best for you and your family, where "communication policy" and fiat news shout down authenticity, where rapacious, know-nothing narcissism is celebrated as leadership even as civility, expertise, and service are mocked as cuckery.**

Understanding the obligations we share in life and in death is the greatest lesson I've learned (and I hope passed on to my girls) from life on the farm. Because our obligations aren't just to our human tribe, but to our animals, too.

I'm not a nut about this. The obligations we have to our animals aren't the same as the obligations we have to our family. They aren't the same as the obligations we have to other, more remote humans (hmm ... sometimes I'm not too sure about that last bit, but let's go with it anyway), but they're obligations nonetheless. In life those obligations include water, food, shelter, and an environment that lets them express their sheepness or goatness or horseness or dogness or whateverness in a safe and healthy way. It's all of those, especially fresh water. That's a thing for me. In death, those obligations are a proper funeral, well attended. A grave plenty deep, well marked. A body positioned properly, well respected. Collars and bells and other instruments of control all come off, because there are no collars in death. That's a thing for me, too.

I know this seems like a morbid topic, but it's not for me, and I suspect it's not for anyone who's spent time on a farm. I've buried lots of animals. They're born, they live, and they die. We give them a really good life. We respect our animals in life and we respect them in death. The care we give our animals when they die means *nothing* to the animals, obviously not to the dead but no more to the living. It means an enormous amount to us. It's our personal obligation. We owe *them*, not the other way around, in life *and* in death.

Always go to the funeral.

Whew! Okay, Ben, let's see you draw some lessons for investing and macroeconomics from that!

On the investing side, the lesson is that every discretionary investment needs a proper funeral at some point. Discretionary investments are born, they live, and they die. I've learned from a lot of great investors over the years, and one of the lessons that really stuck with me was that your portfolio should

be one-third positions that hadn't worked yet and you are getting into, one-third positions that are working now, and one-third positions that have worked and you are getting out of. **It's that last one-third that we all have the most trouble with.** It's not the positions that never work at all. We've all been trained to cut our losers, and so that's what we do. In this business, you're wrong about something every single day, and if you don't learn early and well what to do when you're wrong, then you won't survive long. No, the much harder lesson is what to do when we're right. We've all been trained to "let our winners run", and there's a lot of truth in that for a trader. Much less so for an investor. For an investor, it becomes an excuse to keep a discretionary position in the portfolio well past its natural lifespan, leading to **a bloated portfolio, chock-full of merely good or used-to-be good positions.** It's the unforced error that I see more frequently than anything else out in financial advisor-land, because it's really hard to say goodbye to an investment that's served you well and faithfully.

I've buried lots of investments. You should, too.

That means a proper funeral, well attended. You communicate with your team and your clients. You tell them how and why the death occurred, and you invite them to learn more.

That means a grave plenty deep, well marked. It's waaay too easy to resurrect a dead investment in a slightly new form, saying that there's some new catalyst for the old stock when in truth you wouldn't be there except for the prior history. The dead should stay buried.

That means a body positioned properly, well respected. You keep a record of the investment, and you describe why you were there, how it worked, and how it didn't. Honestly.

None of this is as easy as it sounds. But it's your obligation.

Now wait a second, Ben, it sounds like you're preaching against buy-and-hold stock-picking, something that might get you stoned to death if you were making the hajj to Omaha along with the value investing faithful. Is that what you're saying?

Nope. I'm an arborist. I love planting trees and investments that can last for decades. There's *nothing* more powerful in the investment world than the power of compound returns. But spare me the forever stuff. Nothing lasts forever. Death and taxes ... those are the only eternal.

Every highly successful stock-picking investor in the world, value oriented or not, has two things:

- 1) A boneyard. You think the guys in Omaha haven't buried a huge number of investments? Please. And they don't just bury the dead. They cull the weak. Good for them.
- 2) A duration match between assets and liabilities. To continue with the forest example, it's all great and wonderful to plant some oak trees that you're certain will be strong and majestic in 20 years, but not if you need the lumber in 5 years. If you're pursuing long-lived investment returns, you better have similarly long-lived investment funding, or eventually you will fail as an investor. That's not opinion, that's math. So yeah, if you've got permanent capital, then you can make permanent investments. But no one has truly permanent capital.

These two qualities of successful investing — burying the dead and matching the lifespan of your assets with the lifespan of your liabilities — are part of the *investment meta-game*. They're not the immediate game — picking this stock or picking that stock — but they're the game behind the game. It's more important to play the meta-game well than to play the immediate game well. It's more important to see the forest than to see the trees.

Here's another way to think about the meta-game. I was a fan of *Shark Tank* before it was cool to be a fan of *Shark Tank*, and I still am. I watch it with my girls, as it sparks all sorts of good conversations about entrepreneurialism and capitalism and the like. My favorite moments on *Shark Tank*, by an order of magnitude, are when Kevin O'Leary tells a presenter that their idea is dead and they need to bury it. He's always right. The worst thing that can happen to you on *Shark Tank* is NOT that you fail to get an investment and go down in flames of embarrassment. No, the worst thing that can happen is that you fail to get an investment but are *encouraged* to keep on pursuing a used-to-be-good idea that died a year ago. You will have another good idea! It's far more important to play the meta-game well — to do nothing and wait for the next live opportunity — than to keep propping up the dead opportunity with extraordinary effort. Bury your dead. Have a proper funeral. Respect the dead. Never forget the dead. *And move on without regret.*

On the economics side, the lesson here is that central bankers today are grieving the death of the so-called Great Moderation, where productivity rocked, inflation was tamed, and the business cycle was muted. But they can't move on. They can't bring themselves to have a proper funeral. They are expressing their grief poorly — not through anything like the Kubler-Ross stages of denial, anger, bargaining, depression, or acceptance — but through *magical thinking*, through the pathological belief that if only the right words are said and the right thoughts are thought, then the dead will show up at the front door as if nothing had happened. To understand the human pathology, [read Joan Didion's wonderful book](#). To understand the policy pathology, you could do worse than to [read the Epsilon Theory note](#).

I'm not going to spend a lot of time rehashing that *Epsilon Theory* argument, because there's another death I want to talk about in this note, one connected with neither investing nor monetary policy. **It's the death of cooperative game-playing in American politics.** I wrote a full note about this, too, titled "[Virtue Signaling ... or Why Clinton is in Trouble](#)", but after the events of the past two weeks, particularly Charlottesville and its political aftermath, I want to update those thoughts here.

I'll start with what I wrote last September.

I'm thoroughly despondent about the calcification, mendacity, and venal corruption that I think four years of Clinton™ will impose. I think as a candidate she's a bizarre combination of Michael Dukakis and Teddy Kennedy, and I think as a president she'll be an equally bizarre combination of Ulysses Grant and Warren Harding, both of whom presided over a *fin de siècle* global economic collapse. Gag. But I don't think she can break us, not as a society, anyway.

Trump, on the other hand ... I think he breaks us. Maybe he already has. **He breaks us because he transforms every game we play as a country — from our domestic social games to our international security games — from a Coordination Game to a Competition Game.**

Blowing up our international trade and security games with Europe, Japan, and China for the sheer hell of it, turning them into full-blown Competition Games ... that's really stupid. But we have a nasty recession and maybe a nasty war. Maybe it would have happened anyway. We get over it. Blowing up our American political game with citizens, institutions, and identities for the sheer hell of it, turning it into a full-blown Competition Game ... that's a historic tragedy. We don't get over that.

Case in point: the current "debate" about Confederate war memorials. In truth, there is no debate about Confederate war memorials. No one cares about Confederate war memorials. There is no "Southern identity" associated with Robert E. Lee statues. **You know who thinks that Southerners care deeply about these statues? New York City real estate developers who know *nothing* about the South, but think that this is what motivates us dumb hicks, that's who.** A month ago, you could have taken down any of these statues and you'd get three wackos holding signs outside the city administration office and an angry letter from the local chapter of the Daughters of the Confederacy. I mean, it's not like you're canceling an SEC football game ... *there's* your Southern pride.

But frame the issue in terms of "THEY are coming to take your statues away from you", show some pics of Antifa goons and campus goofballs, and absolutely people are going to care. Hell, these pictures make *me* care, and I'd get rid of the statues tomorrow if I could.



If getting rid of the statues is framed as capitulating to these idiots — *and that's exactly the narrative that's been created* — then every elected Republican in the South who wants to stay in office must now come out in favor of keeping the damn statues. They must be seen as opposing the idiot outsiders who are DEMANDING something that no one cared about a month ago, because that's what it means to play a Competition Game.

Conversely, every elected Democrat in the South who wants to stay in office must now take action to dismantle the statues. Because otherwise you're capitulating to these ~~very fine people~~ idiots.



Just like the incumbent Republicans, incumbent Democrats must be seen as opposing the idiot outsiders who are DEMANDING something that no one cared about a month ago, because that's what it means to play a Competition Game.

You hear all the time about how these Trump tweets and the associated narrative construction are a “dog whistle” that motivates and calls forth the alt-right clowns. Okay. I guess. **But what the tweets and the narrative really are — and this is what Steve Bannon understands perfectly — is a dog whistle for the Democrats and an obedience collar for the Republicans.** It creates a Competition Game where none existed before, and it forces every elected politician, regardless of party, to play their appointed role, strutting and fretting upon the stage. Even though none of them like the script and none of them want to play the part.

It's a political meta-game.

What's happening today isn't new in theory. It's a tried and true strategy for political entrepreneurs throughout history, ancient and modern. It's what Marc Antony did to reconfigure the narrative around Julius Caesar's assassination in 44 BC. It's what Richard Nixon and Spiro Agnew did with their “Silent Majority” narrative to win the 1968 and 1972 Presidential campaigns. It's what George Wallace did in 1972 to win the Democratic primaries in Michigan and Florida. It's what Pat Buchanan (who wrote a lot of the Silent Majority speeches) tried to do when he primaried George H.W. Bush in 1992.

But what's happening today is very different in scale for two reasons, I think.

First, it's different because of the unprecedented effectiveness of the technology and social media systems that drive what I call **fiat news — highly political statements constructed and presented as apolitical fact**. In exactly the same way that fiat currencies ultimately crowded out all hard currencies, so is fiat news now crowding out hard news. Political entrepreneurs today — a roster that includes Mark Zuckerberg and Jeff Bezos and Michael Bloomberg just as surely as it includes Steve Bannon — have a tool kit at their disposal for playing the political meta-game that Richard Nixon could only dream of.

Second, it's different because of the goals of the political entrepreneurs themselves. Richard Nixon was a professional politician. Being president was his lifelong ambition, and he used the Silent Majority narrative as a means to that end. He didn't want to blow up the System. He WAS the System. Whatever Donald Trump is, he's not the System. My sense is that he really doesn't care about the System one way or another, that so long as he and his family have the keys to the national car, he's good with whatever happens. Steve Bannon, however, cares deeply about the System. Not to preserve it, but to reboot it. And not just to reboot it, but to reboot it with a new operating system.

So what's the punch line? Why am I talking about all this in a cheery note about death and funerals?

Because once a Cooperation Game becomes a full-blown Competition Game, it never goes back to the way it was before. Once mustard gas is introduced into your trench warfare game, whether it was one of the other guys or one of your guys, it's here to stay. Deterrence has failed. The **cooperative Stag Hunt equilibrium** is dead. I am, admittedly, still at Stage 4 of the Kubler-Ross scale on all this — depression — but we all need to get to acceptance ASAP. No regrets. No magical thinking. Just hard thoughts on how to design an operating system that can compete with and win against the billionaires' operating system when the reboot happens. And who we want in our foxhole in the meantime. And how to build a gas mask.

Because it wasn't that long ago when Southern identity was defined not by statues, but by civility, personal obligations, and service, particularly military service to ... wait for it ... the United States of America. That narrative is still out there. It's still alive. We can get it back if we're smart enough to play the political meta-game.

Because there's a pose that very sick farm animals sometimes take when they're near death, where they lie down and twist their head way back into their shoulder in a very unnatural way. It's an odd sight if you don't know what it signifies, a horrible sight if you do. Both the Republican Party and the Democratic Party are starting to twist their heads back into their shoulders. I don't know if it's too late to save them or not, but I'm increasingly thinking that it is. We need to start thinking about the funeral, who's going to speak, and what they're going to say.

But Brutus says he was ambitious;
And Brutus is an honorable man.

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