The Knowledge Project presents
Jason Zweig

PODCAST TRANSCRIPTS

In this episode, recorded live in New York, I have Jason Zweig.

Jason writes The Intelligent Investor column for the Wall Street Journal. He has also written books like [Your Money and Your Brain], [The Little Book of Safe Money], and taken part in revised editions of [The Intelligent Investor].

He's got a new book coming out called [The Devil's Financial Dictionary], which we'll talk about. Jason is an extraordinary person who offers historical perspectives on today's seemingly important financial news. In this episode we talk about a host of things, including what his day looks like; why he adds a philosophical and historical view to his columns; the relentless flow of news; his new book The Devil's Financial Dictionary; and what the average investor should do.

If you enjoy the conversation, please let me know your feedback: I'm [@farnamstreet] on Twitter.

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Shane Parrish: Alright, I'm here with Jason Zweig from the Wall Street Journal, and he's one of the most requested guests that I get for The Knowledge Project, so I'm happy to have you here Jason.

Jason Zweig: Great to be with you, Shane.

So I guess— one question I have is: what does your day look like? What's your typical day?

My typical day is kind of a mess. You know, I've been doing this for a long time. My column has run for seven years in the Wall Street Journal, every Saturday (except when I'm on vacation, or in the hospital, which hasn't happened). And it's not always so easy to feed the beast. I can't take a week off because I don't think I have anything useful to say. I have to find something. As I think you'll remember, I once defined my job as saying the exact same thing between 50 and 100 times a year in such a way that neither my editors nor my readers will know I'm repeating myself. It's a lot harder than it sounds; it's more challenging than it sounds; and it's usually more fun than it sounds.

> "I think luck is a massively powerful force in the lives of individuals and societies."

So a typical day for me is: when I can, I like to start very early. I like to get to the office before 7:00. Maybe read for a few minutes, then go to the gym, which clears my head. I probably spend a little too much time online and on Twitter. But mainly I'm trying to figure out how to triangulate between what's going on in the financial markets and the news flow and my readers' lives and the questions that are on their minds - and to find new and interesting ways to say the same old things. I'll spend a fair amount of time reading journals in evolutionary biology, or cognitive psychology; maybe reading blog posts by people who ostensibly don't have anything to do with investing or the financial markets. I'm trying to get a spark of creative ideas that will give me a different kind of entry point into what's going on.

How did you get started writing?

Well, I always wanted to be a writer. I was a very bookish kid, and my parents— my mom is still alive, and both my dad and my mom were very literate people. They had varied careers - my dad was a farmer, and a military officer, and a political science professor, and a newspaper publisher. And then later in their lives, my parents became ardent antique dealers. Our house was full of books, including first editions of Mark Twain and Nathaniel Hawthorne - and [John Maynard] Keynes, actually - among many, many other great authors. So I was always bookish. From the time I was 13, I wanted to write. But I wasn't interested in journalism until after I got out of college, and my Great American Novel was not selling; nor was it even writing itself!

And out of despair, I did take a very junior entry-level job in journalism that had nothing to do with business, and found that it was satisfying, and that there were surprisingly few other people who could write reasonably well. So I got better at it, and I worked hard at it, and then I got into business journalism at Forbes magazine.

Was moving to business a conscious choice?

No. It was all serendipity, like almost everything in my career. If you take the luck away, there's no plan, and in fact if you take the luck away there's probably nothing left! I think luck is a massively powerful force in the lives of individuals and societies and markets, and I benefited hugely from it. I've been fortunate that I've had good luck, and not a lot of bad luck, although

I'm sure that time will come too. In any case, my first job in journalism was working at an African magazine, and I did that for a couple of years, even though I knew nothing about Africa when I started. When I finished, I bumped into a friend of mine on the street, who said Time magazine is looking for some very junior people, and I said, 'well, they don't come any more junior than me.' And Time magazine ended up hiring me to be a fact checker in the business section. I got laid off from that after a year and half, and Forbes magazine hired me. After about six weeks, I realised I liked it, and that's how I became a business journalist.

There's a lot going on in journalism these days - how do you see it playing out with reporting, free vs. online vs. delivery? What's changing from your perspective?

"I think the biggest challenge that journalism and the information businesses face ... is how to sort out the wheat from the chaff. "

I think the biggest challenge that journalism and the information businesses face, over the coming decade, is actually the same one that the information-consuming public faces: which is how to sort out the wheat from the chaff. How to deliver high quality, accurate, reliable information in a way that the audience can tell it's reliable.

Ten or twenty years ago, if you didn't read something in the Wall Street Journal or the New York Times, or a handful of other newspapers or magazines - maybe your good local newspaper, or TV channel, if you lived in the right city - if you didn't get it from that handful of sources, you didn't trust it. And you knew why you didn't trust it: because it hadn't been filtered through a sceptical, professional person delivering and checking the news. The significance of it, the validity of it.

The real challenge in the internet-based world of information is that it's almost impossible to tell from looking at most material how reliable it is.

I'm hoping that we're moving toward a period in which both the organisations delivering the news, and the consumers of it, will be able to tell from looking at it whether it's reliable. Because there's so much garbage, and misleading, tendentious, wrong, untrustworthy material being disseminated now. And it's very hard for a consumer to tell the difference. So I'm hoping we'll develop markers that will enable readers to be able to tell whether information is trustworthy.

I don't know if you've ever heard of it, but Ryan Holiday wrote a book called Trust Me, I'm Lying. And it was all about manipulating that cycle of media, and the pressure to get things out, to actually get PR for the people he was representing.

It’s an incredibly toxic mix, because through Twitter and Facebook and all of social media and the internet, people now are more rapidly informed than at any time in human history.

The human brain is an instinct reaction mechanism. As soon as you see salient information, your brain has already processed it. A lot of experiments have shown that a lot of this process occurs in a tenth of a second - a third of the time it takes you to blink your eye. And if we don’t have systematic mechanisms that enable people to discriminate good information from bad, and reliable information from bogus or faulty reporting - or simply propaganda that masquerades as reporting - then society will really suffer.

Charlie Munger told me last year when I was at the Daily Journal meeting in Los Angeles that he really fears for the ‘future of the republic’, as he puts it: that newspapers like the Wall Street Journal and the New York Times no longer have the - I guess I would say - intellectual oligopoly that they once did over the credibility of information.

When anyone can throw up a blogpost, and throw millions of people into a tizzy about anything, it’s going to be turbulent times for society until we get that sorted out.

Do you have any advice for me, as a reader of blogs and newspapers, and how to go about filtering and thinking? Is it just bringing a sceptical attitude towards what you’re reading, or is it more than that?

“I think if you’re not a sceptical reader, you’re not reading.”

I think if you’re not a sceptical reader, you’re not reading. That’s the first point to make. The second is: I think, as a consumer of information, you can steer the media toward a better world for communication, and what I have tried to do in the past couple of years (although I don’t always succeed) is whenever I write my column, I try to tell people not only what I know and what I have learned, but I try to tell them how I have learned it. I do that through links.

It’s very disconcerting for me now to read news articles from mainstream news organisations, or blogposts from just about anybody, where the wrong things are linked or the right things are not linked. I really want material judgements that are at least purporting to be objective to be sourced. And if someone is telling me, ‘I believe X,’ or ‘I have concluded Y,’ then I want to see how they know X, or why they believe Y. If the person is not telling you that, you should probably move on, because you have no way of independently or readily verifying what the person is telling you.

One thing I love about your column - you go back and tease out these humanities that have happened over a long period of time, and you bring that to play on whatever today's topical news is. Not only do you often link to the original sources, but that perspective of time becomes a big context for what I'm reading.

"It's extraordinarily difficult for people to maintain a long term perspective in a world that I think we would generously be describing as short term oriented."

I think one of the challenges for somebody like me who writes for individual investors and tries to provide advice is that it's extraordinarily difficult for people to maintain a long term perspective in a world that I think we would generously be describing as short term oriented.

The best way to do that is by enabling people to make more points of contact with the wisdom of past ages.

Benjamin Graham has this extraordinary remark in one of the interviews he gave late in his life, where somebody asks him, 'why are you always quoting Greek and Roman philosophers?' I'm really paraphrasing, but he said something these lines: 'Not just Greek and Roman philosophers. I also quote Spinoza a lot, and I guess it's because I'm trying to write not from the perspective of our time, or past time, but from the perspective of eternity.'

When you first read that, it's kind of shocking, because it sounds arrogant.

But when you know the writings of Benjamin Graham, who for anyone in our audience who isn't familiar with him, was Warren Buffett's teacher and arguably the greatest investment advisor of the past century, Graham was not being arrogant; he was being humble.

He was saying that the people who came before us know more than we do, and just as Sir Isaac Newton said, 'if we see farther, it's because we stand on the shoulders of giants,' it's worth remembering that when he said that, he was actually picking it up from Saint Bernard of Clairvaux, who presumably stole it from somebody else!

So when you go home: you said you read biology journals earlier, and I know you're a big fan of Montaigne. Who else are you reading for that type of perspective that you bring?

When I'm not in the office, I do have a rule, which I try never to break. I'm pretty resolute about it. I will not read anything related to investing or the financial markets, or business for that matter, when I'm not in the office. Every once in a while, I break it, but it has to be an exception that really proves the rule. I mainly read fiction, historical biography, philosophy. I tried to read anything that's beautifully written and has stood the test of time. I don't read a lot of contemporary fiction, although I do read some that comes to me highly recommended.

What's the best book I read over the past year? I would say, hands down, Victor Hugo's Les Misérables, which I had never read.

A friend of mine taunted me, and said, 'what's the best book you've never read?' I named it, and he said, 'well you have to.' It took me months, because I read it on my phone in the gym. It was 6,000 pages long, and I loved every second.

Do you read mostly on Kindle or physical, or do you mix them?

"I have a rule that I only write in paperbacks ."

Except when I'm in the gym, or maybe sometimes on my commute, I always read physical books. It's part of my upbringing. I love the tangibility of the paper page, I love being able to visualise where in the book I read a particular thing, and I have a rule that I only write in paperbacks - I will never write in a hardcover book, because it seems like desecration. I usually take notes in everything I read, but if it's a hardcover, I take a piece of scrap paper and I take my notes there.

The Devil's Financial Dictionary
BY JASON ZWEIG

Speaking of books - you have a new book coming out, which I was lucky enough to get a pre-publication copy of, and loved. It's called The Devil's Financial Dictionary. This is an amazing project, and a very cynical look at the financial markets, which resonates a lot with me, and I think resonates with a lot of people because there's a lack of trust in the system that we're a part of.

What happened, Shane, is that about two years ago, I redesigned my personal website, which is non-commercial — I don't take advertising. It's there mainly to archive my articles, and I suppose as some kind of weird ego trip. It was bothering me that as someone who ardently believes that people should not be constantly updating their portfolios or fixating on today's market news, I still needed new material on a pretty frequent basis to justify people coming there in the first place or coming there again.

I was sort of staring out of the window one day at home on the weekend, and I realised that in 1999, I had started a glossary of financial terms.

I poked fun a few things: I had an entry for 'portfolio manager', and I had maybe 10 entries. Surprisingly, I found I had kept them, and they were pretty bad.

Suddenly, as people say, the penny dropped, and I said: 'Ambrose Bierce, The Devil's Financial Dictionary.'

Ambrose Bierce is one of my favourite writers. He was one of the greatest men of letters in American history, although he's not nearly well enough remembered today. He's best known for his Civil War short stories, which are great, and for [The Devil's Dictionary] - which is far and away the most cynical, sarcastic, satirical book ever written in America, and is probably unrivalled in English language literature by anything except the work of Jonathan Swift.

Bierce was an incredibly angry, bitter, cynical, nasty man, who really sort of hated humanity, and thought that everyone was an idiot or a crook. He believed in nothing other than than a sort of fundamental level of decency to your fellow man.

I'm nowhere near as cynical as Bierce; I actually like people, and I think people have wonderful virtues and great qualities that make life worth living.

You're one of the nicest guys I know, so—

Thank you! Maybe you need to get out more, but— Bierce is believed to have marched into the Mexican Civil War, late in his life, to be shot, probably in front of a firing squad.

So I'm nowhere near as cynical as Bierce, and I don't have that anger toward people in the financial system. But: there is no doubt that the financial markets, bankers, brokers, portfolio managers - all the people in what Jack Bogle of Vanguard has described as the 'helper industry' - all the financial intermediaries - deserve a little bit of tweaking.

So this book started out as a little adventure to see if I could come up with short, snappy definitions, and then it became a challenge, because I would say to myself: can I take everything I've learned about this particular thing over the past 25 years, and boil it down into 150 words or less. I found I could do it. And then I said: what about 100 words or less? And then I found I was able to define many things in 50 words or less, and some in a single word. People who have read it - and you had your own kind opinion, thank you - do seem to enjoy it.

> "The ability to define a term ... in such a way as to make it cynical and funny, is sort of the ultimate measure of your own scepticism."

My objective is that first of all, I hope people will be entertained by it, and maybe enlightened by it. Two, I hope it's funny. And three, I hope it sends people back to read the original Devil's Dictionary, because one of the things I've been thinking about ever since I wrote the book is that the ability to define a term that you're presented with, in business or in life, in such a way as to make it cynical and funny, is sort of the ultimate measure of your own scepticism.

If somebody presents you with a sales pitch for something, you should be able to go back to your office or house, and say: how can I make somebody laugh at what this person just told me, and say, 'that's ridiculous'?

And until you can do that, you don't really understand the weaknesses in what the person is telling you, and you probably don't understand the weaknesses in your own thought process.

So that's why I think an exercise like writing this book was important and useful, and I hope could make it useful for readers as well.

Do you want to pick out a few of your favourite definitions, and maybe read them to us? Just one or two - I think that would give people a really good feel for [the book].

Sure. I'm especially fond of this one... and by the way, when I read these: first, I will give the word; then I'll give the part of speech; and then I'll read the definition. So this one is the word:

BONASUS, noun:

A mythical creature, described by the ancient Romans and often included in medieval bestiaries. The 'BONASUS' closely resembles a bull, but with its horns curled back toward its tail, because the horns are only for show. As the Roman naturalist Pliny wrote, 'the BONASUS has no way to deter predators, and will run away as soon as it is threatened. When it becomes panic-stricken, the bonuses spews immense quantities of flaming hot manure in its wake.' As the next stock market crash will show, the typical investor who believes himself to be a bull will turn out to be a BONASUS. Do not stand too close behind him.

That's one. And then another one from the B's would be:

BULL MARKET, noun:

A period of rising prices that leads many investors to believe that their IQ has risen at least as much as the market value of their portfolios. After the inevitable fall in prices, they will learn that both increases were temporary. See bear market.

I think I'll read one more, Shane. It's long, but it's fast.

We've got lots of time.

bull market
noun

A period of rising prices that leads many investors to believe that their IQ has risen at least as much as the market value of their portfolios.

Hindenburg Omen, noun:

An indicator in technical analysis that has predicted approximately 548 of the past three market crashes. It is calculated by establishing whether the daily number of new 52-week highs is no more than twice the daily number of new 52- week lows, then determining that the daily number of new 52-week highs and the daily number of 52-week lows is each at least 2.5%; or 2.8%; or 2.2%, depending on whom you ask, of the total number of stocks that either go up and down, if and only if 1) stocks overall are higher than they were ten weeks ago; and 2) the exponential moving average of the daily ordinal difference of advances, minus declines, over the past 19 trading days is less than the exponential moving average of the daily ordinal difference of advances minus declines over the past 39 trading days.

If you were able to read that in one breath, you are qualified to become either a pearl diver, or one of those people who read the disclaimers in automobile commercials on the radio.

For some peculiar reason, the Hindenburg Omen is named after a gas-filled blimp that exploded and burned in 1937.

[laughs] It's a great book. I encourage everybody to check it out.

Thank you!

In a world like that, what is the— I mean there's such an element, a kernel of truth to all of that as well, so what is the average investor to do? It's like you can't trust the people on TV; everybody has an incentive— not everybody, but a lot of people have an incentive that if it's hidden it goes against you, and even if it's overt sometimes it goes against you, and you're not necessarily aligned. What's the average Joe at home to do in a world like this?

I think you have to recognise a couple of things. One is that it's very difficult to separate good advice from bad, and ultimately you do have to take your own counsel. But you want to make sure that whatever you do is evidence-based. You know, there's— you talked with Michael Mauboussin about this, there's a huge tendency in American culture to trust intuition, probably more than we should, and so many investors will go with their gut without asking whether their gut knows what it's talking about. So while you should be sceptical of professional advice you're hearing or receiving, maybe sometimes for a fee, you also should be sceptical of yourself. The default position for any investor should always be to do nothing.

"The default position for any investor should always be to do nothing."

It doesn't cost anything to do nothing. You're not incurring fees when you do nothing; you're not incurring tax bills when you do nothing; and if you've already made a sensible plan, almost certainly the best thing for you is to stick with it.

You want to evaluate from time to time whether it makes sense, but any recommendation to take action has to be compelling enough to overcome the inherent, intrinsic advantage of just sitting there.

How should people think about risk in a world like that? Where I might not have all the information, and I might not have the base rates, or the context, or—

I kind of like the definition of risk in The Devil's Financial Dictionary. I'll read it to you... here it comes.

Risk, noun:

risk

noun

[I]t's the difference between what I think I know and what in hindsight will have turned out to be true.

The chance that you don't know what you are doing when you think you do. The prerequisite for losing more money in a shorter period of time than you could ever have imagined possible. Risk can be formally defined as the odds of an adverse or undesirable outcome. When the forecast is for an 80% chance of sunshine, for example, then the risk of rain is 20%. Or, as the extent to which extreme outcomes differ from the average. It has been philosophically defined by finance professor Elroy Dimson of London Business School this way: risk means more things can happen than will happen. In the end, risk is the gap between what investors think they know, and what they end up learning about their investments, about the financial markets, and about themselves.

I think the best way to define risk is exactly that: it's the difference between what I think I know and what in hindsight will have turned out to be true.

I love that.

And the best way to minimise that risk is not to be overconfident about the state of your own knowledge. Yes, base rates can be hard to surface, but you have to start with that as your premise. As Danny Kahneman has said many times, and again, Michael Mauboussin referred to this when he was on [The Knowledge Project] with you, the single most important question to ask to almost anything is: what is the base rate?

So as an investor, you're thinking about an IPO. Instead of letting somebody tell you it's the next Google, you have to ask yourself: what's the average of the experience of people who have bought IPOs? The answer is it's rotten.

It's terrible. So if you're going to buy the next Google, that would be great. But in fact what you're buying is the next IPO. It might be Google, but it might turn out to be similar to the 99% of all IPOs that basically didn't do very much for people, or hurt them.

That gives you almost a signal that you should [ask]: what is different about this one, and why would you think that? What gives you the confidence?

"If you can't come up with really strong answers to those questions, you should stay out."

The other thing that every investor should ask is— actually there are two other questions there that are helpful. One is: what do I know that the other people on the other side of the trade are unlikely to know; and two: why do I think I know more than they do?

If you can't come up with really strong answers to those questions, you should stay out. The last time individual investors could have a powerful, valid answer to those questions was during the 2008/09 crisis, when institutional investors were completely side-lined. Because they could not summon the liquidity, in the midst of massive redemptions from their clients, to step up and buy. And frankly, the smart money went to the side-lines, while the supposedly dumb money of individual investors, to a large extent, stepped up - not across the board, but many of them did buy.

There, what you could know, is that the person on the other side of the table from you was not in a position to buy, and you were.

Would you consider buying an act of hubris, where you're saying 'I know something you don't, and I'm right and you're wrong'? Unless there's some sort of mechanism like forced selling.

Yeah - I think it is an act of hubris, but so is buying and selling. Both are acts of hubris for investors. Trading is an act of hubris. The less you trade, the fewer opportunities for error you generate over time. It's very important for people to remember another thing that Benjamin Graham said. He wrote this in the summer of 1932, at the absolute rock bottom of the US stock market, in an essay - a guest article - he wrote for Forbes magazine. Graham said those with enterprise lacked the money, and those with money lacked the enterprise, to buy stocks when stocks are cheap. By enterprise, he meant something a lot like courage.

I've rephrased that for a modern audience as: the people who survive in a bear market - who thrive in a bear market - are the people who buy when no one else wants to. But that requires two critical ingredients. You have to have cash, and you have to have courage. If you have cash and no courage, or courage and no cash, you can't buy.

“I think the single most important attribute for an investor to succeed is temperament.”

And if you can’t buy at the bottom, you can’t add to the market return. You can’t outperform unless you have both cash and courage.

That kind of goes to Buffett’s point about temperament being more important than IQ in your ability to act. It would be interesting to go back and look at who are the money managers who acted with courage during that period, versus the ones who kind of pulled back, and use that as a kind of barometer to see how you could expect them to behave in the future.

I completely agree, Shane. I think the single most important attribute for an investor to succeed is temperament. Character. In the first edition of The Intelligent Investor in 1949, Graham was very specific. He said that when he chose the title ‘The Intelligent Investor’, he had a particular kind of person in mind.

Not someone with much higher than average IQ - although certainly you should be smarter than average. Not someone with an advanced degree or, necessarily, even a business degree. But what you do need is character. You need independence, scepticism, good judgement and courage. And also the ability to sense what the crowd is doing, and either to ignore it - if the crowd is moving against you - or to take it as a signal for what you shouldn’t be doing. I think the best investors are not un-emotional.

I think they’re inversely emotional. And you know very well the wonderful story that Carol Loomis told in 1988 about Charlie Munger, when he’s setting next to this woman at a dinner party in Los Angeles. She suddenly realises she’s sitting next to Charlie Munger, the billionaire partner of Warren Buffett, and she’s just desperate to ask him a question that will enlighten her on how to be a better investor.

So she says to him, ‘Oh, Mr Munger, what’s the secret to your success as an investor?’ And she sort of sits back, waiting for this long exposition. And Charlie sort of grumbles, ‘I am rational,’ and goes back to eating his salad.

I think it’s brilliant, it’s funny, it’s Charlie Munger all the way. But it’s incomplete. Because what the great investors are— they have a higher form of rationality, which is they take emotion and they turn it inside out.

This is what Buffett talks about when he uses that famous line about being greedy when other people are fearful, and fearful when [other people are being] greedy. But it’s harder than it sounds.

In the last speech that, I believe, he gave in his lifetime, Benjamin Graham had a wonderful throwaway line.

He was talking about his daughter-in-law, or his niece, and mentioned how she described him. He said, 'I really like this line she uses about me. She says I'm humane, but I'm not very human.'

A lot of the best investors have that touch of something on the autistic spectrum.

It's a little bit of detachment from other people's emotions that enables them to stand back and look and observe what other people are feeling and say: that's funny; why does feeling that way make sense? And that enables them to invert the prevailing emotional forces in the market, and turn [them] to their advantage.

People who knew Graham well - and he died when I was still in high school, so I never met him - but people who knew him well, and Buffett talks about this all the time, say that he was very kind to people, but it was really hard to get to know him.

When he repeated that line about being humane but not very human, it tells you that that really was one of the keys to his investing success. He was able to observe what other people were feeling, and almost like Spock in Star Trek, kind of observe it as an oddity.

That sounds like something we can learn, right? Even if we can learn it, it sounds very hard to do. Is it better for people to take what Buffett recommended, and do index funds; or do you think that it's better to put effort into trying to learn to be like that, and possibly detach yourself from being human a little bit, to make a more rational decision? How do you go about fostering more rational decisions?

Wow - what a profound question. Can people learn that? I think you can put policies and procedures into place, as you try to manage your investing life - and maybe your personal life - that can help you with some of that.

"You have to structure your life so that the things that tempt you into bad behaviour don't get surfaced in your stimuli."

Think about people with addiction problems: I don't want to over-simplify, because one of my best friends died of alcoholism, but if you're an alcoholic, you would be crazy to walk past the tavern, and say: I will demonstrate the willpower not to walk in. You can't do that. And you know you can't. So you walk on the other street.

And that's the kind of governor that people need to put on their behaviour. If you know that you have self-control problems, you have to structure your life so that the things that tempt you into bad behaviour don't get surfaced in your stimuli.

And that's very easy for investors to do.

If you know you have a tendency toward hyper-reactivity to red arrows pointing downward on stock market displays, then turn that website off. Unfollow that person on Twitter. Follow people who take a longer term perspective and aren't rattled by this kind of thing. Improve your mental hygiene.

You can't turn yourself into someone who's unemotional, but you can turn down the amplitude of your own emotions if you change what your exposures are.

I like that a lot. Switching gears a little bit here: if you were put in charge, and could enact laws, what would you change about the financial market? How would you run it differently to how it is run today?

Wow. That's the king-for-a-day question.

Let's say king for ten years - we'll take a little bit of a longer term perspective. I guess I'm just wondering about the imagination we have about what would we do, and what people should be thinking about. Should it be capital gains for stocks that you own for under 30 days that are taxed at 90%? How would you go about fostering a financial system that encourages longer term thinking, less manipulation, and less management insulation? These are from my perspective, so I'd love to hear yours.

I don't think there's a lot that I would change in regulation. I don't think the government is particularly good at imposing rules and structures that will help the situation.

A lot of the measures that have come out of the '[Nudge]' movement that was pioneered by Richard Thaler at the University of Chicago, and of course has Danny Kahneman and Amos Tversky's work behind it, and many others - those have been effective in a couple of areas. Particularly in retirement savings, where we have structured the defaults and we have enabled people to automatically escalate the amount that they save every year. And by harnessing people's inertia instead of letting it hurt them, which was the product of government action, I think that has helped a lot.

But it's hard to think of a lot more that can be done by government fiat. I think what we need is a much stronger sense of loyalty and trust in the markets between the people who provide advice and other financial services, and the people who consume them. It's very rarely talked about, but I think one of the most powerful psychological paradigms of the past 50 years is something called 'belief in a just world' theory.

"I think one of the most powerful psychological paradigms of the past 50 years is something called 'belief in a just world' theory."

If you know about it, Shane, you're one of the few people who do. And I see you sort of shaking your head, so I'm going to assume you know a little about it, but you haven't heard a lot, so...

"Part of being human is to live under all kinds of positive illusions."

Belief in a just world was a theory that was put forward by a psychologist named Melvin Lerner in the late 1960s. What he argued was that when you strip people of the illusion that the world is just, you change their outlook on just about everything. There's a simple way to think about it. Part of being human is to live under all kinds of positive illusions. There are lies we tell we tell ourselves that are good for us: they get us out of bed in the morning. We tell ourselves we're better at just about everything than we really are. We tell ourselves we process information more effectively than we really do. Along with that overconfidence, another positive illusion is a belief that the world is just. Nobody really seriously believes that good things always happen to good people, and bad things always happen to bad people. But we go through life as if they do most of the time. And if we're suddenly presented with a set of circumstances under which bad things reliably happen to good people, and good things predictably happen to bad people, it's very distressing. If you think about the contrast between the dot com crash of 2000–2002, and the financial crisis of 2008–09, it just couldn't be more striking.

In the late 1990s, millions of American investors did stuff that was reckless and stupid. And they knew it. They were told by the wisest financial minds that what they were doing was reckless and stupid. Their uncles told them. Jack Bogle told them. Warren Buffett told them. Every respected financial commentator said you can't day-trade stocks in your pyjamas when you know nothing about them, and end up buying a tropical island. People actually knew that it couldn't be. But what they all told themselves was: everyone's getting rich; I'll get rich and when it doesn't work anymore, I'll stop, and I'll get out before it's too late. In fact, many of them lost 95% of their money.

They were like Cinderella at the ball, right—

Exactly. And then it was nothing but mice. So people knew that it was their fault. It's not that the system was broken; it's that what they did was reckless.

'I did something stupid and there was a consequence to it—'

Exactly. 'I got what I deserved.' In 2008–09, many, many investors - not just in America but around the world - had learned to invest the right way. They diversified. They were patient. They kept their costs low. They didn't trade.

They listened to the wisest people in the financial markets, and they still - pardon my French - they got their asses kicked. We should all remember that between October 2007 and March 2009, the US equity market went down 57%. Five-seven. You had $100 at the beginning, and you had $43 at the end - when you did the right thing. So suddenly, people said: I trusted you. And that belief was shattered.

So people today are very sceptical, as they should be. And anything we can do to try to restore that trust and that sense that good things happened to good people, and if you're a good investor you'll get a good outcome, if you're patient - that's really important. And that's a very long way of saying that I what I would like to see more loyalty structures. I would like to see financial advisors saying to their clients: if you don't ask me to trade more than I think is good for you, I will put more fruit in your Christmas basket at the end of the year, and I'll also sign a contract with you that stipulates how I'm going to serve your best long term interest, with a lack of short term reactivity. I think there's a lot that the people who provide advice could do to make the people who receive advice feel more comfortable about their trustworthiness.

"I think there's a lot that the people who provide advice could do to make the people who receive advice feel more comfortable. "

I think that's a really interesting approach. It's not the one that intuitively came to mind when I thought of that question.

What do you think about what's going on in the private markets right now? You have Uber, which is purported to have $50bn valuation and losing $500m a year. It seems like the venture capitalists of the world are taking these companies further and further before becoming public. How do you think this all plays out? This unparalleled in history, right, where you have - that I know of - several billion dollar companies that are now private, that don't have a tonne of equity, that don't have— you know, it's all air, so to speak. Maybe it's fine; maybe it's not. But they will become public at some point - how does that play out when a $50–80bn dollar company becomes public and only floats $1bn of that, which everybody wants - which will then further drive up their market valuation.

I think, to some extent, just as the credit bubble was transferred from the private sector to the government sector, to some extent, the let's call it the 'technology' or 'sharing economy' bubble has been transferred from the public markets to the private markets. This is a huge shifting of risk. In some ways I think it's probably healthy, because now instead of the entire public being exposed to the risk of catastrophic decline, it's just a relatively small pool of venture capitalists - and of course their larger pool of institutional clients, including, perhaps [laughs] your pension fund. So in

“[I]t’s very hard for outsiders to have a transparent view of what really is going on.”

that respect it’s healthy.

But what I think is unhealthy is in some ways a smaller social circle of people all doing the same thing can be maybe more of a toxic breeding ground for excess enthusiasm than even a public market can, because they’re all talking to each other all day long. They golf together, they play basketball together, they sail together, they commute together. And it’s a self-reinforcing cycle that I think can get very dangerous and probably already has. The other aspect of it that’s complicated is that it’s very hard for outsiders to have a transparent view of what really is going on, or to know to what extent these companies are over-valued. It certainly feels bubbly.

They set their own valuations in a way, right?

They set their own valuations, and there’s also a disturbing wrinkle in that as a new round of capital comes in - that ramps up the valuation without accounting for dilution in the same way that you would with a public company. And I think that’s very poorly understood by the general public. The venture capital community, in my opinion, has been a little aggressive in promoting that. You know - it’s all a reminder of some disturbing signs that this is filtering through to the real economy - last week (and we’re talking in late August), the Wall Street Journal had an article about the million-dollar parking spot, and I think you have to be— I don’t know whether the right term is ‘ethically dumb’ or ‘ethically dead’ not to be bothered by this. If there are people who have so much money that they’re willing to pay a million dollars for a parking spot, something has gone wrong. It’s not wholesome for a society to have - and I’m not going to use the term inequality - but to have people to whom money is that dispensable. Money should be more valuable to people than that. If you need to pay a million dollars to park your car, something’s wrong with you. You’re living in the wrong place, you’re not thinking about the virtues of walking around the corner to where a parking spot costs you $500 a month, and something is dangerously wrong in your mind-set. It says something disturbing about society as a whole that somebody would be willing to take $1m and light it on fire that way.

I agree with you. But if anybody out there has that kind of money, there’s a donate button on the website to—

[laughs] If you have a million dollars to burn, and the best thing you can think of to do with it is to use it to have a place to put your car, something is just disturbingly wrong with you.

And one final thought on that, Shane - I think, like me, you're a fan of Fred Schwed's fabulous book, that he wrote in 1940, Where Are The Customers' Yachts? There's an unforgettable scene in that book where he describes the people commuting from Oyster Bay and the other very wealthy communities on the North Shore of Long Island into Penn Station to go down to work on Wall Street in 1929. He describes a bowl of nickels in that commuter car on the Long Island Rail Road. I wish I had the passage memorised, because it's so beautiful - he explains that to the millionaires who were riding on this car, the nickels weren't money. And bear in mind that a nickel in 1929 was worth 60–70¢ today.

At least - because that would buy a Coke, right?

Yeah. In today's terms, think of it as a bucket of dollar bills. And he says: to these millionaires, it wasn't money. If they needed a nickel for the subway, they took a nickel. If they had an extra nickel, they threw it in the bowl. And then he says: until one day, Jehovah, a wrathful god, happened to spy the bowl of nickels in the commuter car. And in a sudden fit of annoyance, kicked it over, and with it the entire United States financial system.

I don't believe in fate and nemesis and that sort of thing. But if you believe that there's some sort of god of financial justice, he - or should I say, she - is not happy hearing about people who pay a million dollars for their parking spot. And I think that's the 2015 equivalent of Fred Schwed's bowl of nickels. And when you antagonise the financial gods like that, you should not be surprised if something bad happens.

On that ominous note, I'm conscious of the time and I know you need to get going. I always end with the same three questions. So: what book has had the most impact on your life, if you could put one book?

If I had to talk about my financial—

Life in general; it doesn't have to be a financial choice.

Look Homeward, Angel
BY THOMAS WOLFE

Crime and Punishment
BY FYODOR DOSTOYEVSKY

Life in general. If I could only name one book, and of course you know me; you know I want to name about twenty - it would be Look Homeward, Angel by Thomas Wolfe, which is the book that I— I'm going to name two. Look Homeward, Angel and Crime and Punishment, by Dostoyevsky, of course, which were the two books I read when I was thirteen years old that made me want to become a writer, and that made me obsessed with writing. From the time I was thirteen until I was 25, I spent two or three hours every single day just writing to get better at it, and doing nothing but writing, regardless of what other responsibilities I had.

Those were the books that made me want to become a writer.

I remember reading Crime and Punishment actually; I had a hard time putting it down. The first time I read it it was so captivating that— usually those books of that size are intimidating to me.

It's an unbelievable book - sort of morally terrifying and compelling. Although I would probably like it less well today, Look Homeward, Angel is just a phenomenal work of prose, and you can read large passages of it out loud and people will stop what they're doing and listen.

I'll have to check that out - I haven't read that one. And what's currently on your nightstand? What are you reading now?

I have a funny nightstand. Other people put the latest book on their nightstand. My nightstand tends to have only books that I read over and over and over again.

Which are those?

The Complete Essays of Montaigne
BY MICHEL DE MONTAIGNE

Right now on my nightstand are The Complete Essays of Montaigne - you mentioned him before - that's, frankly, almost always there.

The Wisdom of Life
BY ARTHUR SCHOPENHAUER

A book of [Arthur] Schopenhauer's epigrams - The Wisdom of Life.

Sceptical Essays
BY BERTRAND RUSSELL

Sceptical Essays by Bertrand Russell, who was one of the best writers of the 20th century, as well as one of the clearest thinkers, and is a hero of Warren Buffett's.

A Mencken Chrestomathy
BY H.L. MENCKEN

And A Mencken Chrestomathy, which is the self-anthology that H. L. Mencken put together late in his life of what he felt was some of his best journalism. Mencken was one of the best journalists of the 20th century, although he had lots of personal faults, including being an appalling bigot. But I like to think we can learn from anybody with talent, and I just love the way he wrote.

His writing has been recommended to be before. He seems to keep coming up. Really sort of muscular, vivid, compelling writing. He never wrote a boring paragraph.

And finally, who would you like to see interviewed, if you could nominate somebody to come on the show and explore their brain a little bit?

In general, I think you should talk to— I'm going give you a general recommendation, and then a specific one that doesn't quite meet the description. In general, I think you should talk to old people.

I think in American society we have an unfortunate tendency to ignore people over the age of 75 or 80, when in fact they know so much more than younger people like us, and I think the collective wisdom of people in their 70s and 80s and 90s is massive, and under-appreciated.

But I'm going to name somebody who isn't that old, although he's older than me and you.

I'd love to hear you talk to Paul Slovic, whose name you probably know. Paul is a psychologist at the University of Oregon who runs a non-profit company called Decision Research, and Paul is arguably the world's most eminent authority on the perception of risk: why people think some things are riskier than others, why people are terrified of getting in an airplane when they drove to the airport with a cigarette in their mouth after having had two drinks, even though the probability of dying in a car crash even if you're sober—

On the way to the airport it's actually greater, right?

Yes. They're multiple times more likely to die getting to the plane than they are in the plane, but they're going to sit there in the plane with the white knuckles. Paul can explain that sort of thing just about better than anybody else.

Awesome, I'll try to hook that up. Listen, Jason, it's been fascinating talking with you. I really appreciate your time today. Thank you.

Shane, thank you so much.