



Living An Antifragile Life While Tied To The Tracks In Front Of An Approaching Train

Saturday's With Jim

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
3/3/18



Dear Friends,

You might think of greatness as something innate, inborn – once applied it comes easily. More likely, though, is that The Greats applied principles of antifragility to their lives. This means that they organized their lives so that a setback or two would not derail their sense of purpose and achievement. In fact, not only did The Greats recover from setbacks, they used them to grow and accelerate their progress. Paraphrasing, Euripides said, “How can you call yourself great when the first big accident wipes you out?”

Today's article shares how we apply some of the principles laid out in a 2014 *Farnam Street* blog post, "[10 Principles to Live an Antifragile Life.](#)"

Antifragility means just what it says - not fragile and against fragility. An antifragile person, system, organization or whatever builds a strong infrastructure (think of the Three Little Pigs' brick house) and redundancy (think of Pooh's fourteen honey jars). But, as Richie McCaw, rugby captain of the New Zealand All Blacks, famously told one of his players near the end of a game, “You don't have to kick the ball out of the stadium.” It's only necessary to arrange our personal lives so that an accident or other unforeseen calamity will completely and irreparably ruin our lives. Given that our decisions impact our lives, it's incumbent on us to make our accounts antifragile – actually benefiting from the randomness and potential pitfalls inherent in investing for greater than risk-free gain.

“Keep it simple” is our first antifragility principle. We don't want to be knocked out by anything, much less something of our own doing. Complex trading systems built on sophisticated quant models are great as long as the conditions which support them remain in force. The 1987 crash, for example, which took the market down 25% in one day, was caused by too much of a good thing falling apart when it was stressed. .

The antifragilist builds in redundancy to her life. Diversification among uncorrelated investment types provides us with a high degree of assurance that the bottom will not completely fall out when stress arrives.

Thinking beyond the first order relationships helps us to identify more potential outcomes. For example, as interest rates rose sharply after the recent two-year federal budget deal was announced, stocks dropped more

sharply, causing panic in volatility markets (there are securities which are connected to volatility levels). The unseen risk caused by a huge number of speculators combining to bet that volatility would drop, not rise, came home to roost when their bets failed en masse, triggering forced sales of regular stocks and quickly dropping stocks 10% from their highs. The antifragilist knows that these speculative positions would eventually blow up and either uses the diversification bulwark as her defense or goes on the offensive and buys into increasing volatility. It is necessary to avoid arriving at simple conclusions in a world full of complexity and subtlety even though we keep our actions as simple as possible.

Finally, the antifragilist is willing to accept some short-term pain to achieve long-term gain. Diversifying and preparing an anti-risk infrastructure can use resources that could have been diverted to living today – buying a new car, eating out more, investing in the latest fad that is making people scads of money. The antifragilist knows that bad things happen, but not when they will strike, how they will strike or even whether for certain that they will strike. But knowing that the consequences of not being prepared are far worse than not using all of our resources for living today is the prudent thing to do. The antifragilist happily tithes to a safe infrastructure as it allows her to venture out with relative safety.

Thank you for investing with us.

ⁱ “10 Principles to Live an Antifragile Life,” *Farnam Street*, <https://www.fs.blog/2014/10/an-antifragile-way-of-life/>

The opinions contained in this article represent the author’s current knowledge and are based on sources known to him at the time of writing. Such opinions are subject to change at any time and are presented for educational value. Any other use, such as investment solicitation, is inappropriate and absolutely unintended by the author. Readers should keep in mind that past performance does not guarantee or predict future results and must evaluate the information presented, according to their individual needs and circumstances.