Leithner Letter No. 194-195:
26 January-26 February 2016

In short, if you've failed at investing this far, it's not because you're stupid. It's because, like Sir Isaac Newton, you haven't developed the emotional discipline that successful investing requires. In Chapter 8, Graham describes how to enhance your intelligence by harnessing your emotions and refusing to stoop to the market's irrationality. There you can master his lesson that being an intelligent investor is more a matter of "character" than of "brain."

Jason Zweig
"Commentary on the Introduction"
The Intelligent Investor: A Book of Practical Counsel
by Benjamin Graham (2006)

The overwhelming majority of people are comfortable with consensus, but successful investors tend to have a contrarian bent. Successful investors like stocks better when they're going down. … In the stock market, people panic when stocks are going down, so they like them less when they should like them more. When prices go down, you shouldn't panic, but it's hard to control your emotions when you're overextended, when you see your net worth drop in half and you worry that you won't have enough money to pay for your kids' college."

Here's how to know if you have the makeup to be an investor. How would you handle the following situation? Let's say you own a Procter & Gamble in your portfolio and the stock price goes down by half. Do you like it better? … Do you reinvest dividends? Do you take cash out of savings to buy more? If you have the confidence to do that, then you're an investor. If you don't, you're not an investor, you're a speculator, and you shouldn't be in the stock market in the first place.

ValueWalk
Seth Klarman Resource Page

The Power of Stoic Thinking: Why Investors Welcome Panics, Crises and Bear Markets (Part II)

Besides contemplating the loss of your life, it's also sensible to consider the forfeiture of your possessions. Just as one day you and your nearest and dearest will part ways, so too will you and your assets, chattels and goods. Like your children, so too your portfolio, pension, house, etc.: whatever you might think and whatever secular law says, in a fundamental sense these things aren't really yours – they're merely temporary gifts that are here today and will be gone one day. Although they don't explicitly use the term, Stoics imply that we should regard ourselves as stewards or trustees rather than owners of wealth.

Non-Stoics think often about what they want but don't or can't have. To Stoics, this makes no sense. Instead, counselled Marcus Aurelius, we should appreciate what we have now and consider how much we'd miss it when it – or he, she or they – disappear. If we do, then in the long-term we'll not just appreciate these things more: we'll also take steps to reduce the likelihood of short-term loss. In *On the Happy Life*, Seneca exhorts us to celebrate life. But he also cautions that we not develop "over much love" for the things we enjoy. In particular, take care that you're "the user, but not the slave, of the gifts of Fortune."

A variant of this thought experiment is to consider the lives of our forebears. Because his thoughts usually outrun his circumstances, today's positive thinker likely isn't living *his* dream (which usually lies beyond his reach); but he's certainly living a dream vastly beyond his ancestors' imaginations. Not only did they somehow manage without Facebook, Netflix, smartphones and Twitter: like hundreds of millions of people elsewhere in the world today – they endured the risk of death during childbirth, high rates of infant mortality, relentless back-breaking labour, horrific accidents in the workplace, no antibiotics, periodic poor harvests and regular hunger. And most horribly, during the first half of the 20th century they endured almost continuous economic upheaval and war. For many of our forebears, simple acts which today we take for granted, such as eating an orange or a banana, were unimaginable luxuries.

What's the point of such an exercise? People are often anxious and dissatisfied because their desires – particularly their material longings – are insatiable. Rather than enjoy their extraordinarily good (compared to their ancestors) fortune, positive thinkers constantly devise new and grander dreams; as a result, their aspirations always exceed their current circumstances; consequently and paradoxically, they may well be less satisfied with their lot in life than were their forebears – or people today in relatively impoverished lands, who're much more thankful about far less.

Both ancient Stoic philosophy and contemporary psychology point to an alternative and counterintuitive – to the mainstream – approach: "the negative path to contentment." Albert Ellis, a psychotherapist who was based in New York and died in 2007, was a modern pioneer of the "negative path." He rediscovered one of the Stoics' key insights: sometimes the best way to navigate an uncertain future is to focus not on the bright side ("best-case scenario") but rather the sombre side ("worst-case scenario"). Assume that the worst will occur, ask yourself "then what?" contemplate how you'll cope and take concrete steps now to do so. If the worst actually occurs, it's likely that somehow you'll manage – for the simple reason that other people in similar circumstances have in the past done so, are doing so now and in the future will continue to do so.

More than two millennia ago, Seneca blazed the trail that psychologists are now rediscovering. If you greatly fear the shrinkage of your personal wealth, ignore today's zeitgeist – that is, don't babble "hairy and audacious goals," don't repeatedly affirm to yourself that you'll achieve them, and don't constantly try to assure yourself that you're great and that all will be well. Instead, imitate Seneca: "set aside a certain number of days, during which you shall be content with the scantiest and cheapest fare, with coarse and rough dress, saying to yourself [all] the while: 'Is this the condition that I feared?'" (see also Oliver Burkeman, "The Power of Negative Thinking," *The Wall Street Journal*, 7 December 2012).

The ability to manage uncertainty by pondering negative thoughts is not just the key to a more balanced life: it's a *sine qua non* of successful business, entrepreneurship and investment. In What Makes Entrepreneurs Entrepreneurial? Saras Sarasvathy of Darden School of Business at the University of Virginia interviewed 45 successful entrepreneurs, each of whom had floated at least one public company. Virtually none heeded the mantra of today's business schools: in particular, virtually none wrote business plans or conducted market research; and of those who did, half regarded these totems of MBA-speak as hindrances. *Rather than choose a goal and then devise a plan to achieve it, successful entrepreneurs realistically assess the means and materials at their disposal and then plausibly consider the possible ends to which they might put them.* They also practice what Sarasvathy calls the "affordable loss principle." They don't focus upon the slight possibility of the spectacular rewards that a venture might bring; instead, they ask how great would be the loss in the likely event that it fails. Only if the potential loss seems economically and psychologically tolerable do they proceed.

This "negative path" defies today's tyranny of upbeat babble. It's also unarguably realistic. After all, the future is unavoidably uncertain (or risky, depending upon your assumptions) and things invariably go wrong as well as right. Far too often we strive vainly to move heaven and earth in order to eliminate the inevitable disappointments and shocks from our lives. But try as we might, we cannot: life is inevitably full of positive events that we expect and negative ones that we don't. All of us are born, most of us mature, marry, raise a family, etc., and all of us age and die: but each life is different, and none unfolds without unfortunate surprises and misfortunes. Indeed, the biggest "negative" (to a modern and secular mindset) event of all is perfectly predictable.

Bearing in mind the certainty of our demise, might we not benefit greatly if – as Stoics urge – we contemplate it regularly and seriously? Steve Jobs famously declared: "remembering that you are going to die is the best way that I know to avoid the trap of thinking you have something to lose." However much we might applaud Woody Allen's attitude towards death ("I'm strongly against it …"), it's sensible, from the point of view of peace of mind, to accept rather than ignore or deny it. More than two thousand years ago, Stoics knew something that moderns have either blithely forgotten or emphatically deny: some immutable facts even the most resolutely positive thinking can't possibly alter.

Technique #3: Self-Denial and Mild Asceticism: Less Is More

Stoics strive to develop an *askēsis* (asceticism) that helps them to develop sound judgment – and thus serenity, liberty and prosperity. In this critical respect, Stoics anticipated Edmund Burke, who emphasised that liberty presupposes prudence and self-discipline, and that profligacy and self-indulgence beget serfdom. *Notice, then, that Stoics' conception of liberty is alien and inimical to the contemporary Western one (which regards "freedom" and "hedonism" as synonyms). In the words of Epictetus, "freedom is secured not by the fulfilling of men's desires, but by the removal of desire" and the fulfilment of duty. Wealth, he added, "consists not in having great possessions, but in having few wants"* (see also Jonathan Clements, "The Importance of Being Solvent," *The Wall Street Journal*, 12 July 2014).[1]

Seneca, in one his missives to Lucilius, recommended that we don't just idly contemplate the likelihood that at some point woes will betide us: we should sometimes act as if unfortunate events have actually happened. Stoics don't just consider how they'd feel and what it'd be like if they lost their wealth: they periodically "practice poverty." Specifically, Seneca advises that occasionally people should voluntarily subsist upon "the scantiest and cheapest fare" and upon "coarse and rough dress." In his *Lectures*, Musonius Rufus takes Seneca's recommendation a step further: besides living as if bad things have befallen us, we should sometimes actively cause bad things to happen to us. In particular, Stoics should seek avoidable discomfort. They might, Rufus suggests, underdress during cold weather, occasionally skip meals and sleep on hard beds.

People today, when they encounter such suggestions, recoil in horror: "Isn't the whole point of a good life to avoid misfortune and discomfort, seek good fortune and security – and above all let the good times roll? Unless its purpose is to vaunt one's alleged compassion, what on earth is rational about self-denial?" The Stoic would answer: "I willingly inflict discomforts upon myself not in order to punish myself or to solicit others' applause, and not because I enjoy discomfort *per se*, but rather to discipline myself and thereby to increase my enjoyment of life." According to Paul Veyne (*Seneca: the Life of Stoic*, p. 112), "a calm life is ac-

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1 In this context it's worth recalling the words of John Dahlberg-Action, 1st Baron Action (1834-1902). "Liberty" said Lord Acton, "is not the power of doing what we like, but the right of being able to do what we ought … Liberty is the prevention of control by others. This requires self-control and, therefore, religious and spiritual influences. … Liberty has not subsisted outside of Christianity" (see Roland Hill, *Lord Acton*, Yale University Press, 2000; see also Roy Porter, *Enlightenment: Britain and the Creation of the Modern World*, Allen Lane, 2000, especially Chap. 11).

tually disquieting because we are unaware of whether we would remain strong in the case of a tempest." As Seneca (echoing St Paul and St Timothy) put it: "so far … is [the sage] from shrinking from the buffetings of circumstances or of men, that he counts even injury profitable, for through it he finds a means of putting himself to the proof …" The wise man, in short, uses trials to bolster his virtue. To Stoics, self-imposed minor discomforts produce three benefits. First, they help to prepare us against the externally-inflicted (and worse) misfortunes that at some point will almost certainly beset us. If comfort is all we know, when we finally experience emotional or physical discomfort the experience may well be traumatic. Voluntary discomfort is thus a kind of vaccine: by exposing ourselves to a small amount of weakened virus (mild discomfort) now, we create some level of protection against a debilitating illness (severe discomfort) in the future.

A second benefit comes today rather than in the future. If I periodically subject myself to various minor discomforts, then I become confident that one day I will be able to cope with bigger and involuntary discomforts; accordingly, the certainty that I will experience loss and discomfort at some point in the future doesn't trouble me today. In that sense, it's sensible that I readily accept a small degree of temporary physical discomfort in exchange for a larger degree of lasting psychological ease. He who subjects himself to minor vicissitudes, says Musonius Rufus, trains himself to become courageous. In contrast, if I'm a complete stranger to (say) cold and hunger, today I'm likely to dread the likelihood that I experience these things one day – or, worse, delude myself by mocking the poor and dismissing from my mind the likelihood that I'll ever join their ranks. Under these conditions, I'm physically comfortable but psychologically anxious.

Why should I willingly subject myself to minor discomfort? A third reason is that it will help me better to appreciate the many blessings I experience daily; it might also increase my compassion for – and willingness directly to assist, rather than merely and pointlessly "increase awareness of" – the poor and disadvantaged. It's nice to enjoy a warm and dry room on a cold and rainy day; but if I really want to enjoy it, then I should first take a walk whilst dressed for warm and sunny weather. Similarly, I'll enjoy the beer and the steak all the more on a Sunday if I abstain from drinks and red meat during the week; and I'll better appreciate the luxury and convenience of a car if from time to time I walk (particularly in the rain, snow and wind) take the bus or train, etc.

Technique #4: Forego Trivial Occasions to Experience Superficial Pleasure

Stoics don't just advise that we expose ourselves to minor discomfort: they also recommend that we forego opportunities to experience some pleasures. This is because certain desires have a sinister side. Specifically, the pursuit of these pleasures, Seneca warns, is like pursuing a wild beast: unless we're very careful it can attack us. Craving of the flesh "uses no open force," says Diogenes, "but deceives and casts a spell." It "hatches not a single plot but all kinds of plots, and aims to undo men through sight, sound, smell, taste, and touch, with food too, and drink and carnal lust, tempting the waking and the sleeping alike." Pleasure, "with a stroke of her wand … coolly drives her victim into a sort of sty and pens him up …" The capture of desire, Seneca warns in *On the Happy Life*, is illusory: the more pleasures a man amasses, "the more masters he will have to serve."

Seneca advises that we regularly abstain from indulgences such as a rich dessert after a meal – secondarily because we should avoid obesity and primarily because we should train ourselves to exercise self-control. If we lack discipline, then the many pleasures that life offers won't merely distract us: they'll enslave us. If we can't resist desires and exercise self-control, says Marcus Aurelius, we'll twitch like a puppet at every pull of somebody else's string, "ever grumbling at today or lamenting over tomorrow." To avoid this fate we mustn't allow the apparent pleasures of today and the consequent real pains of tomorrow to overwhelm our capacity to reason. We must learn, as Marcus – who anticipated St Paul – put it, to "resist the murmurs of the flesh."

As he lives his daily life, then, for the sake of the development and maintenance of his self-control, the Stoic sometimes does things that discomfort him (such as exercise in inclement weather) and at other times foregoes simple pleasures (such as drink a beer in the pub after work). *Yet Stoics don't oppose pleasure per se. Rather, they oppose the unbridled indulgence of the senses at the expense of the pursuit of reason.* In other words, skip the beer after work with your mates and take your daughter for a walk in the park.

Stoics anticipated the Christian insight that money *per se* is not the root of all evil: the love of money is. There's nothing wrong – indeed, there's everything right – with friendship and family, which a house and garden can host, a meal can nourish and which wealth (by purchasing plane tickets, etc.) can facilitate; at the same time, Stoics counsel that self-control must guide our pursuit of pleasures of the flesh. A line, albeit indistinct, distinguishes the enjoyment of a meal and gluttony, the enjoyment of a beer or two and inebriation, etc. *What, then, distinguishes the Stoic's from the modern man's (i.e., hedonist's) conception of pleasure? The modern man seeks it, and when he finds it embraces it and lets it dominate him, whereas the Stoic keeps his distance and chains it to his reason.* Further, modern man regards pleasure and its pursuit as the highest good whereas the Stoic doesn't even regard pleasure *per se* as a good. Accordingly, whereas modern man will unthinkingly lift heaven and earth for the sake of pleasure, the Stoic will consider it carefully before lifting a finger.

Stoics readily concede that, by definition, it takes effort to exercise discipline, self-control and willpower. This exercise typically entails discomfort. Stoics hasten to add that the abandonment of self-control, too, takes effort and – eventually begets much greater discomfort. To modernists it's paradoxical: the abandonment of self-control often requires more exertion and always produces more discomfort than does its exercise. Consider, says Rufus, all the time, physical and emotional energy and money that people expend in order to conduct adulterous affairs: that's time, energy and money that, if only he possessed self-control, the adulterer could devote to rational ends. In *On Anger* Seneca observes that "chastity comes with time to spare; lechery has never a moment."

Technique #5: Don't Envy the Materially Wealthy – Pity Them

How much wealth should you seek to accumulate? Seneca (*On Tranquility*) recommends "an amount that does not descend into poverty, and yet is not far removed from poverty." Here, it seems, he ignored his own advice, and thus exposes himself to the charge of hypocrisy. To the extent that these things are knowable (biographical details about major figures of the ancient work are usually scanty, and Seneca is no exception), he was immensely wealthy. Indeed, he was a prototype investment banker who amassed a huge fortune not least because he invested in the financial undertakings he helped to arrange. Further, given his prominent role in the politics of first-century Rome, it's likely (records are too scanty to hazard more than a guess) that Seneca "earned" his money the bad old-fashioned way: as an insider and inside-trader.

Seneca stands upon firmer ground – and seemed to practice what he preached – when he observes that it's entirely possible to earn a very good living but lead a very poor life. Indeed, he suggests that high living can exacerbate or even cause bad living. For this reason Seneca advises that we restrain our own luxury, cultivate frugality and "view poverty with unprejudiced eyes." He acknowledges, in effect, that a man can only wear one pair of pants, drive one car and occupy only one bed at a time. Hence he asked in a letter of consolation to Hilvia: "is it not madness and the wildest lunacy to desire so much when you can hold so little?" Seneca also advises that each of us – whatever our wealth and income – live well within our means. In another of his letters to Lucilius, he reckons that "the [poor] man who adapts himself to his slender means and makes himself wealthy on a little sum, is the truly rich man." Similarly, Ben Graham remarked to Warren Buffett: "money won't make any difference to you and me, Warren. We'll be the same. Our wives will just live better" (see Roger Lowenstein, *Buffett: The Making of an American Capitalist*, Random House, 2008, p. 254).

So how much wealth should you seek to accumulate? Stoics as a whole advise only so much that will not corrupt your reason and virtue – and no more.[2] *Everybody should seek financial independence as a means to inculcate virtues, but nobody should pursue a fortune for the mere sake of riches.* Every couple should live within their means throughout their working lives, and use the lion's share of their savings over the decades to accumulate a portfolio of investments that will sustain them at a reasonable standard of living in their dotage and provide a modest estate for their children. What's a modest estate? It's enough to finance a vocation but is insufficient to subsidise leisure. (The other portion of the couple's savings should during their working lives help to finance worthy charitable causes of their choice. And if you walk, take the bus and skip dessert, etc., often enough, it'll be much easier to generate the savings that beget charitable contributions.) Everybody, in other words, should do his best, subject to the inevitable vicissitudes of life, to live within his own means so that he doesn't have to live within

[2] It's worth noting that different Stoics answered this question very differently. Epictetus and Musonius tended towards the view that even a minimal exposure to opulence would corrupt you; Marcus and Seneca, on the other hand – and perhaps not surprising for an emperor and investment banker/politician – thought that it's possible to inhabit a castle without succumbing to vice.

others' means – whether charitable donors' means or taxpayers, which these days effectively means other people's children's means.

Seneca clearly appreciates this paradox: although the Stoic doesn't pursue wealth, more often than not it finds her. A Stoic will strive to make himself as useful as possible – that is, will strive to provide a good or service that others desire. Stoics' self-discipline may thus enable them to accumulate more wealth than is necessary to finance a reasonable standard of living. Hence another paradox which didn't escape Seneca's attention: the frugal and enterprising habits of the Stoic, who's indifferent to wealth, are likely over the years to render him wealthier than the non-Stoic whose principal goal is to get rich quick.

What if a Stoic, despite his indifference to riches, becomes wealthy? The first point is that the non-wealthy should neither worship nor emulate or despise the rich: they should ignore them; and if they can't, they should pity them. Why? *Because many people who by conventional standards are wealthy – and also great numbers who aren't but wish to impress others that they are – are in one vital respect poorer than paupers: they have lost the ability to appreciate the simple pleasures of life.* The hungry aspiring novelist happily rents a dilapidated one-bedroom flat and at dinner savors macaroni cheese and a glass of tap water. But after his novel becomes a best-seller and he becomes famous, he buys a big house in a prestigious suburb. He also buys a lavish holiday house, consumes ever more opulent food and drink – and comes to boast that, as a connoisseur, he's unable to enjoy anything but the very best. Unfortunately for the wealthy, the law of diminishing marginal utility doesn't just ensure that money fails to beget happiness: it also conspires to make considerable numbers of wealthy people miserable.

People who adopt indulgent lifestyles are rarely satisfied – at any rate, their luxurious surroundings rarely sate their material desires. Experiencing luxury merely whets their appetite for ever bigger – and often gluttonous – helpings. Hence Seneca warned Lucilius: "you will only learn from such things [extravagances] to crave still [more]." This is because self-indulgence clearly isn't rational or an ethical; it's not, in other words, what our Creator created us to desire. Water when we're thirsty and food when we're hungry are natural desires. As such, these basic wants we can relatively easily sate. But the desire for ever greater luxury, which is an unnatural desire, can never be quenched. Hence Seneca advises: any-time you desire something, ask yourself: is your desire natural or unnatural? If it's unnatural, think long and hard before you try to satisfy it.

Unless you're alert, Seneca warns, wealth will use her wiles to outwit your virtues and feed your vices. First she prompts you to desire things that are inessential, then things that are frivolous, and finally things that are injurious to yourself, your family and others. Before long, the mind becomes the slave of the body's insatiable appetites. Those who crave luxury, like those who commit adultery, must typically expend ever growing – and soon considerable and eventually exhausting – amounts of time and energy in order to attain it. Those who eschew extravagance, on the other hand, can devote this time and energy to simple, rational and ethical ends.

Stoicism, Seneca wrote to Lucilius, "calls for plain living, not penance." Nobody, whether he's rich or poor, should squander his wealth. Specifically, the wealthy should neither renounce nor disparage their wealth; and the non-wealthy should either ignore or pity the rich but not despise riches *per se*. What, then, to do? Keeping firmly in mind that one day both she and it will disappear, and that using it to finance a lavish lifestyle will likely corrupt her character and make her miserable, the wealthy person should use her wealth to benefit others – particularly the less fortunate.

Technique #6: Money CAN Make You Happy – If You Donate It to Worthy Causes

Warren Buffett provides an excellent example. On several occasions he has expressed his belief that in a market economy certain talented people (and merely lucky people) will earn outsized rewards. But these rewards should not glorify the egos of the talented and lucky:

> I [Buffett] don't have a problem with guilt about money. The way I see it is that my money represents an enormous number of claim cheques on society. It's like I have these little pieces of paper that I can turn into consumption. If I wanted to, I could hire 10,000 people to do nothing but paint my picture every day for the rest of my life. And the GDP would go up. But the utility of the product would be zilch, and I would be keeping those 10,000 people from doing AIDS research, or teaching,

> or nursing. I don't do that though. I don't use very many of those claim cheques. There's nothing material I want very much. And I'm going to give virtually all of those claim cheques to charity when my wife and I die (cited in Janet Lowe, *Warren Buffett Speaks: The Wit and Wisdom of the World's Greatest Investor*, John Wiley & Sons, 1997, pp. 165-166).

Buffett's children will inherit only a miniscule proportion of his immense wealth. He once commented, "I want to give my kids just enough so that they would feel that they could do anything, but not so much that they would feel like doing nothing" (Charlie Rose, "An Exclusive Hour with Warren Buffett and Bill and Melinda Gates," 27 June 2006). In June 2006, Buffett pledged to donate the vast bulk of his enormous fortune to charity. Specifically, he would eventually donate 83% of it, then worth approximately US$30.7 billion (today it's closer to ca. US$70 billion), making it one of the largest charitable donations in history, to the Bill & Melinda Gates Foundation. Each July since July 2006, the BMG Foundation has received 5% of Buffett's total pledge. (Significantly, Buffett's pledge is conditional: beginning in 2009, each year the Foundation must contribute to various charitable purposes an amount that's equal or greater than (1) the value of the previous year's gift from Buffett and (2) 5% of the Foundation's net assets.[3]

Benjamin Graham Was a Stoic; Value Investor Have Stoic Attributes

Benjamin Grossbaum came into this life in 1894 as a Briton; Benjamin Graham left it in 1977 as an American. He was born into Judaism but grew into Stoicism. In his autobiography (*Benjamin Graham: The Memoirs of the Dean of Wall Street*, McGraw-Hill, 1996), he recalled that he "embraced stoicism [by which he meant Stoicism] as a gospel sent to him from heaven." The main components of his "internal equipment" included a "certain aloofness" and an "unruffled serenity." His immersion in classical literature, mathematics and philosophy – Columbia University offered him academic posts in all three fields, which he declined in order to work in Wall Street – he once remarked, helped him to view financial markets and matters "from the standpoint of eternity, rather than day-to-day."

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[3] See "The Birth of Philanthro-capitalism" (*The Economist*, 23 February 2006) and Carol Loomis, "Warren Buffett Gives Away His Fortune" (*Fortune*, 25 June 2006).

Graham's son said of his father: "Maybe people who go into investing are especially well-suited for it [as he was] if they have that distance or detachment."[4]

Graham as a "Stoic Contrarian"

Graham didn't propose that a stereotypically stoic – that is, cold and unemotional – temperament is a necessary condition of success as an investor. He did, however, imply that the investor should strive to be "inversely emotional" (the term is Jason Zweig's rather than Graham's; see "If You Think Worst Is Over, Take Benjamin Graham's Advice," *The Wall Street Journal*, 26 May 2009). Neither in the specific context as an investor nor in the broadest setting as a parent, partner, employer-employee, etc., can or should you stifle all of your emotions. But as an investor, Graham emphasised, you should reason – that is, neither enthuse nor panic – your way to the valuation of individual securities and overall markets.

The more you do so, the greater is the degree to which you'll attenuate precisely those passions (in this term's Stoic sense) that the crowd perversely regards – particularly towards the crest of a boom and the nadir of a bust – as "good." These passions – recall our definition – include impulsive buying or selling, suspension of doubt and disbelief, unbridled optimism (during the boom) and black pessimism (during the bust), following the herd (up during the boom, down during the bust), etc. *Moreover, the more you control these passions the more you'll develop and recognise as virtues those attitudes and behaviours that the crowd typically regards as "bad."* These include prudence, independence of thought and action, doubt of authority, willingness to ignore and defy the crowd, etc.

Graham showed that the emotions and actions that the crowd mistakenly regards as desirable and profitable are actually – as Stoics understood long ago – self-destructive passions and vices; similarly, the mindset and conduct that the crowd wrong considers risky are in fact conservative. In particular, it's typically *good* news when the prices of stocks – including those you own – falls; and if

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4 The quotations appear in Jason Zweig, "If You Think Worst Is Over, Take Benjamin Graham's Advice," *The Wall Street Journal*, 26 May 2009. We should add an important caveat: before the Great Depression, Graham was no Stoic; the Depression turned (perhaps "pushed" is more accurate) him towards Stoicism.

their prices rise, it's generally *bad* news. How did Graham justify this recasting of reactions to events? "Basically," he said in an oft-quoted but seldom appreciated passage of *The Intelligent Investor*,

> Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies.

As a Stoic, Graham was indifferent to – but nonetheless alert to the opportunities presented by – markets' short-term ups and downs. A sudden and sharp decrease of prices provides an opportunity to buy more stocks at cheaper prices. Under these circumstances, the chance rises that the value of what you receive exceeds the price you pay. An substantial increase of prices, on the other hand, mitigates and perhaps precludes this opportunity – and thus increases the risk that the price you pay exceeds the value you receive. "If you are shopping for common stocks," he counseled, "choose them the way you would buy groceries, not the way you would buy perfume."

From the 1930s to the 1970s, Graham steadfastly resisted the often volatile, usually unpredictable and always seductive mood swings of "Mr Market" – his metaphor for the attitudes and actions of the mass of speculators who erroneously regard themselves as investors. The longer and the further the prices of stocks and bonds rise, he observed, the more confident (and eventually euphoric) Mr Market tends to become. As a result, investors become overconfident, trade too much and tend to bet too heavily upon particular stocks or market sectors. Conversely, the longer and further the prices of stocks fall, the more despondent (and eventually depressed) market participants become. At both extremes of valuation they abandon reason, embrace passion – and thereby succumb to vice. Graham almost invariably regarded the crowd's enthusiasm as a yellow caution light (and sometimes as a flashing red light); equally, he took heart from their dashed expectations and regarded their misery as a sign of hope. Hence his contrarian counsel: investors should zig when the crowd zags, and *vice versa*.

Graham's Stoic ability to recast and indeed invert his emotions and reactions – that is, to become "inversely emotional" – helped him to detect when the crowd's opinions and actions had become extreme. Late in 1971, for example, he counseled caution – just before the worst bear market in decades. At its nadir, in mid-1974, he delivered a speech entitled "Renaissance of Value" (republished in *Barron's* on 23 September 1974 and in Janet Lowe's book *The Rediscovered Benjamin Graham* in 1999). In that address he correctly forecast a period of "many years" during which "stock prices may languish." Then he startled his listeners: low prices are good rather than bad news: "the true investor would be pleased, rather than discouraged, at the prospect of investing his new savings on [the] very satisfactory terms [prevailing during a bear market]." Graham's conclusion disconcerted his audience even further: investors worthy of the name would be "enviably fortunate" to benefit from the "advantages" of a long bear market.

The investor, in short, must strive to ensure not just that his reason masters his emotions; he must also be inversely emotional. Graham successfully practiced what he preached: but can the average investor become Stoic enough to imitate Graham? In some contexts, Graham wasn't sure; in others, he stated forthrightly that he didn't think so. One example summarises his view. When markets are ebullient, commentators often assert – typically without reasoning or evidence – that "buy and hold is dead."[5] In particular, a growing number assert that dollar-cost averaging is foolish.[6] Asked in 1962 if dollar-cost averaging could ensure long-term investment success, Graham wrote: "such a policy will pay off ultimately, regardless of when it is begun, provided that it is adhered to conscientiously and courageously under all intervening conditions." However, the practitioner must

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5 See for example Thomas Kee, "No Time for Buy and Hold" (*WSJ MarketWatch*, 1 August 2011); Jake Zamansky, "The Death of the 'Buy and Hold' Investor" (*Forbes*, 5 July 2012); Jason Zweig, "Why Buy and Hold Feels Dead" (*The Wall Street Journal*, 7 November 2012); and Charles P. Wallace, "Why Buy and Hold Doesn't Work Anymore" (*CNNMoney*, 2 March 2012). Further, Lubos Pastor of the University of Chicago Booth School of Business and his colleagues have alleged that buy and hold may *never* have been a viable investment strategy. On the other hand, see also Ian Wyatt, "Buy-and-Hold is Dead … Long Live Buy-and-Hold" (*Yahoo Finance*, 24 June 2013) and Mark Hulbert, "Buy and Hold Wins Again" (*WSJ MarketWatch*, 19 July 2013).

6 Dollar-cost averaging is the process whereby the saver-investor automatically saves and then invests a fixed dollar amount every month, or quarter, etc., and resolutely retains his holdings through the thick of market advances and the thin of declines.

"be a different sort of person from the rest of us … not subject to the alternations of exhilaration and deep gloom that have accompanied the gyrations of the stock market for generations past." He who dollar-cost averages must be (perhaps unconsciously) Stoic. But can he? "This," Graham concluded, "I greatly doubt."

We shouldn't interpret this conclusion negatively. It doesn't mean that *nobody* can resist the crowd's passions. If anything, Graham is optimistic: *some* people can. Even better, and as Warren Buffett stressed in his Foreword to *The Intelligent Investor*, the adoption of Graham's philosophy, temperament and operations doesn't require great intelligence. *Only some people can adopt Graham's mindset and methods because just a few can be bothered to try; but if you put your mind to it, Graham implies, it's more likely that over time you'll invest successfully.*

To become an intelligent investor, you must cultivate what Graham called "firmness of character." By this phrase he means the Stoic fortitude and self-control that's necessary to defy Mr Market when his moods become extreme – that is, both when stocks are unreasonably dear and when they are unduly cheap. When stocks are expensive, you must ignore the crowd's optimistic behavior (namely its overconfidence and frenzied purchases) and either sit tight or sell; and when stocks are unreasonably cheap, ignore the crowd's pessimism – particularly its panic-stricken sales – and either sit tight or buy. Just as Stoics resorted to reason to overcome passion, Graham emphasised the ability, through analysis, cautiously to estimate the value of individual stocks and overall markets.

Several disciplined approaches to investment, of which "buy and hold" is one, tend strongly over the long term (that is, ten years or more) to generate decent results. The difficulty is not the particular approach *per se*: the problem is that over the short term – that is, over periods of less than five years – investors constantly switch from approach A to B to C, and then back to B and A, etc. Since 2000, for example, a buy-and-hold approach has required that investors suffer through one mark-to-market loss of 30-50% (in 2001-2003) and a second MTM loss (in 2008-2009) of approximately 50%.

Over the very long-term (20 or more years), buy-and-hold investors have fared well – particularly when they've combined buying-and-holding with the astute selection of stocks. But for many, the short-term losses of the past decade have been intolerable. These losses have caused "investors" to abandon the buy and hold approach at exactly the wrong time (i.e., towards the nadir of a bear market). In John Hussman's words ("The Road to Easy Street," 22 July 2013),

> Just as day follows night, buy-and-hold strategies reach the peak of their popularity at market tops, because those are the points where every effort in recent memory to sell or reduce risk has apparently failed. Conversely, buy-and-hold strategies are most reviled at bear market troughs, when the full weight of losses is felt. I have no argument at all with investors whose strategy adheres to a disciplined buy-and-hold, diversified across asset classes, over the full course of the market cycle. In contrast, I have great concern about investors who discover buy-and-hold at the top, and adhere to it only long enough to abandon it at the bottom. The most important part of a buy-and-hold discipline is the commitment to remain passive even as it experiences massive interim losses. Look, kid, I never said this was easy. The road to easy street runs through the sewer.

Of Ancient Banishments and Modern Bear Markets

As punishments for a variety of offences, real and supposed, Roman emperors regularly exiled some their subjects. Stoic philosophers were highly likely to suffer banishment. Of the four which I've cited most (Marcus Aurelius, Epictetus, Rufus Musonius and Seneca), only Marcus avoided exile – but then, an Emperor is hardly likely to banish himself! Epictetus and Seneca were exiled once and Musonius twice. Other and less prominent Stoics also endured exile; and at least two caused such offence that their rulers executed them.

Stoics weren't particularly subversive – Emperors routinely banished and executed philosophers of all descriptions, and indeed people from most walks of life. *A Stoic's attitude towards banishment resembles Benjamin Graham's attitude towards a real or apprehended bear market.* It's true, acknowledged Seneca in his letter *To Helvia*, that his exile deprived him of his friends, family, property and favour of his Emperor. And it's true that a bear market can deprive you of wealth you mistakenly believed was yours. *Equally importantly, however, exile could not deprive Seneca of his – and a bear market cannot deprive you of your – most valuable possessions:*

reason and virtue. If before our banishment (or if during the bull market) we are virtuous, then exile (the bear market) cannot harm us. If before our banishment we aren't virtuous, on the other hand, then exile will deprive us of what we mistakenly regard as valuable. Only if we lack virtue, said Epictetus in his *Discourses*, will banishment make us miserable. Seneca added: "it is the mind that makes us rich; this goes with us into exile, and in the wildest wilderness, having found there all that the body needs for its sustenance, it itself overflows in the enjoyment of its own goods."

In his *Lectures*, Musonius contends that exile – and by extension a bear market, recession, etc. – can change people for the better. Banishment usually obliges people to curtail their indulgent and luxurious living, and has thereby often improved their health. So, too, it seems, have financial bear markets and economic slumps.[7] Exile has also transformed ordinary people, such as Diogenes of Sinope, into philosophers. *If it prompts him to understand the errors of his ways and to repent for his financial sins, the bear market might be just what's required in order to transform the speculator who mistakenly thinks he's an investor into a genuine investor.* Seneca spent his time in exile reading, writing and studying. Graham participated in the bacchanalia of the late-1920s, lost heavily in 1929-1932 and spent his "exile" from fame and fortune writing *Security Analysis* (1934).

Graham and His Acolytes as "Stoic Optimists"

Stoics recognised that few people could become sages; similarly, Graham was pessimistic regarding everyman's ability to master his passions. Should we there-

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[7] According to Jose A. Tapia Granados and Ana Diez Roux, economic depressions increase longevity more than diet or exercise do. Life expectancy during the worst years of the Great Depression increased from 57.1 years in 1929 to 63.3 years in 1933. It didn't matter whether you were male or female, or black or white; and it didn't matter if you resided in the U.S. or in Spain, Japan or Sweden. By contrast, life expectancy declined during boom years. For most age groups, "mortality tended to peak during years of strong economic expansion (such as 1923, 1926, 1929 and 1936-1937)," they wrote in the September 2009 issue of *The Proceedings of the National Academy of Sciences*. Conventional wisdom holds that recessions are times of stress. Moreover, people can't afford to eat properly, go to the doctor, etc. Hence they should drop dead sooner. Instead, they live longer. Perhaps as the economy crashes, people live at a more comfortable pace. Maybe the unemployed get more sex and sleep. We don't know. But if you want to live an extra six years, a slump is apparently your best friend. For personal as well as economic health, it seems that nothing beats a depression!

fore conclude that he was a pessimist with respect to the individual's ability to manage his financial affairs? I don't think so. Stoics denied that everybody could become a sage; equally clearly, they affirmed that anybody – if he (or she) put his mind to it – could become more virtuous. *Similarly, although Graham in effect denied that anybody could invest as well as he (or his most famous and successful acolyte, Warren Buffett) could, he readily acknowledged that anybody – if he was willing to put his shoulder to the wheel – can invest more successfully.*

"Stoic optimism" has another facet. In "Can the Dow Go Lower? I Hope So" (*The Wall Street Journal*, 20 November 2008) Jason Zweig described it:

> Let's get this straight, folks. I'm not an optimist or a bull, at least not the way most investors usually use those terms. I would not be a bit surprised if the stock market fell another 20% or so from here. But stocks are already on sale – and further markdowns are good news, not bad, for anyone who is not retired or about to be. *Since most of us have many years of saving and investing ahead of us, it is in our best interests for the fire sale to last longer and for the discounts to get deeper.* As risky assets keep getting cheaper, we get to buy them at prices low enough to take most of the risk out of the equation [italics added].

Warren Buffett has expressed similar sentiments. In Berkshire Hathaway's *Annual Report* (1997), he described this inverted form of optimism:

> A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.
>
> But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they

> will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.[8]

Zweig continued:

> If the history of the financial markets and the psychology of investing have anything to teach us, it is that present emotion and future returns are inversely correlated. Today's feelings of pain and fear are the building blocks for tomorrow's wealth. Eras of good feeling are terrible times to buy stocks. The corollary is that perceived risk and actual risk tend to be polar opposites.
>
> When did your house feel like the safest investment? Just as its appraised value hit an all-time high, of course. The Dow felt safe when it was at 14,000, and it feels risky as hell now that it is clinging to the edge of 8,000 with its fingernails. That's perceived risk: low when prices go up, and high when prices go down. You feel it in your guts and your bones. The pain of seeing every dollar you had in stocks get bashed down to 60 cents screams out to you that stocks have never been riskier. But your perception of risk is a lousy indicator of the actual presence of risk. The Dow was vastly more dangerous at 14,000 than it is around 8,000. Most of the risk of holding stocks has been wrung out of them by their fall in price. … So far as I'm concerned, those are reasons to be cheerful. I'm not a Pollyanna optimist; I guess I'm the Cassandra kind. So, if I am an optimist, it's not because I see stocks ris-

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[8] In his letter to shareholders (2012), Buffett wrote:

> "The logic is simple: If you are going to be a net buyer of stocks in the future, either directly with your own money or indirectly (through your ownership of a company that is repurchasing shares), you are hurt when stocks rise. You benefit when stocks swoon. Emotions, however, too often complicate the matter: Most people, including those who will be net buyers in the future, take comfort in seeing stock prices advance. These shareholders resemble a commuter who rejoices after the price of gas increases, simply because his tank contains a day's supply."

ing any time soon. It's because I have already seen them falling before our very eyes.

Conclusion: "This, Too, Shall Pass"

Investing simply isn't, as Jason Zweig sagely puts it on p. 229 of *The Intelligent Investor*, "about beating others at their game. It's about controlling yourself at your game." It's much more like golf than tennis. Hence "A disciplined stoicism, or some approximation of it, is the most effective psychological posture as an investor" (see Martin Conrad, "The Money Paradox," *Barron's*, 31 December 2011). Graham's Stoicism, particularly with respect to the inevitable – and sometimes sharply downward – fluctuations of securities and markets, is easy to understand but difficult to practice: prepare calmly for the worst; then, whatever happens, maintain an unruffled attitude. Whether or not you approach it Stoically, your results as an investor stem primarily from your principles and processes and only secondarily from your intelligence and formal education. *Investors worthy of the name, in other words, don't "target returns" – instead, they pursue certain virtues. In particular, they seek true assumptions, valid logic and reliable evidence; and they know that actions that stem from these virtues will, over time, beget good results.*

Stoics show that if you adopt a sound set of philosophical, spiritual and other principles to guide your actions, decision-making becomes relatively straightforward, calm and rational: to choose among the options available to you at a particular point in time, you identify and select the one that's most likely to attain the goals that your philosophy emphasises. On the other hand, if you possess neither a philosophy of investment nor a belief system of life, then – particularly during panics and bear markets – emotion rather than reason will guide your thoughts and deeds, you'll likely be unaware of your options, your choices will become fraught and will probably alter in response to each change of the wind. Under these circumstances, your results will likely exacerbate your initial difficulties. Ultimately, be it in investing or life more generally, we all pursue what – mistakenly or otherwise – we regard as truly valuable. But only some do so consciously; and only a few have carefully considered what they seek.

Chris Leithner