

The Grammar of Risk

October 19, 2018 by Rusty Guinn



Butch: Alright. I'll jump first.

Sundance: No.

Butch: Then you jump first.

Sundance: No, I said.

Butch: What's the matter with you?!

Sundance: I can't swim!

Butch: <laughing> Are you crazy?! The fall will probably kill you!

– *Butch Cassidy and the Sundance Kid* (1969)

Now, I'm going to love you Till the heavens stop the rain I'm going to love you Till the stars fall from the sky for you and I.	Not even the Gods above Can separate the two of us No, nothing can come between You and I
<i>Touch Me, by the Doors</i> (1969)	<i>You & I, by One Direction</i> (2013)

Oh yeah, well, I'd rather die Without you and I.	Ain't nobody in the world but you and I.
<i>You and I, by Lady Gaga</i> (2011)	<i>You and I (Nobody in the World), by John Legend</i> (2013)

Between you and I darlin', Nothin' could get better baby.	As long as I got you As long as I got me As long as we got you and I.
<i>Between You & I, by Jessica Simpson</i> (2006)	<i>You and I, Kenny Rogers</i> (1983)

I saw a funny little poll earlier this week from Bloomberg Opinion writer Noah Smith. "Which do you think," it asked, "is correct grammar?" It then provided readers with two options:

- "Come with Bob and I"
- "Come with Bob and me"

Nearly one-fifth of what one would presume is a reasonably literate bunch picked the wrong answer. But this error is unlike the many other common language gaffes. You know the ones I mean. They're/their/there. It's/its. These are the kind of mistakes that are usually the result of someone simply not knowing what's correct. Or forgetting. Or not caring.

But "come with Bob and I" isn't the result of ignorance or indifference. **It is the result a lesson badly taught and badly learned.**

You see, there is no more present problem for elementary and middle school English teachers than the rampant misuse of the objective first-person pronoun in a series. In other words, just about every kid in America grows up saying, "Me and my friends are going to the park!" I am not sure why it is that every school and in America is so laser-focused on this quirky usage, which is far too ubiquitous and colloquial at this point to stamp out. Say it in a school in America, and it will be corrected. Every time. Which is probably fine, I guess.

And it would be fine, except that the lesson inevitably becomes part of a recurring lesson plan on using nouns and pronouns in a series. Students are hammered year after year with "Jack, Jill, and I" exercises that unintentionally reinforce the idea that what matters is using the first-person subjective/nominative when referring to yourself in a series, and to always put yourself last. The latter lesson is utter hogwash, and the former lesson is fine as far as it goes – that is, until it becomes clear that most young English speakers have internalized a non-existent relationship between series of nouns and the subjective/nominative 'I'. That's how we end up with the lyrics to all those songs that will now set your teeth on edge every time you hear them.

You're welcome. Since I'm already wielding this power, you now also have the Kars-4-Kids jingle in your head.

The confusion about 'I' is also one of the clearest examples I know of to describe what happens when you learn or teach people the *answers* to questions, instead of the *process* by which they will find answers in the future.

By the way, Happy Black Monday anniversary. You know, the day that we read opinion and feature articles about *what went wrong* and *what lessons we learned*?

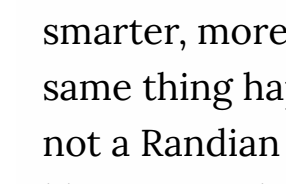
One or more of the pieces usually turns into a brief survey-of-crashes piece. *Here's an intro to those portfolio insurance products back in '87. Here's what LTCM did just a decade later. Here's a summary of the 2007 quant meltdown. Here are the proximate causes of the Global Financial Crisis.* After this, you will learn about the actions that investors took to ensure that those things couldn't happen to their portfolios and strategies again. *We introduced this new risk measure. We stopped buying this kind of product. We sold this fund that didn't work right during the crash. We stopped trusting computer models to run our money. We fixed this faulty assumption in our model.* Finally, you will learn about the scary parallels today. *Program trading! Trade disputes with Asia! Risk-targeting asset allocation strategies built around correlation estimates!*

If you don't know what I'm talking about, stop and find a hedge fund that publishes stress tests with their quarterly fact card or investor deck. Talk to them about how those stress tests are conducted. Then come back to this note when your brain asks itself, "Wait, you mean they're just telling me what their current positions would do if every asset performed *exactly like it did* in that event 30 years ago?"

These are *answers*. They aren't just not useful. They have negative value. They make you see ghosts. They waste your time. They prevent you from taking what are perfectly prudent steps to diversify, hedge and get the right level of risk in your portfolios. So in celebration of this anniversary and the opportunities it affords to learn lessons badly, let me instead offer a heuristic and a process I learned from Brad Gilbert, Matt Strube and Todd Centurino, my friends and former colleagues on the hedge fund team at Texas Teachers. It has served me well.

- Leverage**
- Illiquidity**
- Concentration**

You can almost always get away with one. You can almost never get away with three. In a normal market you can handle two. In a bad market you can't. I've been toying with adding **Abstraction** to my little list, but it's tough to measure. This is the grammar of risk. These – not algorithms, not derivatives, not some specific mix of news events that matches a prior crisis, not some other lesson badly learned – are what will blow you up.



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Mark Kahn
 When I read Ben's first piece "Epsilon Theory Manifesto," I recognized that I had stumbled onto a smarter, more-educated, more-thought-out, more-systemized version of my thought process. The same thing happened when I first read Ayn Rand (please stay with me for a few seconds more). No, I'm not a Randian acolyte; no, I don't buy it whole, but Rand had thought deeper and harder about libertarian ideas than I ever had [or will] and had built a philosophical theory to support her particular interpretation – like Ben had about risk, narratives, human interactions and evolution and how all those things... [Read more](#) »

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Stuart Spector
 well said...

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Rusty Guinn
 We've learned from you, too, Mark, fellow-laborer at the oars. Never a rider!
 And for what it's worth, the evidence of oligarchic power that my hours of conversations of Ben have made evident to me has poked the only hole in my otherwise fairly consistent libertarian ethic.

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Mark Kahn
 Thank you sir – it's more than a bit intimidating to think of one as a fellow oarsman with you and Ben. I view my libertarianism as a strong lean – a philosophical tilt toward what, overall, I believe is moral and works, but not a dogmatic ideology that has all the "answers." I feel the same way about capitalism (just the economic system of libertarianism) – it works better than other systems – beat, beat, beat – most of the time, in most situations, with the "right" rules, regs and laws in place. While this drives my libertarian and... [Read more](#) »

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