



Epsilon Theory

Notes From the Field

Clever Hans

October 27, 2017



This is Bali, a three-year old mustang mare we adopted in 2016 from the Bureau of Land Management, trained by daughter #3, Haven.

Vast herds of wild horses still roam out West on federal land. Officially categorized as an invasive species, many of these herds suffer terrible degradation from overpopulation and limited resources. In response, the BLM has captured more than 40,000 mustangs and moved them to long-term holding pens back East. Check out the inspiring 2011 film [“Wild Horse, Wild Ride”](#) to learn more about the controversial BLM program and efforts to encourage adoption of these magnificent creatures.



Mustangs have to be “broken” to accept a human’s touch and control, a word that conjures up images of bucking broncos and the forcible crushing of an animal’s spirit. But that’s not how it works.

The most effective way to break a horse is “negging”, a word familiar to high schoolers but not to me. Negging is negative attention. In the YA social scene, it’s small insults to supposedly pique your target’s attention and interest, like “You’d be pretty if you cut your hair.” In the horse training scene, it’s sitting in the paddock and turning your back on the mustang, ignoring her entirely. The horse gets curious and comes to check out this strange creature sitting on her turf, albeit keeping a healthy distance. The trainer continues to studiously ignore the horse. This goes on for quite a while, maybe a couple of days, but each time the mustang approaches she gets a little closer, until ultimately she makes the first physical contact and allows the human to start controlling her.



It’s really pretty amazing. This highly intelligent animal is so desperate to have a social interaction, so frustrated at being ignored, that it *willingly* surrenders its autonomy. Sound familiar?



This is Dick Thaler, who won the Nobel Prize in Economics a few weeks ago. He's best known for the ideas presented with Cass Sunstein in the book *Nudge*, where they describe a system of "libertarian paternalism" in which a State-directed "choice architecture" improves public policy outcomes by influencing our behavior through clever framing techniques.

So if you want more organ donors, you require an opt-out choice rather than an opt-in choice on your driver's registration. If you want more diversified 401k allocations, you make a predetermined mutual fund the default choice for your employees. If you want to preserve a law *forcing* citizens to buy health insurance from a government-approved list, you characterize any restoration of the freedom to say

no as a "heartless cut" in the number of insured, by counting as cuts your estimate of the people you will no longer be able to force into buying insurance.

By treating citizens as manipulable objects, the Nudging State can get them to give more, save more, and insure more, all on their own volition. What possible objection could anyone have to that?



This is Adrian Veidt, aka Ozymandias, aka The World's Smartest Man, from the classic Alan Moore comic series *Watchmen*. The central plot of *Watchmen* is that the world's smartest man saves humanity from itself by tricking us into choosing a peaceful set of behaviors. This is the pure expression of *Nudge*. This is the pure expression of smiley-face authoritarianism. By the way, Adrian Veidt is also the world's richest man.



In the end the Party would announce that two and two made five, and you would have to believe it. ... The heresy of heresies was common sense. And what was terrifying was not that they would kill you for thinking otherwise, but that they might be right.

– George Orwell, *1984* (1949)

Jackbooted thugs are so passé. Unless you live in Barcelona, I suppose. Or Berkeley. It's just so messy to stomp on someone's face when you can cleanly accomplish the same ends with "choice architecture" and "libertarian paternalism". If Orwell were writing today, a Ministry of Liberty would figure prominently, right alongside the Ministries of Peace, Love and Truth.



If you don't like what's being said, change the conversation.

— Don Draper

Ad men understand “choice architecture”.

It's not called the Wheel.

It's called the Carousel.

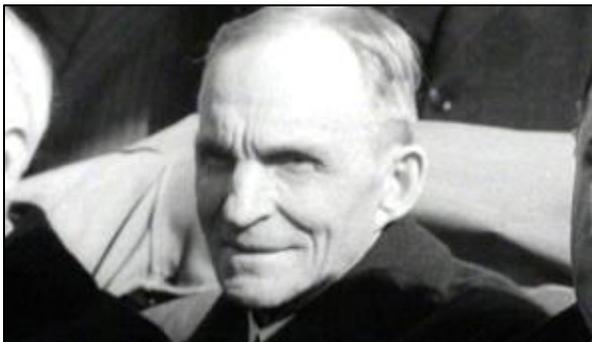


I'll make him an offer he can't refuse.

— Vito Corleone

Mob bosses understand “choice architecture”.

An offer you can't refuse is what game theorists call a Hobson's Choice, part of a more general class of games that includes ultimatums and dilemmas.



Any customer can have a car painted any color that he wants so long as it is black.

— Henry Ford

Oligarchs understand “choice architecture”.

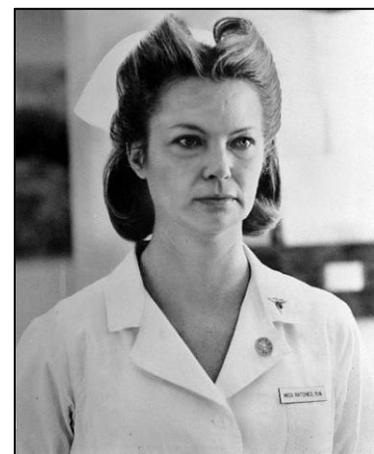
The secret to smiley-face authoritarianism is a choice architecture that presents a [Hobson's Choice](#) as the most natural thing in the world.

Chief Bromden: My pop was real big. He did like he pleased. That's why everybody worked on him. The last time I seen my father, he was blind and diseased from drinking. And every time he put the bottle to his mouth, he didn't suck out of it, it sucked out of him until he shrunk so wrinkled and yellow even the dogs didn't know him.

McMurphy: Killed him, huh?

Chief Bromden: I'm not saying they killed him. They just worked on him. The way they're working on you.

— *One Flew Over the Cuckoo's Nest* (1975)



We are being worked on, and our bottle is social media.

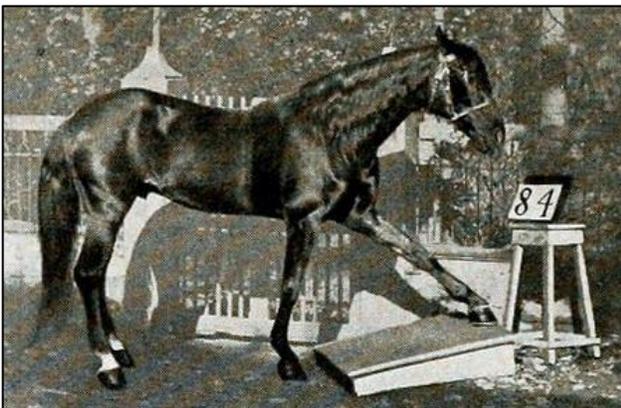
Nurse Ratched has two employers — the Nudging State and the Nudging Oligarchy. Tough enough to resist separately, and they're merging today. We're all in line for McMurphy's final treatment.



John Keating: We don't read and write poetry because it's cute. We read and write poetry because we are members of the human race. And the human race is filled with passion. And medicine, law, business, engineering, these are noble pursuits and necessary to sustain life. But poetry, beauty, romance, love, these are what we stay alive for. To quote from Whitman, "O me! O life! ... of the questions of these recurring; of the endless trains of the faithless ... of cities filled with the foolish; what good amid these, O me, O life?" Answer. That you are here — that life exists, and identity; that the powerful play goes on and you may contribute a verse. That the powerful play *goes on* and you may contribute a verse. What will your verse be?

— *Dead Poets Society* (1989)

Oh captain, my captain! Writing your own verse — as a parent, as an investor, as a citizen — is the Resistance to smiley-face authoritarianism.



This is Clever Hans, a celebrity animal at the turn of the 20th century, a horse who could perform complex arithmetic calculations. For years, no one could figure out the trick, because there was no trick, at least not in the sense of intentional fraud.

Now of course Clever Hans had no idea how to do math. But his trainer did. And Clever Hans could absolutely recognize the subtle tells in his trainer's expression as he approached the right answer. Clever Hans would have been a good sheep. [Or a good investor here in the Hollow Market.](#)

We homeschool our children.

I don't talk about this very much in public, because most people assume that homeschoolers are either religious zealots or antisocial freaks, and we're definitely not the former. Maybe a bit antisocial, but I wouldn't call it "freakish" per se. We just don't like seeing neighbors' houses. Or neighbors. People, really ... okay, maybe a little freakish after all. But that's not why we homeschool.

We homeschool because we want to be more active participants in our children's education. That's not a knock on our local public schools, which are as good as they come. That's not a knock on private schools in the area, many of which are world-renowned. We homeschool because most of the practices and structures of the modern school, public or private, exist for the benefit of the institution, not the child. There's nothing evil or bad about this, it's just inherent in the logistics and organization required for any effective institution responsible for hundreds or thousands of people. But it's not just logistics. It's not just the bus schedule. It's also the curriculum. It's also the homework and the testing. It's also the social structures and social behaviors that are embedded in the modern school.

Modern education is a perfect example of **the Industrially Necessary Egg** — spotlessly clean and cool to the touch, not because that makes for a better tasting egg, but because the protein factories that supply mass society with mass quantities of eggs require chemical washes and refrigeration to turn a profit. That's fine. I get it. We live in a big world where lots of people want eggs, and the protein factories satisfy that desire pretty effectively.

But what's not fine is that we have all been nudged into believing that the Industrially Necessary Egg is the Best Egg, that a fresh egg, which isn't scrubbed clean and never sees a refrigerator, is an Inferior Egg. We have all been nudged into believing that *of course* 13-year olds should be grouped with other 13-year olds during most waking hours, that *of course* there should be a clear delineation between home life and school life, that *of course* the school day should mirror the adult work day, that *of course* classroom lectures are the most effective pedagogy, that *of course* children can only be socialized by letting them roam free in a big flock from one semi-shepherded environment to another.

I don't begrudge the practices and structures of modern schools. Necessary is as Necessary does.

I don't begrudge the taxes that I pay to support these schools. Don't tell anyone, but I'd pay even more to support public education and public safety.

What I begrudge is the question that I *always* get when I tell someone that we homeschool our kids: "Don't you worry about their socialization?"

My response: "Don't you?"

My god, hospital admissions for suicidal teenagers have doubled over the past 10 years. Tell me you don't know a family touched by this tragedy. Tell me you don't see how our children are sexualized and objectified at a younger and younger age, not by predators lurking outside some gender-neutral bathroom, but by *themselves*, adrift in the vast oceans of social media. Tell me you don't see how drug and alcohol use by our children is changing in form, where instead of getting high to party they get wasted to obliterate themselves.

None of this is the *fault* of the Industrially Necessary School. But it's not unconnected, either.

So yeah, we want to be active participants in our childrens' lives, and that's why we homeschool. Not to shield them or isolate them from reality, but to be there *for* them as counselors and teachers as they confront reality. And not just to be there for them when mass society *allows* us, when it's *our turn* during the work week to take responsibility for our own kids, but to embrace that responsibility *all* of the time. **Because it IS our responsibility all of the time, no matter how much mass society facilitates and nudges us into partially abdicating that responsibility so that we can work longer and longer hours in service to the Nudging State and the Nudging Oligarchy.**

I know that homeschooling isn't for everyone. I know that homeschooling is impossible for most. I know that when I say "we homeschool" it is entirely a royal we, where my wife shoulders 99% of the burden. But I also know that you don't have to homeschool outright to be a truly active and engaged participant in your child's education. Everyone can do *that*.

Engaging actively in our children's education has given us two great gifts.

First, the stress level in our family evaporated the day we got off the industrially necessary schedule of the school and onto the organically beneficial schedule of the child. Imagine if you suddenly found three or four hours of new time every day. Imagine how that would reduce the stress in *your* life, and now think about giving that gift to your child. Even if you can't escape entirely the scheduling clutches of the Industrially Necessary School, simply recognizing how much of your child's schedule is institutionally nudged on you and them rather than educationally required of you and them will change *everything*.

Second, we were able to inject a program of critical thinking and critical speaking into our children's curriculum, what a classical education would have called Rhetoric and modern education calls Debate. I dunno ... I never did Debate in high school, and my prior was that this was impossibly nerdy and more than a little silly. I could not have been more wrong. Our girls can think on their feet. Our girls can stand their ground. Our girls can make a persuasive argument, and they can recognize how others try to persuade them. My favorite part of a critical thinking/writing/speaking education? Our girls have *demolished* hundreds of smarter-than-thou mansplaining-in-training boys in debate competitions around the country. What does a curriculum of critical thinking/writing/speaking look like? It looks like girls and boys of different ages and backgrounds, all practicing and competing on an equal footing in a battle of research and wits — now there's a socialization we can all support!

And here's the kicker. Our girls are now teaching these critical thinking and critical speaking skills to those who have a hard time raising their voice effectively in a Team Elite world, from middle schoolers in Bridgeport, Connecticut to high schoolers in Malelane, South Africa to prison inmates in California. **What do I mean when I say [we need a Movement to change the world](#)? This.**

What I'm describing is the difference between education and training.

Education — whether we're talking about the education of a child, the education of an investor, or the education of a citizen — is always additive to the free-thinking autonomy of the child/investor/citizen. But that's not what the Nudging State and the Nudging Oligarchy have in mind. They don't want education. They want training. The Nudging State and the Nudging Oligarchy want to train you like Haven trained her mustang. They want to turn you into Clever Hans, [an intensely other-regarding animal](#) who *welcomes* the saddle. **Because once you're trained to welcome the saddle, you're going to take the bit.**

The playbook of the Nudging State and the Nudging Oligarchy is always the same — put a compelling Narrative around some Industrially Necessary System and train humans who use that system into some version of Clever Hans.

It's clearly the playbook for our modern markets, where we are trained by the Nudging Fed and the Nudging Street. We are Clever Hans, dutifully hanging on every word and signal from Janet or Mario or Goldman or Merrill as we stomp out our investment behavior.

It's also the playbook for our modern politics, where we are trained by the Nudging Parties and the Nudging Media Oligarchs. We are Clever Hans, dutifully hanging on every word and signal from Donald or Bernie or Fox or WaPo as we stomp out our voting behavior.

In all of these Industrially Necessary Systems — schools, markets, and politics — recognition and critical thinking is the antidote to Clever Hans Syndrome, and active engagement is how you administer the medicine. What do we DO about our Hollow Markets and our Broken Politics?

- 1) **Actively engage with *yourself* to recognize how many of your behavioral choices in the world of investing and politics aren't a free choice at all, but are instead derived from a clever "choice architecture" imposed by others.** You probably won't change your behavior. That's kinda the point of these [pleasantly skinned Hobson's Choices](#) — they're offers you can't refuse. But the day you recognize the choice architectures that enmesh us is the day you start making true choices. It's the day you start thinking and reading *differently*. It's the day that everything starts to change for yourself, your family, and your clients.
- 2) **Actively engage with *yourself* to create a critical thinking curriculum that adds to your reservoir of free-thinking autonomy.** Read more history. Read more biography. Read more science fiction. Every day. Watch a lot less CNBC and CNN and Fox and all the rest. I know we can't wean ourselves from Facebook and Twitter. It's our bottle and we're addicted. I am, too. But take the time to *listen* to someone whose political or market views you emotionally dislike and force yourself to see the world through those views, not as an adversary but as another thinking, feeling human being. Every day. Educate yourself, don't train yourself.
- 3) **Actively engage with *others* to spread the word.** To educate, not to train. We treat others as free-thinking autonomous human beings, not as manipulable objects. Never as objects, even if it means losing the client or losing the election. This is how we fix things. Bird by bird. Voice by voice. From below, not from above. [As wise as serpents and as harmless as doves.](#)

What will your verse be?

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