



Epsilon Theory

RUSTY GUINN

Gandalf, GZA and Granovetter



Artist: [Eric Geusz](#)

I cordially dislike allegory in all its manifestations, and always have done so since I grew old and wary enough to detect its presence. I much prefer history — true or feigned — with its varied applicability to the thought and experience of readers. I think that many confuse applicability with allegory, but the one resides in the freedom of the reader, and the other in the purposed domination of the author.

— J.R.R. Tolkien

I threw down my enemy, and he fell from the high place and broke the mountainside where he smote it in his ruin. Then darkness took me, and I strayed out of thought and time, and I wandered far on roads that I will not tell. Naked I was sent back — for a brief time, until my task is done. And naked I lay upon the mountaintop...I was alone, forgotten, without escape upon the hard horn of the world. There I lay staring upward, while the stars wheeled over, and each day was as long as a life-age of the earth.

— J.R.R. Tolkien, *The Lord of the Rings: The Two Towers* (1954), Speech by Gandalf

Gandalf is totally not Jesus, guys. Except for the fact that literally every aspect of their story arcs is identical, they have nothing in common. But understanding applicability vs. allegory is powerful.



Anytime people read my tweets, they hear it in autotune.

— T-Pain

Me too, Mr. Pain. Me too.

Criminal subliminal minded rappers find it
Hard to define it, when narrow is the gate
For fat tapes and, then, played out and out of date
Then I construct my thoughts on site to renovate
And from that point, the God made a statement
Draftin' tracements, replacements in basements
Materials in sheet-rock, to sound proof the beatbox

— GZA, "Living in the World Today", *Liquid Swords* (1995)

There is no shortage of ways to autotune our thoughts and behavior as citizens and investors. Scripts, symbols, tribalism. Some come from our own minds and some from external sources. Some we force on others. But we always, always have a choice. Do we allow others to write our scripts? Do we allow ourselves to be someone else's agent? Or do we stake out our roles as citizens, as principals? Narrow is the gate, friends, and if you can't construct your thoughts on site, to renovate, and soundproof the beatbox — you'll always be someone else's tool.

I've had a string of good luck lately. Or, at least, I've experienced a number of things that could have been much, much worse, which works out to the same thing, I think.

When I published [Before and After the Storm](#), I was writing it from my home in Houston. I thought we would come through completely unscathed, and for the most part we did. My car flooded, but auto insurance is a lot better at covering losses like that than home insurance, and there wasn't anything personal about what got destroyed. The things you learn in a disaster. I feel very fortunate.

Hurricane Harvey made landfall on my 10th anniversary. My wife and I met (re-met, actually) at a beach party on Surfside Beach, not terribly far from where landfall took place, and had originally planned to rent a house there to celebrate. Not in the cards this year, obviously. So we decided to celebrate that (and a nondescript birthday of my own) with a weekend away from our lovely two-boys-two-and-under with some close friends. *In Vegas. That weekend.*

But again, I feel fortunate. We stayed further north on the Strip. None of that keeps the mind from imagining the direst scenarios, though. What if we'd made our evening plans down there on Sunday instead of Saturday, when we walked the south end? What if we hadn't called it an early evening on Sunday and instead decided to wander around (like you do when you're in Vegas)? What if Willie, Robert Earl Keen or Ray Wylie Hubbard had been playing the festival (in which case I definitely would have been there)? There's a note or two to be written about how this kind of thinking affects us as investors. The psychology of narrow misses, or at least of seeing tragedy at arm's length.

But that's not where my mind went. Instead, in the aftermath of the mass shooting in Las Vegas, I found myself, like many others, wondering what this vicious moron could have been thinking. A seemingly normal guy with no real motive, no obvious animus. Some compulsive behaviors, it would seem, but no more than a million other men and women. No clear ideological intent. No obvious prior evidence of sociopathy, psychopathy or really any other -pathy except for maybe antipathy. Other than the senselessness that pervades all such tragedies, the most striking observation following the attack has probably been that acts of terror, crimes and murders are being committed by people who look a lot more *normal*. Who may, in fact, *be* a lot more normal.

It's something Malcolm Gladwell has spoken about, and which he wrote about in his 2015 piece in *The New Yorker*, [Thresholds of Violence](#), and in various lighter ways in *The Tipping Point*. Like recently minted and well-deserving Nobel laureate Dick Thaler, Gladwell's musings sometimes dip into the sort of paternalistic pop-science/pop-policy recommendations that grate on me a bit. But he's onto something here. His notion is that the early mass shooters and murderers were the truly insane, those willing to independently plan, pursue and carry out a vile act. In so doing, they created a script, a pattern for others. Each successive event adds to our cultural *story*, and makes the script more accessible, more familiar to individuals at the margin of social norms. This lowers the threshold for another to carry out a similar attack. And so the next person who carries it out seems less clearly troubled, less self-evidently motivated by ideology. More normal.

The idea builds on the work of Stanford sociologist Mark Granovetter, who was among the first to describe this phenomenon through a range of examples. Whether it is deciding to join a riot, to eat at a Chinese-food restaurant, to buy a new kind of quintuple-levered vol-selling ETF, or any number of other everyday decisions, we judge certain aspects of our social engagement based on the quantities of others who have made similar choices. The more people join the riot, and the more

those people look like us, the more likely we are to join. In other words, it's **Sheep Logic**. Like that most sociopathic of animals, we make decisions in our own interest that incorporate the behavior and our observations of others not out of empathy or concern for the other, but because of their information value. This is how sociopathic behavior becomes commonplace among people who are, well, normal.

Thankfully, for most of us, this sheep-like tendency toward sociopathy doesn't manifest itself in anything quite so horrific. But if you think that threshold effect-driven symbol devotion isn't tearing us apart, you haven't been paying attention. It hasn't exactly been subtle, y'all.

Some of the symbols and stylistic tropes that force *heterogeneous* populations into *homogenous* groups are pretty obvious. Like, *Gandalf-as-a-humble-leader-who-dies-sacrificially-to-save-his-followers-by-battling-a-demon¹-on-his-descent-into-hell-after-which-he-is-resurrected-in-white-for-a-time-to-teach-and-lead-before-he-ascends-into-another-plane-to-escape-Middle-Earth-for-the-realm-of-the-angels* obvious. Others less so. If you can get **published in a journal** for identifying the subtextual racist undertones in Starbucks Pumpkin Spice Lattes, just imagine how many different symbolic interpretations there are for something like, say, *Citizen Kane's* Rosebud. Symbols, and the reverence we attach to particularly tortured interpretations of them, are the reason why English departments are still producing academic papers and why Dan Brown gets to live in a house in New Hampshire with **hidden doors and secret passages**.

Fascinatingly, J.R.R. Tolkien actually very famously detested allegory, the most common kind of literary symbolism. He was not particularly fond of his close friend C.S. Lewis's world of Narnia for this reason, thinking it far too allegorical, and with one too many electric streetlamps. Whether or not he always practiced what he preached, however, Tolkien's point remains an important one for our public discourse, where symbols — semiotics — have become the center of gravity for almost every civic conflict and debate. Most symbols we encounter are powerful shorthands, and their *meaning* differs based on our unique and shared experiences. The song you remember from your first dance at the high school prom was the soundtrack to someone else's personal tragedy, and the writer of the song had nothing of the sort in mind. And that's okay. In Tolkien's terminology, these symbols are applicable, but neither universal nor determined by any one person for another.

In **Before and After the Storm** and **Always Go to the Funeral**, Ben and I wrote about those who seek to divide us and drive us from a cooperative game into a competitive game. You won't be surprised to see us write that this is often achieved through the construction of narratives, loaded for bear with symbols. But with these symbols, you don't get to decide what they mean for yourself like a favorite song. No, that decision is made for you. In Tolkien's words, these symbols represent the purposed domination of the author. They seek to strip us of sovereignty over our own intent. They force us to choose sides. This is among the most powerful forms of narrative construction.

¹ OK, a Balrog of Morgoth, which is technically among the Maiar kin to Sauron that aligned themselves with Melkor when he rebelled against the Valar that Eru had sent to shepherd their collective vision for the world. So not really a demon, but "wings of shadow, wreathed in flame?" Imma call it a demon. Don't @ me, Stephen Colbert.

Ben and I have also written and talked a lot about what we think it means to be a Citizen. Above all, it means always being a principal. It means treating others as principals. Those who would rule over us to serve their own ends would make us agents. They would make us nodes in a blockchain, repeating the anonymous reports of someone else's philosophical transactions. The Citizen rejects this impulse at every pass, in his political, personal, professional and, yes, even his financial life.

Charlottesville, Continued

Both Ben and I wrote about the issue of Confederate statues, because part of this story has applicability for us, as it does for so many Americans. For me, it is applicable for two reasons. When he was 16, my third great-grandfather volunteered for what would later become the 34th Tennessee Infantry Regiment. In the first day of the Battle of Chickamauga, his gun exploded in his face at Brock's Field. It was an injury that impacted the rest of his life, which was short. The 11th of 12 children, he was maimed in battle but continued to fight. He married, had children and died penniless in his early 40s. His wife and children were forced to leave for Texas, where they became cotton tenant farmers. They got by. Within two generations they prospered.

Don't cry too much for grandpa Jim. There's a Part II. His family — my family — also owned slaves. In 1860, my fourth great-grandfather, a Methodist minister, felt he had the right to say that he owned 20 human beings. The youngest was a four-month-old boy. The oldest was a 52-year-old woman. Among them was a 30-year-old man named Jim, just like my third great-grandfather. He married a woman named Clara from the next farm, and they had a son named George. The picture to the right is of George with his wife Winnie in the late 19th century.



So what do the symbols of the Confederacy mean to me? Shame, mostly. Shame in what my family did, what they were a part of. That they weren't on the right side of justice. That they could preach a Christian Gospel and think to own a person with a soul. Some pride, too. Pride in a young boy who was brave, who volunteered and fought for his neighbors, and was maimed as a simple infantryman. Who, I hope, stood tall when the German expatriates from Indiana raised by Johann August Ernst von Willich² rained down artillery and rifle fire on them and the rest of General George Maney's brigade. Sam Watkins, a soldier in another unit in the division, wrote about it in his marvelous memoir, "Company Aytch":

We held our position for two hours and ten minutes in the midst of a deadly and galling fire, being enfiladed and almost surrounded when General Forrest galloped

² This is a really fascinating man. A Prussian noble who renounced his titles and became confidante and eventual competitor to Karl Marx, Willich counted Friedrich Engels as his aide-de-camp during the socialist revolutions of 1848-1849. He ultimately found Marx to be too conservative, and challenged him to a duel that Marx rejected. Willich then left for America, where he recruited and led a division of men from Indiana and Ohio, mostly German expatriates. They were among the most decorated units in the Union Army.

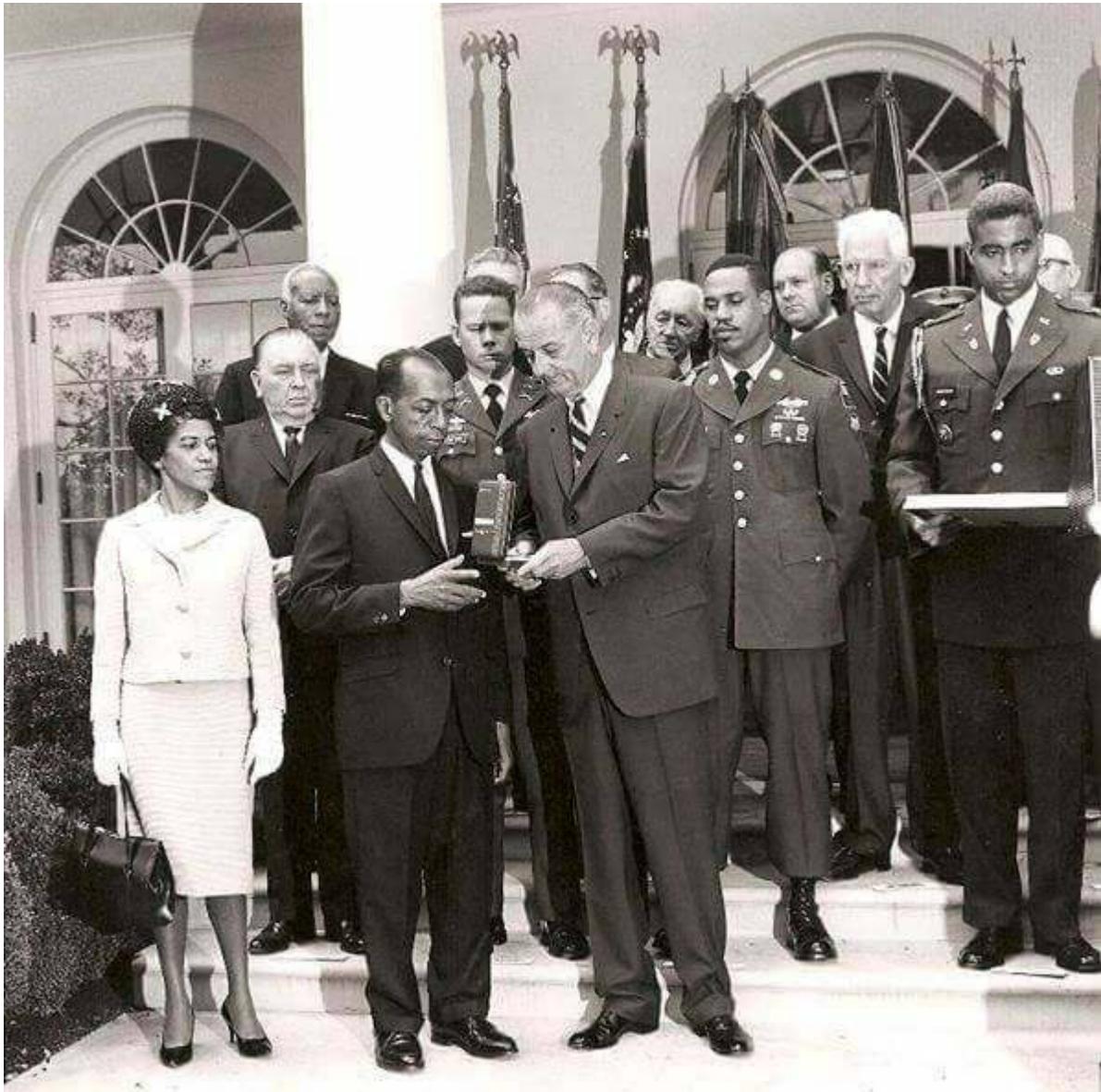
up and said, 'Colonel Field, look out you are almost surrounded; you had better fall back.' The order was given to retreat. I ran through a solid line of blue coats. As I fell back, they were upon the right of us, they were upon the left of us, they were in front of us, they were in the rear of us...the balls whistled around our ears like the escape valves of ten thousand engines. The woods seemed to be blazing...one solid sheet of leaden hail was falling around me. I heard General Preston Smith's brigade open. It seemed to be platoons of artillery. The earth jarred and trembled like an earthquake. Deadly missiles were flying in every direction. It was the very incarnation of death itself. I could almost hear the shriek of the death angel passing over the scene.

— Sam Watkins

For me, the conflicted realities of race and patriotism — shame and pride — don't stop there. They are a running theme in my family, as they are with so many others. Almost 52 years ago to the day, on October 22, 1965, my Uncle Jimmy was walking through the jungle near Phú Cường with a small squad of men from the 173rd Airborne Brigade, when a grenade rolled into their midst. Without a moment's thought, a young man from Chicago and Mississippi grabbed the grenade, threw it under his body and saved the lives of four men that were walking with him. My Uncle Jimmy was one of them.

This young man, who would have no doubt endured the same racism that many black Americans knew in 1965, loved his country and his fellow man, and *literally* jumped on a grenade for my family. For it, he was awarded the Congressional Medal of Honor by President Johnson, and became the first black man to receive the honor during the Vietnam War. If you're still hung up on statues and memorials, the next time you're in Chicago, walk just north of the Navy Pier to Milton Lee Olive Park.

The picture below shows Olive's parents receiving his posthumous medal, my Uncle Jimmy standing at attention between Olive's father and President Johnson.



I think it's fair to say these issues have a lot of applicability for me.

But my experience still matters a whole hell of a lot less than the experience of just about any black person in America on this topic. Do I get psychic value from knowing a relative acted bravely on the field of battle? Yes. Would I be comforted to know my country respects the tactical military brilliance of Robert E. Lee, that it was mature enough to consider that in full context of his flaws? Yes. Do I think there are strong, justifiable reasons to be extraordinarily hesitant and deliberate about anything that looks like the destruction of art, of historical records? Yes. Do any of those things measure up to how these symbols are applicable to a black man or woman in America? NO. God, it's hard for me to fathom that they can even be represented on the same scale.

But that is the nature of civic discourse: for us to collectively weigh matters of importance, or to allow each individual the freedom to do so for himself. That is what a society which values Tolkien's applicability does. That is what a *Citizen* does. It doesn't require us to conclude that all such perspectives are equally true, or even that each person's opinion is equally valuable. Far from it. Don't

mistake this for the postmodern view that those without *personal experience* don't get a seat at the table for the discussion. Much to the contrary, the enlightenment principles of free discourse require us to allow all the arguments to be heard. On matters of social import, to be weighed. And in all cases, to be *represented faithfully*.

But rather than engage in true *Citizenship*, in the path of enlightenment, we chose another path. We chose the path of allegory, of symbols assigned to us and to others as agents and not as principals. Those bent toward purposed domination of those with conservative political leanings imposed one particular allegory: **'statues of confederate leaders represent the spirit, culture and history of the southern United States'**. *An attack on the statues is therefore an attack on the spirit of culture of a huge portion of the population. The enemy are the politically correct run amok, people who wish to erase history and replace it with a sanitized version! With a lie! If you do not stand for this now, they're going to tear down all our statues, all of our history.*

The manipulating spirit of the far left in this case found a far easier target (Godwin's Law made manifest proved too sore a temptation). Once a platoon or two of sociopathic, dunderheaded, socially awkward, spoiled white guys with an inclination toward violence rolled out the old "Blood and Soil" song and dance number, the allegory basically wrote itself: **Defense of the statues IS defense of white supremacy**. *Defending America against Tiki-torch wielding apfelstrudelführers, as Kevin Williamson brilliantly put it, must be our aim at any cost. If we must pretend that the Occupy Wall Street trust fund kids who swapped their hipster tents for Antifa masks are our heroic vanguard, a modern form of troops storming Normandy, so be it. If we don't, we are basically enabling the rise of Hitler!*

The magic of the technique is this: for those to whom the symbol has personal applicability, the allegory that replaces it is nearly impossible to resist. If you have some affinity for the south (which is no crime at all, folks), or if you believe that history is worthy of protection with integrity, these are defensible points of view to have. If you're especially sensitive to both active and passive forms of racism, you're in very good (if sadly incomplete) company. But under the control of those who would make us agents, allegory uses these affinities and applicabilities as a Trojan Horse, entering as defensible, admirable points of view and pouring out into the streets of Troy as straw men to focus our rage on any who might assault them. Our defense of the south evolves into a perspective that sees attacks on monuments of the Confederacy as a broad attack on us and our culture. Our righteous anger at racists transitions into frothing rage at any who happen to share a point of view on what from our history is worthy of remembering. Those who had never stopped in contemplation — whether out of pride or shame or anger — before a monument in their lives now saw it as some existential thing that reflected the ill will of our fellow Citizens acting as principals.

But it didn't. They — we — had already been made into agents.

Enter the Anthems

Our next test (you know, the anthem thing?) didn't go much better.

The flag and the anthem are among the clearest examples of varying applicability, because flags are *literally* designed to function as symbols and representations of the state or a ruling party. To many uniformed men and women and to their families and friends, it is a binding tie, a symbol of sacrifice

and service. To the patriotic, it can be (varyingly) an emblem of affinity for culture, for opportunities provided, for values shared in connection with the nation. To others, it is a reminder that they feel like second-class citizens in some way. A sharp allusion to the hypocrisy they see, that a country could emphasize freedom and equality, and yet deny both to some for so long. All these are feelings formed by experiences, some anecdotal and narrow in import, and some broad and worthy of extrapolation. They are formed by thoughtful conclusions, some rightfully constructed and some hopelessly flawed. They are not equal. But they are the views of Citizens and principals.

When Colin Kaepernick began his protest of the anthems, most of us didn't notice, since we were sitting at home on our couches, distracted by beer, friends and smartphones. Say what you will about a young man who decries oppression wearing a t-shirt celebrating one of the 20th century's great oppressors, who bemoans a lack of mutual respect wearing socks that stylized policemen as pigs wearing hats. But he was clearly acting as a principal, a man responding to what these symbols meant to him based on his judgments and his experiences, right or wrong.

Fueled by competitive game-driven rhetoric from the president, the right's response took us away from the path of the Citizen. The personally applicable meaning of the symbol immediately became a monolith, an immutable national standard. To sit during the anthem wasn't *what the person doing it said it was*, it was a symbol of disrespect toward the military, the police, the nation, our values, our Constitution. It was a sign of hatred of the country, and *if he didn't like living here, why doesn't he just move?* There is no intrinsic, no fundamental reason why this action in context of this symbol should have that meaning, except that we all agreed that it did. Instead of treating those protesting as principals — which doesn't mean agreeing, but does require from a Citizen some attempt at understanding — we made them agents. We assigned them views and intents they never themselves conceived. In so doing, we made ourselves agents as well.

True to form, the American left took the bait. I don't know if we're really all going to laugh about this in a decade or two, but the attempts at symbol construction here are frighteningly absurd. In response to the shenanigans above, we got proclamations about acceptable forms that the protest symbol must take. Because the Dallas Cowboys knelt together before the anthem and not during it, it was **bullshit. Craven and useless. Anyone who stands for the anthem stands for white supremacy!** Richard Sherman informed us that if we didn't condemn the president's rhetoric, we were complicit. This is increasingly the shape that our debates take. *Why are you angrier about this issue than that issue? Why did you tweet/post/talk more about this one issue than this other issue that I think is more important? How dare you not observe the forms that reflect the right-sounding thoughts in the manner I prefer? Did you use the proper skin tone in your emoji-laden message?*

You could call all of this a more rigorous way of describing political correctness, and you'd be pretty near the truth. The left remains, I think, the most pernicious source of this scourge to an enlightened society. The Foucaultian language of privilege and oppression, while it may at times be an accurate reflection of the realities of inequality, bias and circumstance that we must assault as a society, can never be the language of the Citizen, because it inherently rejects the idea that certain people can be principals. It says that a person born in privilege is always an agent of his bias, and that he may not have the sovereignty of a principal in various arbitrarily chosen political issues. Yet for all that, under President Trump it has instead been the right that has been the proximate cause of allegory and

political correctness, I think. As Ben has pointed out, this is how this political environment is trying to break us.

Agents and Markets

So what is a Citizen to do? And what of the Citizen in markets?

In markets, it should be a reminder that strong enough narratives make agents of us all. You need only to look at VIX-based instrument markets to observe just how willing we are to forgo our views as principals to join in a group-based thinking. In Part I of my recent note, [The Myth of Market In-Itself](#), I introduced some of the ways in which behavior influences markets, but it is in Part II that I will dive more into the archetypes and languages in which principals become agents.

It should also be a reminder to those of us with clients that it is important to *listen to what they are telling us*. About their desires, their intents, their motivations. The robo-adviser, style-box generation is happy to slot us into a category and tell us who we are. Even outside of this, the investment industry has constructed entire business models out of gaming characteristics to suit investor archetypes and the superficial things that are likely to attract them to buy. As an industry, we don't treat our clients like principals, and it's a problem.

But whether or not we are in markets, the refrain you will hear from us is to resist being drawn into the competitive game. Resist being drawn to allegory. Resist being made into an agent, and reject doing so to others.

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