

Spitznagel, Mark – The Dao of Capital

John Wiley & Sons, 2013, [Equity Investing] Grade ★★★★★

This Book is not like anyone you have read before. Mark Spitznagel builds a mosaic of philosophy, history, economics, military strategy, psychology and more to end up with a loose framework for equity investing that could serve as a practical sequel to Nassim N. Taleb's *Antifragile*. Indeed, the closest peer to *The Dao of Capital* is probably Taleb's bestseller *The Black Swan*. Taleb who is a friend and former colleague to the author is one of those endorsing the book – as is amongst others Paul Tudor Jones III, Steve Forbes, Victor Niederhoffer, Byron Wien and Marc Faber, while Ron Paul has written the foreword! This raises expectations to a very high level.

Spitznagel who during the daytime manages an investment advisory specializing in “Black Swan-investing or equity tail-hedging and who previously has been both a commodities pit trader and the head of prop trading at Morgan Stanley, has written a book with three quite different sections. The first is an exposé of a number of phenomena and theories that all point to the value of a roundabout strategy. With examples from forestry, Daoism, commodities trading, Chinese games and martial arts and the military strategies of Sun Wu (Art of War) plus Carl von Clausewitz (On War) the author tries to show the advantage of looking and planning several steps ahead and of making initial small sacrifices to reach a good vantage point for later larger gains.

The next journey the reader is taken on is a mixture of the history of the portal figures of Austrian Economics, the foundation of this branch of economics itself and a number of – sometimes somewhat loose - ties between Austrian economics and contemporary findings in behavioural finance, corporate finance etc. All with the purpose of pointing to the investment time arbitrage that is created by the fact that the business cycle is so poorly understood outside of Austrian economics. The Austrians view the violent swings in the business cycle as driven by monetary distortions – primarily those of the Central banks. The view is

similar to those of for example Bridgewater's Ray Dalio or the late Hyman Minsky. However, where Minsky saw the credit expansions and contractions - and the booms and busts that follow - as something inherent in the market economy itself, the Austrians view them as external manipulation.

Personally I am attracted to the fact that Austrian economics is adaptive, entrepreneurial and recognize credit cycles and economic changes as compared to the traditional static, non-monetary equilibrium theories of economics. Yes, it's also less mathematically stringent, but in my book this only validates it as I don't believe in “general theories” when it comes to social sciences.

The last two chapters formulate a theory of Austrian investing built on the building blocks of the roundabout, the better vantage point for later larger gains and the understanding of the business cycle. The investment strategies are not too complicated. In broad terms the advice is to build an equity portfolio using a type of Greenblatt's Magic Formula and when the entire market is expensive with regards to a version of Tobin's Q you should use a fraction of the money to buy deep out of the money S&P puts.

I would say that the target audience for this book is the sadly too small group of intellectual investors, i.e. the academically minded practitioner among the many practically minded craftsmen. If you get allergic rashes from an author who likes to excel in knowing the right terminology in Greek, German, Mandarin and even Finnish and who at times displays a hit of superiority over being among the chosen ones who have understood the supremacy of Austrian Economics and tries to explain this genre with examples that seem to be taken out of a Wagner opera and a vocabulary from political philosophy, then stay clear of this book.

As long as you understand what you are getting into when reading this unusual book it is however quite rewarding.

Mats Larsson, January 22, 2015