

HAPPY SUNDAYS

“In my whole life, I have known no wise people who didn't read all the time — none, zero” - Charlie Munger

Every Sunday, I share my favorite reads of the week with you. These are usually based on highlights from books I read. Reading allows me to find answers to questions about purpose, love, money, relationships, family, health and everything in between. I collect these insights. Now I am sharing them with you. This condensed 15-minute email is the result of at least 10-hours of reading and writing. I hope it makes you healthier, happier and more peaceful.

This week's stories come from the book [Skin in the Game: Hidden Asymmetries in Daily Life](#).

MY SUMMARY OF THE BOOK

Ergodicity. The Lindy Effect. Scientism. Minority Rule. Bob Rubin Trade... there is so much in this book that I spent the last week reading, re-reading and highlighting what I learnt from Nassim Taleb. There are 37 insights that I gathered. There is no way I can do justice to what is in the book so I highly recommend that you buy it and read it all. While the headlines of each insight are written by me, everything else which follows are highlights from the book. I try to share these insights in as few words as possible.

1. SKIN IN THE GAME BALANCES ASYMMETRIES

If we do not decentralize and distribute responsibility, it will happen by itself, the hard way: a system that doesn't have a mechanism of skin in the game, with a buildup of imbalances, will eventually blow up and self-repair that way. If it survives.

Things designed by people without skin in the game tend to grow in complication (before their final collapse).

2. BEWARE OF ADVISORS WHO SHARE NO DOWNSIDE

Avoid taking advice from someone who gives advice for a living, unless there is a penalty for their advice.

Hammurabi's best known injunction is as follows: “If a builder builds a house and the house collapses and causes the death of the owner of the house—the builder shall be put to death.”

One of the top salesmen at the firm, a man with huge charisma who came to work in a chauffeured Rolls Royce, was once asked whether customers didn't get upset when they got the short end of the stick. “Rip them off, don't tick them off” was his answer. He also added, “Remember that every day a new customer is born.”

3. THE SILVER RULE IS BETTER THAN THE GOLDEN RULE

The Golden Rule wants you to “Treat others the way you would like them to treat you.” The more robust Silver Rule says “Do not treat others the way you would not like them to treat you.”

“Conduct yourself toward your parents as you would have your children conduct themselves toward you.”

Don’t give crap, don’t take crap. Start by being nice to every person you meet. But if someone tries to exercise power over you, exercise power over him.

4. SUCCESS IS LIVING AN HONORABLE LIFE

Honor implies that there are some actions you would categorically never do, regardless of the material rewards. She accepts no Faustian bargain, would not sell her body for \$500; it also means she wouldn’t do it for a million, nor a billion, nor a trillion.

And it is not just a via negativa stance, honor means that there are things you would do unconditionally, regardless of the consequences.

What matters in life isn’t how frequently one is “right” about outcomes, but how much one makes when one is right.

5. DO NOT GET AN ASSISTANT

One of the best pieces of advice I have ever received was the recommendation by a very successful (and happy) older entrepreneur, Yossi Vardi, to have no assistant. The mere presence of an assistant suspends your natural filtering—and its absence forces you to do only things you enjoy, and progressively steer your life that way.

6. ARROGANCE DEMONSTRATES SKIN IN THE GAME

Products or companies that bear the owner’s name convey very valuable messages. They are shouting that they have something to lose.

Showing off is reasonable; it is human. As long as the substance exceeds the showoff, you are fine. Stay human, take as much as you can, under the condition that you give more than you take.

7. THE RISK TAKERS ARE NOT YOUR PROFESSORS

Remember that the heroes of history were not classicists and library rats, those people who live vicariously in their texts. They were people of deeds and had to be endowed with the spirit of risk taking. To get into their psyches, you will need someone other than a career professor teaching stoicism.

8. YOU NEED SOUL IN THE GAME

I write because that's what I am designed to do, just as a knife cuts because that's what its mission is, Aristotle's *arête*—and subcontracting my research and writing to China or Tunisia would (perhaps) increase my productivity, but deprive me of my identity.

So people might want to do things. Just to do things, because they feel it is part of their identity. A shoemaker in Westchester County wants to be a shoemaker, to enjoy the fruits of his labor and the pride of seeing his merchandise in the stores, even if his so-called "economic" condition might benefit from letting a Chinese factory make the shoes and converting to another profession. Even if such a new system allows him to buy flat-screen TV sets, more cotton shirts, and cheaper bicycles, something is missing. It may be cruel to cheat people of their profession. People want to have their soul in the game.

If you can't put your soul into something, give it up and leave that stuff to someone else.

In that sense, decentralization and fragmentation, aside from stabilizing the system, improves people's connection to their labor.

9. MAXIMAL-TRANSPARENCY IS THE BEST POLICY

"If a man knowingly offers for sale wine that is spoiling, ought he to tell his customers?"

It may not be ethically required, but the most effective, shame-free policy is maximal transparency, even transparency of intentions.

10. KEEP THINGS SMALL, DIFFERENTIATED AND THEN COOPERATE

There is a limit—from scaling—beyond which the rules cease to apply. It is unfortunate, but the general kills the particular.

The physicist and complexity researcher Yaneeer Bar-Yam showed quite convincingly that "better fences make better neighbors"

Putting Shiites, Christians, and Sunnis in one pot and asking them to sing "Kumbaya" around the campfire while holding hands in the name of unity and fraternity of mankind has failed.

You know instinctively that people get along better as neighbors than roommates.

That is what plagues socialism: people's individual interests do not quite work well under collectivism.

11. TAKE MEDICINES ONLY WHEN YOU'RE SEVERELY ILL

Now can one make medicine less asymmetric? Not directly; the solution, as I have argued in *Antifragile* and more technically elsewhere, is for the patient to avoid treatment when he or she

is mildly ill, but use medicine for the “tail events,” that is, for rarely encountered severe conditions. The problem is that the mildly ill represent a much larger pool of people than the severely ill—and are people who are expected to live longer and consume drugs for longer—hence pharmaceutical companies have an incentive to focus on them. (Dead people, I am told, stop taking drugs.)

12. IT IS THE MINORITY THAT CHANGES THE WORLD

“Never doubt that a small group of thoughtful citizens can change the world. Indeed, it is the only thing that ever has,” wrote Margaret Mead.

Only a few people suffice to disproportionately move the needle. All one needs is an asymmetric rule somewhere—and someone with soul in the game.

13. UNDERSTANDING THE PARTS DOES NOT MEAN YOU UNDERSTAND THE WHOLE

Understanding the genetic makeup of a unit will never allow us to understand the behavior of the unit itself. A reminder that what I am writing here isn’t an opinion. It is a straightforward mathematical property.

The record is insufficient, and such asymmetry needs to be permanently present in one’s analysis.

Under the right market structure, a collection of idiots produces a well-functioning market.

Leave people alone under a good structure and they will take care of things.

14. FREEDOM IS NEVER FREE. THERE ARE ALWAYS RISKS INVOLVED.

In the famous tale by Ahiqar, later picked up by Aesop (then again by La Fontaine), the dog boasts to the wolf all the contraptions of comfort and luxury he has, almost prompting the wolf to enlist. Until the wolf asks the dog about his collar and is terrified when he understands its use. “Of all your meals, I want nothing.” He ran away and is still running. The question is: what would you like to be, a dog or a wolf?

Another aspect of the dog vs. wolf dilemma: the feeling of false stability. A dog’s life may appear smooth and secure, but in the absence of an owner, a dog does not survive.

Employees abandoned by their employers, as we saw in the IBM story, cannot bounce back.

Freedom entails risks—real skin in the game. Freedom is never free.

Freedom is always associated with risk taking, whether it leads to it or comes from it. You take risks, you feel part of history. And risk takers take risks because it is in their nature to be wild animals.

You can define a free person precisely as someone whose fate is not centrally or directly dependent on peer assessment.

15. THE MORE YOU HAVE TO LOSE, THE MORE FRAGILE YOU ARE

What matters isn't what a person has or doesn't have; it is what he or she is afraid of losing.

People whose survival depends on qualitative "job assessments" by someone of higher rank in an organization cannot be trusted for critical decisions.

It is no secret that large corporations prefer people with families; those with downside risk are easier to own, particularly when they are choking under a large mortgage.

16. FREEDOM FROM FAMILY AND FRIENDS IS UNREALISTIC

Intellectual and ethical freedom requires the absence of the skin of others in one's game, which is why the free are so rare. I cannot possibly imagine the activist Ralph Nader, when he was the target of large motor companies, raising a family with 2.2 kids and a dog.

Institutions are employees—vulnerable, reputation-conscious employees.

To be free of conflict you need to have no friends. Which is why Cleon was said to have renounced all of his friendships during his office.

17. RECIPROCITY IS A GOOD RULE TO ENSURE SKIN IN THE GAME

The rule should be: You kill my family with supposed impunity; I will make yours pay some indirect price for it.

"If the architect built a house and the house subsequently collapses, killing the firstborn son of the master, the firstborn son of the architect shall be put to death." The individual as we understand it today did not exist as a standalone unit; the family did.

The only way we have left to control suicide-terrorists would be precisely to convince them that blowing themselves up is not the worst-case scenario for them, nor the end scenario at all. Making their families and loved ones bear a financial burden—just as Germans still pay for war crimes—would immediately add consequences to their actions. The penalty needs to be properly calibrated to be a true dis-incentive, without imparting any sense of heroism or martyrdom to the families in question.

18. SACRIFICE AND RISK TAKING SIGNAL SKIN IN THE GAME

Life is sacrifice and risk taking, and nothing that doesn't entail some moderate amount of the former, under the constraint of satisfying the latter, is close to what we can call life. If you do not undertake a risk of real harm, reparable or even potentially irreparable, from an adventure, it is not an adventure.

19. HAVING RICH PEOPLE IN PUBLIC OFFICE IS BETTER THAN HAVING PUBLIC PEOPLE BECOME RICH

Rich people in public office have shown some evidence of lack of total incompetence—success may come from randomness, of course, but we at least have a hint of some skill in the real world, some evidence that the person has dealt with reality. This is of course conditional on the person having had skin in the game—and it is better if the person felt a blowup, has experienced at least once the loss of part of his or her fortune and the angst associated with it. As usual, there is a mix of the ethical and the effective here. It is downright unethical to use public office for enrichment.

A good rule for society is to oblige those who start in public office to pledge never subsequently to earn from the private sector more than a set amount; the rest should go to the taxpayer. This will ensure sincerity in, literally, “service”

20. TIME WILL JUDGE WHETHER YOU REALLY HAD SKIN IN THE GAME

Who will judge the expert? Who will guard the guard? Who will judge the judges? Well, survival will. For time operates through skin in the game. Things that have survived are hinting to us ex post that they have some robustness—conditional on their being exposed to harm.

Things work 1) if those who have been doing the doing took some type of risk, and 2) their work manages to cross generations.

21. THE PARADOX OF CHOICE AND PROGRESS

There is a familiar story of a New York banker vacationing in Greece, who, from talking to a fisherman and scrutinizing the fisherman's business, comes up with a scheme to help the fisherman make it a big business. The fisherman asked him what the benefits were; the banker answered that he could make a pile of money in New York and come back to vacation in Greece; something that seemed ludicrous to the fisherman, who was already there doing the kind of things bankers do when they go on vacation in Greece.

22. PAY FOR RESULTS NOT PRESENTATIONS

Hire the successful trader, conditional on a solid track record, whose details you can understand the least.

I also learned, in my early twenties, that the people you understand most easily were necessarily the bull****tters.

23. FRAGILITY IS IN THE DOSAGE

Falling from the 20th floor is not in the same risk category as falling from your chair.

24. WORKOUTS ONLY REQUIRE SHOES AND A BARBELL

The simpler barbell (a metal bar with two weights on both ends) is the only standard piece of equipment that gets you to recruit your entire body for exercises—and it is the simplest and cheapest to get. All you need to learn are the safety skills to move off the floor at your maximum while avoiding injury.

All you need are shoes to run outside when you can and a barbell with weights.

Most gains in physical strength come from working the tails of the distribution, close to your limit.

25. DO NOT SHOW OFF IF YOU WANT FRIENDS

Being rich you need to hide your money if you want to have what I call friends.

People can only be social friends if they don't try to upstage or outsmart one another.

26. TAKE PHOTOS TO KEEP ASSOLES IN CHECK

Verbal threats reveal nothing beyond weakness and unreliability.

Anonymity brings out the a**hole in people. So I accidentally discovered a way to change the behavior of unethical and abusive persons without verbal threat. Take their pictures. Just the act of taking their pictures is similar to holding their lives in your hands and controlling their future behavior thanks to your silence. They don't know what you can do with it, and will live in a state of uncertainty.

I discovered the magic of the camera in reestablishing civil/ethical behavior as follows. One day, in the New York subway underground corridor, I hesitated for a few seconds trying to get my bearings in front of the list of exits. A well-dressed man with a wiry build and neurotic personality started heaping insults at me “for stopping.” Instead of hitting him as a conversation starter, as I would have done in 1921, I pulled my cell out and took his picture while calmly calling him a

“mean idiot, abusive to lost persons.” He freaked out and ran away from me, hiding his face in his hands to prevent further photographs.

Another time, a man in upstate New York got into my parking spot as I was backing into it. I told him it was against etiquette, he acted as an a**hole. Same thing, I silently photographed him and his license plate. He rapidly drove away and liberated the parking spot.

Finally, near my house, there is a forest preserve banned to bicycles as they harm the environment. Two mountain cyclists rode on it every weekend during my 4 P.M. walk. I admonished them to no avail. One day I calmly took a dozen pictures, making sure they noticed. The bigger guy complained, but they then left rapidly. They have never returned.

27. JUST AVOID WHAT YOU DON'T UNDERSTAND

If we don't understand something and it has a systemic effect, just avoid it. Models are error-prone, something I knew well with finance; most risks only appear in analyses after harm is done. As far as I know, we only have one planet. So the burden is on those who pollute—or who introduce new substances in larger than usual quantities—to show a lack of tail risk. In fact, the more uncertainty about the models, the more conservative one should be.

28. WHAT THEY DO REVEALS MORE THAN WHAT THEY SAY

Journos worry considerably more about the opinion of other journalists than the judgment of their readers. Compare this to a healthy system, say, that of restaurants. Restaurant owners worry about the opinion of their customers, not those of other restaurant owners, which keeps them in check and prevents the business from straying collectively away from its interests. Further, skin in the game creates diversity, not monoculture. Economic insecurity worsens the condition. Journalists are currently in the most insecure profession you can find: the majority live hand to mouth, and ostracism by their friends would be terminal.

If your private life conflicts with your intellectual opinion, it cancels your intellectual ideas, not your private life.

If a car salesman tries to sell you a Detroit car while driving a Honda, he is signaling that the wares he is touting may have a problem.

Hotels, of course, love the environment, but you can bet that they wouldn't advertise it so loudly if it weren't good for their bottom line.

29. TO BE OR TO SEEM?

The investor Charlie Munger once said: “Look it. Would you rather be the world's greatest lover, but have everyone think you're the world's worst lover? Or would you rather be the world's worst lover but have everyone think you're the world's greatest lover?”

30. PUT YOURSELF ON THE LINE, START A BUSINESS

When young people who “want to help mankind” come to me asking, “What should I do? I want to reduce poverty, save the world,” and similar noble aspirations at the macro-level, my suggestion is: 1) Never engage in virtue signaling; 2) Never engage in rent-seeking; 3) You must start a business. Put yourself on the line, start a business. Yes, take risk, and if you get rich (which is optional), spend your money generously on others. We need people to take (bounded) risks. The entire idea is to move the descendants of Homo sapiens away from the macro, away from abstract universal aims, away from the kind of social engineering that brings tail risks to society. Doing business will always help (because it brings about economic activity without large-scale risky changes in the economy); institutions (like the aid industry) may help, but they are equally likely to harm (I am being optimistic; I am certain that except for a few most do end up harming). Courage (risk taking) is the highest virtue. We need entrepreneurs.

31. TRADE IS THE SOLUTION TO PEACE

No peace proceeds from bureaucratic ink. If you want peace, make people trade, as they have done for millennia. They will be eventually forced to work something out.

Real people are interested in commonalities and peace, not conflicts and wars.

History is largely peace punctuated by wars, rather than wars punctuated by peace.

32. YOU ARE RATIONAL IF YOU MANAGE RISK AND SURVIVE

a) Rationality resides in what you do, not in what you think or in what you “believe” (skin in the game). In real life, belief is an instrument to do things, not the end product.

b) Rationality is about survival. What is rational is that which allows for survival. Survival comes first, truth, understanding, and science later. Anything that hinders one’s survival at an individual, collective, tribal, or general level is, to me, irrational. In other words, you do not need science to survive (we’ve survived for several hundred million years or more, depending on how you define the “we”), but you must survive to do science. As your grandmother would have said, better safe than sorry. This logical precedence is well understood by traders and people in the real world, as per the Warren Buffett truism “to make money you must first survive”.

Rationality is risk management, period.

Rationality is avoidance of systemic ruin.

By definition, what works cannot be irrational; about every single person I know who has chronically failed in business shares that mental block, the failure to realize that if something stupid works (and makes money), it cannot be stupid.

33. FOLLOW THE MONEY

What matters, in the end, is what they pay for goods, not what they say they “think” about them, or the various possible reasons they give you or themselves for that. If you think about it, you will see that this is a reformulation of skin in the game. Even psychologists get it; in their experiments, their procedures require that actual dollars be spent for a test to be “scientific.”

Recall that skin in the game means that you do not pay attention to what people say, only to what they do, and to how much of their necks they are putting on the line. Let survival work its wonders.

34. HAVING OPTIONALITY IS RATIONAL

Making some types of errors is the most rational thing to do, when the errors are of little cost, as they lead to discoveries. For instance, most medical “discoveries” are accidental to something else. An error-free world would have no penicillin, no chemotherapy ... almost no drugs, and most probably no humans. This is why I have been against the state dictating to us what we “should” be doing: only evolution knows if the “wrong” thing is really wrong, provided there is skin in the game to allow for selection.

35. EVERYTHING THAT SURVIVES, SURVIVES FOR A REASON

I find it incoherent to criticize someone’s superstitions if these are meant to bring some benefits. When you consider beliefs in evolutionary terms, do not look at how they compete with each other, but consider the survival of the populations that have them. Not everything that happens happens for a reason, but everything that survives survives for a reason.

36. AVOID ALL SCENARIOS WHICH HAVE A CHANCE OF RUIN

Consider a more extreme example than the casino experiment. Assume a collection of people play Russian roulette a single time for a million dollars—this is the central story in *Fooled by Randomness*. About five out of six will make money. If someone used a standard cost-benefit analysis, he would have claimed that one has an 83.33 percent chance of gains, for an “expected” average return per shot of \$833,333. But if you keep playing Russian roulette, you will end up in the cemetery. Your expected return is ... not computable.

Smoking a single cigarette is extremely benign, so a cost-benefit analysis would deem it irrational to give up so much pleasure for so little risk! But it is the act of smoking that kills, at a certain number of packs per year, or tens of thousand of cigarettes—in other words, repeated serial exposure.

If you incur a tiny probability of ruin as a “one-off” risk, survive it, then do it again (another “one-off” deal), you will eventually go bust with a probability of one hundred percent. Confusion arises because it may seem that if the “one-off” risk is reasonable, then an additional one is also

reasonable. This can be quantified by recognizing that the probability of ruin approaches 1 as the number of exposures to individually small risks, say one in ten thousand, increases.

Let us return to Warren Buffett. He did not make his billions by cost-benefit analysis; rather, he did so simply by establishing a high filter, then picking opportunities that pass such a threshold. "The difference between successful people and really successful people is that really successful people say no to almost everything," he said. Likewise our wiring might be adapted to "say no" to tail risk. For there are a zillion ways to make money without taking tail risk.

Volatile things are not necessarily risky, and the reverse is also true.

Jumping from a bench would be good for you and your bones, while falling from the twenty-second floor will never be so. Small injuries will be beneficial, never larger ones, those that have irreversible effects. Fearmongering about some classes of events is fearmongering; about others it is not. Risk and ruin are different things.

One may be risk loving yet completely averse to ruin.

The central asymmetry of life is: In a strategy that entails ruin, benefits never offset risks of ruin.

Ruin and other changes in condition are different animals.

Every single risk you take adds up to reduce your life expectancy.

37. THE WORSE CASE IS NOT YOUR DEATH BUT THE DEATH OF THE COLLECTIVE

I have a finite shelf life, humanity should have an infinite duration.

Shorter shelf life for humans allows genetic changes across generations to be in sync with the variability of the environment.

Courage is when you sacrifice your own well-being for the sake of the survival of a layer higher than yours.

Selfish courage is not courage. A foolish gambler is not committing an act of courage, especially if he is risking other people's funds or has a family to feed.



Harsh Batra
Founder



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