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Pieces of Eight

Raam P Gokhale
“This planet has - or rather had - a problem, which was this: most of the people living on it were unhappy for pretty much of the time. Many solutions were suggested for this problem, but most of these were largely concerned with the movement of small green pieces of paper, which was odd because on the whole it wasn't the small green pieces of paper that were unhappy.”— Douglas Adams

“As much money and life as you could want! The two things most human beings would choose above all - the trouble is, humans do have a knack of choosing precisely those things that are worst for them.”— J.K. Rowling

“Making money isn't hard in itself... What's hard is to earn it doing something worth devoting one's life to.”— Carlos Ruiz Zafón

**Scene & Players:** Raam is having a monologue with himself. His alter-egos are Ram who is Indian and Ron who is American. Raam, as we know from his novel, *Am I Still Me?* has his foot in both camps. And a word about the scene: we may have to imagine this is a dream in order to make the three alter-egos more real. Paradoxical is it? Well, as you should know by now, we love paradoxes. Paradoxes and puns, though now that I think of it, aren't they the same thing?

**Ram:** A dream dialogue with yourself—didn’t Plato do that in The Meno?

**Ron:** I thought Plato was Greek. ‘Me--no?’ sounds like just the perfect English title for a schizo monologue to me.

**Raam:** Ha Ha…don’t make fun of Plato! As the one doing the writing, if you’re too flip, I have the power to exclude you from the dialogue.

**Ron:** You could no more do that than exclude yourself.

**Ram:** Cut it out you two! As the only veteran of Raam’s dialogues here, I guess it’s up to me to explain the ground rules. We start with the title: did you know ‘pieces of eight’ dates from 1497 and comes from the Spanish coins worth eight *reales* that were the first instance of a truly global currency? Today I suppose we have ‘coined’ a new one: 'bit-coins'.

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*Pieces of Eight*

*A Monologue About Money and Markets*
Ron: I thought pieces of eight was a reference to the card game...you know? Crazy eight? As in this is positively certifiable? But seriously, the quotes make it clear: the dialogue is to be about money.

I guess now that you’ve exhausted nearly all established philosophical subjects, you have to invent a new one, or, lest God forbid, keep quiet.

Raam: Well the pursuit of money so dominates the common man’s thoughts as to warrant philosophical comment. And certainly philosophers from Mill to Marx, not to mention prophets from Jesus to Mohammed, have all had a say about man’s proper relation to money given their understanding of the human condition.

Ram: Perhaps this is a good point to mention your qualifications for this task. I mean your background as an actuary.

Ron: I can vouch for us. We’ve worked with actuarial firms—even had business cards—under both names, Raam and Ron.

Raam: That’s right. And I would like to start by considering two sub-subjects that formed a core of our training as actuaries, namely investments and insurance or, as I like to call them, the carrot and the stick, respectively. The actuarial exams we passed—though we didn’t pass them all—include these if you recall.

Ron: Be careful you don’t bite the hand that feeds you.

Ram: Here in India, no company feeds us. We get disability benefits from America's social security, a great program I wouldn't dream—even dream within a dream—of 'biting'. In fact, with healthcare reform a reality, I’m looking forward to the 'safety-net' being even greater, more inclusive with even wider benefits.

Ron: Oh yeah? Where’s the money going to come from?

Raam: From the mint naturally! The Federal Reserve, like the Reserve Banks of most countries, is actively working to devalue the currency to make exports more attractive and to pay down without too much austerity, the acquired national debt. It can do this because inflation is everywhere so low. It is low because the aging of the baby boomers has made people unwilling to pay higher prices as age will do, while the rise of globalization and the information age has given them the means to always seek out lower-cost alternatives.

Ram: You were going to talk about investments and insurance, both of which for me are currently at a very low level. But for some odd reason we like
confirmation on our chosen path rather than correction though correction if it’s truly needed is almost by definition more effective in the long run. As I’m no exception in this regard, I’m eager to hear you inveigh against these ‘carrots and sticks’ as you call them, both of which no longer sway me.

**Raam:** Well, my point is that though financial advisors try to sell us both, investments and insurance are really opposites, so that if one is advisable the other surely is not.

**Ram:** What do you mean?

**Ron:** I think I know. The expected value of investing in the stock market is at 8% higher than the expected value of the alternatives which include putting your money in the bank. But the risk of not investing as measured by its variance is small compared to the risk of investing, there being little variation in the expected returns of other investments.

This is the opposite of the situation with insurance. The expected value of buying insurance is negative because the premium is set equal to the expected value plus a load for expenses, company profit, commission for agents and so forth. But the risk of not insuring is supposed to be high, untimely, unprepared for death being a calamity for the deceased’s family.

So you can say investing and buying insurance are decisions with opposite characteristics. And financial advisors notwithstanding, if one is advisable the other cannot be.

Have I got you?

**Raam:** You seem to know me as well as I know myself.

**Ron:** Hmm...interesting point. I would only add that their opposing characteristics have since the middle of the last century led people away from traditional life insurance to other schemes like buying term and investing the difference to products that decouple the insurance element from the investment element--like universal and variable life--to doing away with insurance altogether like our father, promoting self-insuring over any insurance product in spite of or perhaps because of having worked in an insurance company all his life.

On the whole I agree with him: insurance and investments are opposites as you say and insurance is a bad decision, investment is a good one.
Ram: Your endorsement of investments may be more due to your enjoyment of the 'money-honeys' on CNBC than any sound reason. The 8% expected value of investing in the stock market needs to be qualified. The 8% doesn’t reflect the market-timing risk that most people fall prey to. Specifically, 8% may be the expected value if our decisions of when to buy and when to sell were truly random. But this is seldom the case. In fact watching shows like CNBC only exacerbates our tendency to buy when the market is up and sell when it is down, both of which usually prove to be precisely the wrong decision.

That’s why they say you have to be a contrarian investor as contrasted with a normal or average investor. But how is the average investor supposed to be different from average, or how can everyone be urged to be different from the herd since everyone composes the herd?

Ron: Yeah, yeah, investing is a zero-sum game...for every winner you have a loser. Nothing new there.

Raam: The situation is actually far worse: for every winner you have many, many losers. This is because the zero-sum game concept really applies on a buck to buck level not on an investor to investor level. Though you have one losing buck for every one winning buck, the situation is different if we consider the small investor and the institutional investor. Institutional investors are the winners with big bucks to research, manipulate and accurately time the market. To zero-sum-match the invested sums of the institutional investor you need the invested sums--small yet dear--of many small investors. That’s why while investing is a zero sum game buck to buck it is rigged against small investors considered on a size of investments basis--i.e. small investor vs. big investor.

Ron: Couldn’t you 'tie your boat' to an institutional investor by going the mutual fund route?

Raam: Large sums of money are not really fungible if parts of them can move in and out independently. So your shares in a large mutual fund stay your small shares and as such they don’t qualify for the best investment advice money can buy. Or put another way, why would a broker charge you only 2% for advice that is worth as much as 8%? They may charge you less because money obtained through brokerage fees are a sure thing as compared to the risks associated with the 8% return on the market. But then it is still a calculated decision on their part. They charge less because you bear the market risk; the advice is charged at the rate that they expertly determine it is worth and it is worth what they expect to earn at the stock market adjusted for market risk.

(a pause follows during which Ron is visibly irritated)
**Ram**: This might be a good time for an amusing paradox. Here’s one I thought up the other day: for every stock fewer people own it than not own it. Now suppose that stocks have an expected return of 8%. We have to ask if that’s a good thing. I submit it isn’t because for every stock since more people don’t own it than own it, more people are losers when it goes up than there are winners.

**Ron**: How do you mean they are losers--just because they don't gain anything?

**Ram**: Oh it’s more tangible than that. If wealth increased by 8% than prices of goods usually follow suit. In the long run we may say if the wealth of the few owners increases by 8%, the purchasing power of those multitude that don’t own the stock would decrease.

**Raam**: But not by 8% right?

**Ram**: True but since the law of diminishing returns holds, people are, and should be, more sensitive to any declines in purchasing power than to any increases, especially if the increases of the few are purchased at the cost of the admittedly smaller decreases of the many.

**Ron**: I know...the argument is really an argument to own more stocks, diversify as they say. If more people own a stock than not own it, there would be more winners than losers.

**Raam**: That’s harder than it sounds. When you consider the whole market of stocks, national and international, all derivatives of those etc., it’s really hard for more people to own a majority of stocks than not own it.

**Ram**: Actually if you have two stocks you really have an infinite universe of possible investment choices because ‘derivatives’ consisting of weighted average of the two with the weights possibly being negative to include shorts, are always a potential investment choice.

**Raam**: Good point: it seems there will always be an infinite set of investment choices that one didn’t make. At any rate the point of the paradox is that the stock market amplifies and contributes to unequal wealth distribution and that point is already made less controversially by our buck-to-buck zero-sum game argument.

**Ron**: OK wiseguys! If investing in stocks isn't the answer, what can one do to preserve wealth against inflation?

**Ram**: Oh that boogeyman. The fear of inflation like that of depression deserves a comment made famous by FDR, "The only thing we have to fear is fear itself."
Vendors raise prices, workers demand raises because they fear declining purchase power and that causes inflation. If we didn't fear declining purchase power, we wouldn't have declining purchase power.

**Ron:** Oh c'mon. people demand more money also because they want to get ahead in this world. Even in times of low inflation like now people will continue to demand more wealth. Or as our common economics teacher was fond of quoting Keynes, "Man's desires are insatiable."

**Ram:** Oh how I used to hate that quote and the way that teacher used to pronounce it. And who could forget his recurring illustration of it with the so-called mink-covered toothbrush? Man's desires are quite satiable: all everybody wants as Americans say is a wife, a car, a dog and that house with the white picket fence.

**Ron:** That's Madison Avenue and from personal experience I can testify they can make us want whatever they want to sell, even a mink-covered toothbrush.

**Raam:** Hmm...Madison Avenue...Mad Men, the series...no, that's too easy a pun. Anyway that makes me think of the issue of capitalism vs. communism, a debate as old as Rome's battle between the populares which promoted the interests of the masses and the...the...I forget the party that promoted the interests of the landed gentry. Anyway that's been the familiar historic option throughout the ages; in America you have the democrats and the republicans; in India it's the congress and the BJP. Only now people all over the world have gotten tired of both. That's why you have mass movements all over the world like the Arab spring; in America it's the Tea Party and in India, it's the AAP or Aam Admi Party.

**Ram:** It's interesting. We called the choice between investment and insurance the carrot and the stick. But doesn't that decision sound a lot like the choice between capitalism and communism to sum up the thesis/antithesis/synthesis historical-contemporary list 'Raam' alluded to?

This is where the point about the incompatibility of investment and insurance because of the opposing expected value and risk characteristics of the two seems relevant. The wealth acquisition goal of investment is like capitalism and the law of averages based protection of insurance is like communism. But logically speaking, if ~(P&Q) then (~P&Q) or (P&~Q) or (~P&~Q). But we must be careful not to make room for possibilities which can't exist. If there are only two choices possible, i.e. if Q is really ~P then we have P or ~P or P&~P. But the last is impossible. Similarly the Arab Spring movements whether confined to Araby or
not may simply be anarchy which is no government when clearly some government is necessary.

Ron: Oh God not anarchy! Isn't the boogeyman of inflation enough?

Raam: You're funny Ron. But seriously this is where the Hegelian thesis/antithesis/synthesis distinction that came up, though I never thought much of it, may be relevant. I should say I never thought much of it because the labels thesis/antithesis/synthesis give no illustration of the kinds of ideas which are supposed to be in conflict. Myself, I prefer Aristotle's order of consulting endoxa or reputed opinions by seeing which are held by a majority of common people on the one hand and the so-called experts on the other. If knowledge is power Aristotle's dichotomy should remind us of communism and capitalism respectively with majority rule as the decision procedure being like democracy.

Ram: Interesting: so we have a characterization of Hegel's thesis and antithesis in terms of the power knowledge confers whether it's based on common sense or expert opinion. I guess Aristotle's first preference being given to common opinion and his view of scientific knowledge as an extension of common sense, at least when it comes to paradox resolution would make him a commie...though his views on the inherently slavish nature of barbarians and women is as anti-commie as you can get. We should go easy on Aristotle though: he was a product of his time and he's been beat up enough about this.

I'm curious where do you see Hegel's synthesis in all this?

Ron: Didn't we say synthesis was the Tea Party, Arab Spring or whatever?

Raam: We did and that brings up Hegel's observation that the synthesis becomes the new thesis inspiring its own antithesis and new synthesis. I'm reminded here of George Will's comment that in American politics third parties periodically spring up but are eventually absorbed by one of the two established ones.

We see this in India too: the AAP's anti-corruption stand is being championed now because of AAP's unexpected success by both the congress and the BJP. But in the long run consulting public opinion by means of polls on every issue is basically populism. Thus it is no accident that they've allied with the congress which is the most populist in the sense of anti-sectarian party.

Ron: Remember the actuarial exams people. It's not enough to state the case for all the viewpoints. You must finally make some recommendation.

Raam: It's funny. Even when in the dialogues we published in Philosophy Pathways, we proposed a concrete solution to a philosophical problem, the
editors usually prefaced the dialogue by saying that as all viewpoints are discussed, the dialogue makes a useful introduction to the subject, though in the end no decisive solution is offered. I always felt a bit patronized by these comments.

**Ron**: Isn't that the nature of dialogue? Or am I missing something?

**Ram**: No Ron is right, not W-Ron-g. Remembering Ron favored investments while I would incline more in favor of insurance, perhaps he can be the capitalist and I the communist with you Raam being the democratic decision procedure.

**Ron**: No wait: I'm changing my views about investments. I, like America, should be the decision procedure.

**Ram**: Remember there are two major democracies in the world: America, the most powerful democracy and India, the most populous democracy. So as the spelling of my name is most Indian, I have to weigh in on me being the decision procedure.

**Raam**: Yeah, yeah, everyone wants to be the decision procedure. But we can't all be can we?

**Ron**: Hey I know this is starting to sound like the conclusion but we never did discuss the last quote. What was it? We should make money doing something worth devoting our life to?

**Ram**: That reminds me of a dilemma I first posed to our mother. Should we do that which we're good at since that is what we're designed for or should we do what we're not good at to improve ourselves. As I told our mother, the answer is we should do both.

**Ron**: Hey, getting fair wages for doing what we're good at sounds a lot like communism's 'From each according to his ability'. And the struggle to constantly improve ourselves is like the U.S. army's 'Be All You Can Be' campaign. Do I hear communism and capitalism again? I guess we can't escape Philosophy Pathways rap on us about not offering any one solution...

**Raam**: Actually communism's complete slogan is 'From each according to his ability and to each according to his need.' We all have a need to improve ourselves and governmental social security programs for retirement, unemployment, and disability should provide the means to pursue such worthy goals. So communism, or socialism--to use the terms as they've come to be understood rather than as Marx defined them--allows for regions of improvement through competition over the stagnation of state-run enterprises.
So perhaps Marx had it backwards: history doesn't proceed from capitalism to socialism to communism but from capitalism to communism to socialism--thesis/antithesis/synthesis.

This is just like Aristotle's ranking of reputed opinions makes room for both the equality of common sense and the recognition of expert opinion. That is common sense intrinsically defers to expert opinion on some level...that's part of common sense.

**Ram:** Ha, ha. It sounds like women want equality but they also want their men to be strong. Sorry I couldn't resist.

**Ron:** Now that sounds like a conclusion.