

The Mistake We Made Covering the Trump Spectacle – and Lessons Learned (04-11-17)

We made a significant mistake in our Trump coverage.

It took a while to see it – but the realization came over the weekend as the Syria debacle unfolded. The mental version of blown circuitboards led to a breakthrough moment of clarity if you will.

There is a certain type of mistake that only comes up in very rare situations. The more rare a situation, the more experience that comes from going through that situation and processing unexpected errors.

The Trump mistake has to do with low probability, high impact events, and the proper way to deal with extreme instances of these, especially when the impact falls outside of markets.

Lion in the Tall Grass

Experience teaches respect for low probability, high impact events – the big outcomes you don't see every day. These are the fat tails that can destroy lives or build fortunes.

In that regard, this excerpt from an NYT piece on Dawn Fitzpatrick, the new CIO for Soros Fund Management, was interesting:

It was in Chicago that Ms. Fitzpatrick learned just how cruel markets could be. In December 1994, an economic crisis was looming in Mexico that resulted in a swift and drastic devaluation of the Mexican peso. Ms. Fitzpatrick was covering a pit where so-called locals — traders who made bets with their own money — were exposed on the wrong side when the American Depository Receipts of Mexican companies moved suddenly. They lost everything.

“Basically overnight, these guys who I would stand next to from 9:30 a.m. to 4 p.m. every day lost their homes, lost their marriages, just everything in a flash,” Ms. Fitzpatrick said. “It really left an indelible mark on me.”

That is the kind of leverage you don't want, by the way – leverage levels geared so high, in the name of exploiting super-small movements, that if something goes drastically wrong the account explodes.

Which brings about the “lion in the tall grass” metaphor:

- For the trader who has learned to respect risk, **noted possibility of a low probability, high impact event is like the shadow of a lion in the tall grass**. It sets off primal caution instincts.
- When you have a potential low probability, high impact event **where the probability is steadily creeping higher, in a steady trend sort of way**, the build-up becomes even more engaging. It is like a strong sense that the lion is padding towards you – and may in fact be stalking you.
- And finally, when there is a low probability, high impact event looming where probabilities are steadily trending higher, and everyone else nearby is either ignoring the danger or pretending it doesn't exist, exposing themselves to great risk in the process, that is when the cognitive alarm bells turn into air-raid sirens. This is where cautionary instincts can become overwhelming.

- And then, when you add newness, novelty and spectacle to the situation – the impact of the surprising, the bizarre, the wholly unprecedented -- **the psychological engagement level becomes even MORE overwhelming.** The mind is naturally attuned to novel information, things that aren't "normal" or otherwise out of place, as another form of ancient survival mechanism.

Trump is Explosive Novelty, Spectacle and Risk all Put Together... on a Never-Before-Seen Scale

So in the Trump presidency we have all of these factors.

- Extreme danger
- Extreme novelty
- Extreme probability confirmation (self-reinforcing trends)

There has never been a spectacle like the one now being witnessed. It can hardly be parodied. It can hardly even be *described* without sounding ludicrous.

The whole thing is like an HBO or Netflix show, complete with escalations and wild plot twists at the end of each episode, and the auto-play feature where as soon as an episode ends, the next one queues up.

Bizarre incompetence, "Game of Thrones" palace intrigue, slack-jawed idiocy, dead Russians, FBI shell games, meetings in the Seychelles, capitol hill meltdowns, on and on.. with steady drumbeats of evidence and new developments confirming the "drip, drip, drip" toward explosive revelations.

And to top it all off, a partisan-line split in economic sentiment the likes of which have never before been seen, producing divergences between "soft" data (sentiment) and "hard" data (actual economic indicators) that are like something out of the twilight zone.

And Now Syria... and the Rising Risk of War

Then just when you think it can't get any crazier – it does.

- The 180-degree-pivot on Syria, carried out in a matter of days, was incredible.
- The lack of a coherent follow-up plan of any kind, and the wildly irresponsible cheerleader response from cable media and warhawks in Washington, was equally incredible.
- Furthermore incredible – the strong likelihood that Putin knew in advance about Assad's chemical weapons strike – and went ahead and approved it anyway, which means... what? Putin deciding he would test Trump? Putin doing Trump a favor by changing the Russiagate narrative?
- The strangeness of the situation was amped yet again by the fact that the missile strikes were utterly ineffective – almost like a wrist-slap – with Syrian jets taking off within hours from the very same runways, of the very same airport, to again strike the very same towns.
- Trump as half-cocked war president is one of the worst situations imaginable. A false show of strength that is actually just bluster may embolden America's enemies, not frighten them.

- An uncoordinated hash of policy that actually commits troops, in contrast to just faking it, could wind up creating an Iraq or Libya or Vietnam situation.
- And meanwhile we don't know who even SPEAKS for the White House. Is it Haley? Tillerson? Is it regime change? No regime change? There are rumors Ivanka was behind the strike decision.
- And then, in respect to North Korea, there is loose talk of assassinating Kim Jong Un... thus validating the fears of an insane paranoiac in the possession of nuclear weapons... and **China reportedly massing 150,000 troops on the North Korean border...**
- And all of this against a backdrop where "Russiagate" factors continue to compound... with a high-level Russian hacker, whose wife implicated him in US election activities, captured and arrested and now in preparation to be extradited from Spain...

It's All Just Too Much

Over the weekend we realized: **The spectacle is too much** to process on high alert.

- The problem with the "lion in the tall grass" metaphor is that the human nervous system was designed to process fight-or-flight risk in short bursts, not prolonged instances. **It is a different thing when the risk and the novelty is non-stop, trends rising day after day after day.**
- We must be prepared for the possibility that the risk factors surrounding Trump could get **much, much worse**. Nuclear threats via tweet? Heavy troop movement? Meltdown? Who knows.
- We must also be prepared for the novelty factors surrounding the Trump administration to get much, much worse. (That's been the trend – every few days the oddities and revelations and embarrassments hit a new high, and there is no shortage of potential new bombshells.)
- This makes it imperative to **emotionally disengage from all of this here and now, regardless of the stakes**, and to reduce the whole Trump situation to variables clinically assessed from afar.

Look, we could be headed for a nuclear confrontation here, or the growing threat of such. The increasingly strange links with Russia make that particular vector more dangerous, not less.

Or, via Syria, North Korea, or elsewhere, we could be walking into escalated military conflict with the worst leadership, under the worst circumstances, with questions of collusion and distraction motivation – and competence and mental fitness! – as a backdrop. This makes mental detachment an imperative.

Extra-Terrestrial Analysis Mode

This gets around to the mistake we made covering Trump – **not being sufficiently detached from the situation** in respect to 1) overall emotional impact and 2) personal distance from the human consequences above and beyond markets. Here is a way to frame the solution to the problem:

- Imagine being an extra-terrestrial assigned to observe and analyze events unfolding on Earth.
- If tragedy looms, it is still just a probability. Emotional participation is wholly removed.

As mentioned, it's an interesting type of mistake because the situation is so rare.

It's not a mistake with, say, portfolio positions. It's not the classic danger of being part of the herd, or trying to rationalize a desired outcome, or losing touch with reality.

Instead it is almost being too "up close and personal" with reality and its potential impacts.

- Ideally the looming risks **should all be reduced to variables and if/then responses** – no matter how emotionally engaging, no matter how threatening, no matter how novel or mind-bending.
- This is the ideal of, say, observing a new Cuban Missile Crisis unfold... reaching a point where there is legitimate probability of, say, a nuclear missile being launched at Los Angeles... and still just running odds and probabilities, and executing, versus being caught up in the drama.
- **The more personal and human and novel the potential for catastrophic risk becomes** – the more it can potentially impact not just positions, but people and ideals and well-being – **the more important it is to become clinically detached in advance.**

Compartmentalizing the Spectacle

A beneficial side effect of this is compartmentalizing the spectacle.

What does that mean? It means turning off the Netflix show that has taken over reality. It means anticipating the nuttiest possible scenarios in advance and mentally detaching from the most extreme variants before they happen. Taking all the emotionally destabilizing stuff and packing it in a crate.

Turning all these scenarios into variables means you can simply put numbers on the variables and then be done with it, e.g. an extremity factor of 9 on a 10 scale might be Jared and Ivanka led away in handcuffs with Trump screaming incoherently on the White House lawn, as a congressional committee debates invoking the 25th amendment, with North Korean hostilities and a trade war initiated via tweet.

If you imagine the wildest possible thing, then whatever new shade of crazy hits the airwaves next, it hopefully won't be as nutty as what you already braced yourself for, thus maintaining detachment.

And this, in turn, will allow us to talk and write about Trump less while referencing other variables more, giving more equal time to the other variables influencing markets and possible positions. The key aspect is turning down the noise on the show, while still registering probabilities as needed without emotion.

Because, with respect to emotion, that is another thing the lion in the tall grass can do – when the spectacle is novel and wild and fraught with human nature follies and heavily impactful, it deserves time and attention, but it can wind up taking far more than its deserved share of mental headroom.

Guiding realization being, **it is possible to be clinically detached from anything that happens, literally ANYTHING** – and sometimes it is not just desirable to be such but absolutely necessary.

As the world starts getting crazier and meaner and more vicious, we suspect we'll be going into "Extra-Terrestrial Analysis Mode" a lot more too, in terms of probability assessment without personal involvement – letting go of the human side. Somehow we suspect the times ahead will demand it.

And we will reorganize certain things, in terms of information flow, to put more emphasis on an array of variables, instead of over-allocating resources to the novel catastrophic risk that is still, at the end of the day, just another variable or two in competition with many others.