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POPULAR DELUSIONS

"The world is at all times the dupe of some bubble or other."

- Col William Rafter

Of Human Freedom by Epictetus

This book review by Dylan Grice was first published April 2020.

Markets like these are exhausting and stressful, even when we feel we are navigating them well. Few in our industry are thriving. Most will have poor performance, with all the attendant stresses and business risks that brings. And of those in the minority with good performance, many will find themselves a kind of ATM, acting as a liquidity source to offset poor performance elsewhere in their investors' portfolios. That such large dislocations tend to coincide with broader difficulties for society at large doesn't make it easier.

We all have our own ways of finding clarity during such moments. I recently found myself re-reading Discourses by the Greek Stoic Epictetus. 'Important' is an overused adjective when it comes to books. But I first read Epictetus when trying to come to terms with the sudden death of my father some years ago and can truthfully say it was one of the things that got me through in one piece. It is probably the most important book I've ever read. On re-reading it these last few weeks I was struck again by its power, and by how much perspective it helped me find. If you only take away one thing from anything you read on these pages, this month or any other, it should be the wisdom of letting Epictetus into your life.

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Where life and investing intersect

We all have an inner mental chatter. Usually it's barely noticeable, an ambient voiceover to the never-ending stream of imagined scenarios continuously playing out in our mind's eye. At best it can be an aid: to solving a problem, preparing for a big moment or replaying a funny memory. But at its very worst it can be a critical companion, dishing out vitriol so scathing that if one heard it being uttered out loud it would sound like the voice of a criminal abuser. According to Raj Raghunathan, a business professor at the University of Austin, for most people the mental chatter is a negative influence. When he and his colleagues tried to measure it, they found that 70% of it was directed towards thoughts which were self-critical, pessimistic and fearful.

I wonder what that statistic would be for investors? Certainly in the early days of my career when I was a struggling prop trader I found that virtually any outcome would lead to my inner critic goading me for messing up and being somehow inadequate. If I bought something and its price then fell, I'd beat myself up over the loss. If I bought something and its price then rose, I'd beat myself up for not buying as much as I should have. If I didn't buy something I'd been thinking of buying, and its price went up, I'd beat myself up for missing out on a profit. And if I didn't buy something and its price went down ... OK, so I'd be relieved for having avoided a loss. But even then, such relief was only fleeting. While avoiding losses is an important part of any prop-trading strategy, at some point you also have to make P&L to justify your seat. The anxiety about when to re-enter (to 'get back on') would soon build. I felt that I was in a no-win situation; all roads led to self-flagellation. I called it my quadrant of pain (Figure 1).

Figure 1 Quadrant of Pain

	Price goes up	Price goes down
Buy	Result: PAIN Inner critic: why was I too chicken to buy more?	Result: PAIN Inner critic: how could I be so dumb?
Don't Buy	Result: PAIN Inner critic: why did I chicken out?	Result: ANXIETY Inner critic: when do I get back on?

In my life as an investor, what I realised was that I needed a structure around my thinking. Guessing which way the market was going to move next wasn't in my skill set. But figuring stuff out was. And I eventually figured out that valuation and risk analysis was the anchor I'd been looking for to give me either the courage to act, or the patience not to. Ever since, my focus has been not on prediction, even though that's fun to indulge in from time to time, but on understanding how wide the range of possibilities is, and what things are likely given that range.

But in my personal life the path wasn't so clear. The tendency to self-flagellate I'd first noticed as a trader was actually a generic habit of thought which I seemed to be applying to all other aspects of my life: why didn't I take that job when I'd been offered it? Why did I take this one? Why was I in certain relationships? Why did I say that really dumb thing at last week's meeting? etc ... in the same way that I needed a framework to give me financial market perspective,

I needed a framework to give me a life perspective. Eventually I found one. In financial markets that framework was 'valuation'. In life, it was 'acceptance'. And the best and most powerful articulation of that, for me, was from Epictetus.

The paradoxes of acceptance

Epictetus was a Greek slave living in Rome during the time of Nero, Vespasian, Domitian and Hadrian, among others. He was born a slave to one of Nero's secretaries and studied Stoic philosophy from an early age and though we don't know much about him, other than what was passed down by his students, we do know that he viewed philosophy as practical. He was born a slave; he was lame in one leg, possibly after a beating by his master; he was banished from Rome, when Domitian banished all philosophers. In a very real sense, therefore, his work and ideas were borne of his own need to come to terms with life's various adversities. Epictetus wasn't primarily interested in philosophical theories, but in the governing principles behind a well-lived life.

His thinking can be summarised as follows: at root, all unhappiness is caused by a desire for the world to be configured differently; most of the world's configuration is beyond our control; happiness is therefore achieved by an acceptance of what is beyond our control, and a desire only for what is within it. Happiness comes from having what you want and wanting what you have. Conversely, unhappiness comes from not wanting what you have, and not having what you want. Since only other people or other circumstances can deny you something you want, all unhappiness comes from desiring things which are others' to give. Desiring something which only someone else can give you, makes you beholden to the will of others. Being beholden to the will

of others is equivalent to being a slave to others. True happiness derives from freeing yourself from such desires. True happiness is therefore equivalent to freedom.

This sounds obvious enough when you read it. But it runs counter to what we are taught in life, which is that we must fight: for our beliefs, our rights, our goals, etc. Epictetus teaches us that before we fight we must first ask ourselves what we are fighting for: is it for something under our own control, or is it for others' to give? If it is the latter, fighting is futile. Acceptance is the only path forward.

Accepting the world the way it is, doesn't mean doing so wistfully or regretfully. It doesn't mean throwing your hands in the air and saying "well there's nothing I can do here." It means thinking carefully about what you can actually do. And here a very interesting idea emerges: just trying too hard can be counter-productive, letting-go of our desires can be hyper-productive. Accepting the world as it is, is the first step towards reconfiguring it in your favour.

This is of course paradoxical: "But what of the other arts - are they different? What is more paradoxical than cutting into a person's eye to restore his vision? If someone suggested this procedure to a person ignorant of medicine they would laugh in the practitioner's face. Little wonder, then, if many of the truths of philosophy also impress the masses as paradoxical."

An example investors will be able to relate to is imperfect knowledge. A lot of people feel uncomfortable with 'not knowing' and so fool themselves into thinking they know more than they do. Pundits with strong views on everything under the sun are in high demand in the financial and non-financial media alike. Yet as Epictetus observes: 'A person is not going to undertake to learn anything they think they already know'.

Learning requires keeping an open mind, and keeping an open mind requires knowing that you don't know everything. Therefore, it is only by accepting that you don't know which makes you more likely to know eventually. Hence the paradox: acceptance of ignorance leads to more knowledge.

Desire only what is yours to give

Some desires are so instinctive and so obvious that they are regarded as self-evident truths. But that doesn't mean they are truths. For example, it seems obvious that we'd be happier with more money, a bigger house, a better physique or a healthier body. I doubt there is a person reading this who at some point today hasn't thought to themselves "if only I had this ... or if only I had that ... things would be so much better." But would they? If the real source of unhappiness is your inner critic, who always wants more, then more money or a bigger house or a better physique won't switch that critic off. One feels for the poor slave Epictetus uses to illustrate something we can all relate to, the experience of desiring things until you have them, only to realise that they are not what you wanted after all.

"The slave urgently prays to be emancipated. Why? Do you suppose it's because he can't wait to pay the tax collector the five per cent tax? No, it's because he imagines that, lacking liberty, he's been thwarted and unhappy all his life up to then. "Once I'm set free,' he says, "everything will be roses right away. I won't have to wait on anybody. I can talk to everyone as an equal and a peer, travel wherever I like, come and go as I please." Then he is liberated, but now, lacking a place to eat, he looks around for someone to sweet-talk and dine with. Next he resorts to prostitution and, if he gets a sugar daddy, he suffers the most degrading fate of all, having now fallen into a far more abject slavery than the one he escaped. Even if he succeeds on his own, his low

breeding makes him fall in love with a common prostitute. When she refuses him he falls apart and longs to be a slave again. "What did I lack then anyway? Another person supplied me with clothes, shoes and food and took care of me when I was sick; I had little enough to do by way of service in return. Now I go through hell catering to many people instead of just the one."

How does this happen? For Epictetus, the problem was the slave's mental habit of chasing things which were others' to give: his manumission, a house, the love of another. Even though he was granted the first, his tendency to want things beyond his control prevented him from enjoying it and even as a free man, he remained enslaved to the will of others.

At the opposite end of the social spectrum a similar story unfolds. The desire to be wealthy, for example, is often a masked desire for status, which is equivalent to the desire for favourable opinion of others. But the opinion of others is for others to give, and not something you can control. And what do you have to do to gain the opinion of others? Who do you have to spend your time with? What implicit bargain do you make?

"When a man gains Caesar's friendship, does he stop being hindered or constrained? Does he live in peace and happiness? Whom should we ask? Well, who is more to be trusted than the person who actually gained his confidence? So step up, sir, and tell us, when did you sleep more soundly, now or before you became intimate with Caesar? "By the gods, stop mocking my condition. You don't know what agonies I endure I can't even fall off to sleep before someone comes and announces, "The emperor is up already, and about to make his appearance," and then I am harassed by one worry and crisis after another."

Well, and when did you dine with greater contentment, now or earlier? Hear him testify to this, too. He says that if he's not invited to dine with Caesar, he's an emotional wreck; and if he is invited, he behaves like a slave asked to sit beside his master, anxious the whole time lest he say or do something gauche. But is he afraid that, like a slave, he'll get whipped? He should be so lucky. As befits a personage as lofty as a friend of Caesar, he's afraid his head will be chopped off.

When did you bathe with more ease, when you were more relaxed at your exercise - in a word, which life would you prefer, the present or the previous one? I would swear that there is no one so crude or forgetful that they don't actually regret their fortune in precise proportion to how close to Caesar they've become.

Well, if neither kings, so called, nor their companions live as they please, who is left that can be considered free?"

Here, chasing the good opinion of strangers through friendship with Caesar was counter productive. Instead of making him more free, it made him less free. Is there a difference with material wealth? How often do you miss time with your partner, your kids, your friends because you 'have to do something for work' or you can't get the time off? How often, when you're physically there are you mentally and emotionally somewhere else, distracted by something you think you're lacking, or something you think will make you happy?

In other words, how free are you really? And if the answer is, 'not as free as I'd like', then why? What desire out of your control is enslaving you? During my career I've seen successful bankers, analysts, hedge fund managers, entrepreneurs who have everything they thought they

wanted, but are nevertheless enslaved by the burning desire: just a little bit more.

Of course, one can be materially well off and happy at the same time. But the happiness comes first. If someone is not happy before being rich, they're unlikely to be happy after being rich. And if they're already happy ... what's the problem?! Think carefully about what you spend your mental energy on, and remember that if the attainment of material wealth, status or even health is extremely unlikely to make you happy, the loss of those things is unlikely to make you unhappy.

The framework is more important than the answers

Epictetus' meditation on freedom opens up some fascinating questions. For example, does the pursuit of freedom as defined preclude having children, entering into deep relationships, enjoying home comforts you couldn't make yourself, or even savouring dishes you didn't make yourself? Or does it permit all of those things but imply a different relationship to them, namely a relentless focus on enjoying each of them in that moment (which is in your control) without desiring there to be another such moment in the future (which is not)?

I don't know, and in any case, it doesn't really matter. It is the framework for thinking about these things which I've found useful over the course of my life and it is this which I wanted to share, rather than any particular answers. Think first about what you are in control of, and think as deeply as you can about it, because time spent learning to identify and then accept what we cannot control will likely bear more fruit than time spent trying to get rich. Or as the great man said, "It seems we would practice and study anything rather than how to remain free and un-enslaved."

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