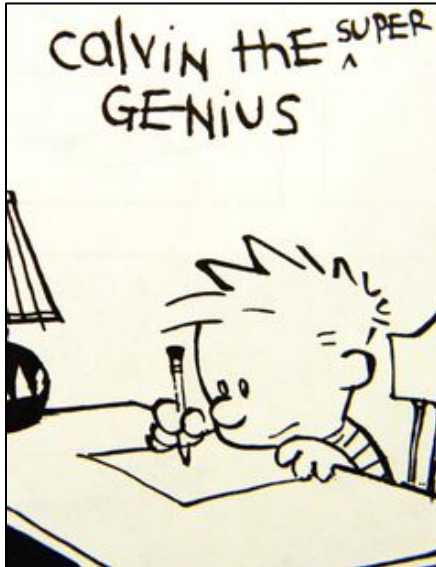


“Calvin the Super Genius”



People think it must be fun to be a super genius, but they don't realize how hard it is to put up with all the idiots in the world.

— Bill Watterson, “Calvin And Hobbes”

Here is the most fundamental idea behind game theory, the one concept you **MUST** understand to be an effective game player. Ready?

You are not a super genius, and we are not idiots. The people you are playing with and against are just as smart as you are. Not smarter. But just as smart. **If you think that you are seeing more deeply into a repeated-play strategic interaction (a game!) than we are, you are wrong. And ultimately it will cost you dearly.** But if there is a mutually acceptable decision point – one that both you and we can agree upon, full in the knowledge that you know that we know that you know what’s going on – that’s an equilibrium. And that’s a decision or outcome or policy that’s built to last.

Fair warning, this is an “Angry Ben” email, brought on by the US government’s “communication policy” on Ebola, which is a mirror image of the US government’s “communication policy” on markets and monetary policy, which is a mirror image of the US government’s “communication policy” on ISIS and foreign policy. **We are being told what to think about Ebola and QE and ISIS.** Not by some heavy-handed pronouncement as you might find in North Korea or some Soviet-era Ministry, but in the kinder gentler modern way, by a Wise Man or Woman of Science who delivers words carefully chosen for their effect in constructing social expectations and behaviors.

The words are not lies. But they're only not-lies because if they were found to be lies that would be counterproductive to the social policy goals, not because there's any fundamental objection to lying. The words are chosen for their *truthiness*, to use Stephen Colbert's wonderful term, not their truthfulness. [The words are chosen in order to influence us as manipulable objects, not to inform us as autonomous subjects.](#)

It's always for the best of intentions. It's always to prevent a panic or to maintain confidence or to maintain social stability. All good and noble ends. **But it's never a stable equilibrium. It's never a lasting legislative or regulatory peace. The policy always crumbles in Emperor's New Clothes fashion because we-the-people or we-the-market have not been brought along to make a self-interested, committed decision.** Instead the Powers That Be – whether that's the Fed or the CDC or the White House – take the quick and easy path of selling us a strategy as if they were selling us a bar of soap.

This is what very smart people do when they are, as the Brits would say, too clever by half. This is why very smart people are, as often as not, poor game players. It's why there aren't many academics on the pro poker tour. It's why there haven't been many law professors in the Oval Office. This isn't a Democrat vs. Republican thing. This isn't a US vs. Europe thing. It's a mass society + technology thing. It's a class thing. And it's very much the defining characteristic of the Golden Age of the Central Banker.

Am I personally worried about an Ebola outbreak in the US? On balance ... no, not at all. But don't tell me that I'm an idiot if I have questions about the sufficiency of the *social policies* being implemented to prevent that outbreak. And make no mistake, that's EXACTLY what I have been told by CDC Directors and Dr. Gupta and the White House and all the rest of the super genius, supercilious, remain-calm crew.

I am calm. I understand that a victim must be symptomatic to be contagious. But I also understand that one man's symptomatic is another man's "I'm fine", and questioning a self-reporting immigration and quarantine regime does not make me a know-nothing isolationist.

I am calm. I understand that the virus is not airborne but is transmitted by "bodily fluids". But I also understand why Rule #1 for journalists in West Africa is pretty simple: [Touch No One](#), and questioning the wisdom of sitting next to a sick stranger on a flight originating from, say, Brussels does not make me a Howard Hughes-esque nutjob.

I am calm. I understand that the US public health and acute care infrastructure is light years ahead of what's available in Liberia or Nigeria. I understand that Presbyterian Hospital in Dallas is not just one of the best health care facilities in Texas, but one of the best hospitals in the world. But I also understand that we are all creatures of our standard operating procedures, and what's second nature in a hot zone will be slow to catch on in the Birmingham, Alabama ER where my father worked for 30 years.

The mistake made by our modern leaders – in every public sphere! – is to believe that they are operating on a deeper, smarter, more far-seeing level of game-playing than we are. I've got a long example of the levels of decision-making in the Epsilon Theory note "[A Game of Sentiment](#)", so I won't repeat all that here. **The basic idea, though, is that by [announcing a consensus based on the Narrative authority of Science](#) our leaders believe they are stacking the deck for each of us to buy into that consensus as our individual first-level decision.** This can be quite effective when you're promoting a brand of toothpaste, where it is impossible to be proven wrong in your consensus claims, much less so when you're promoting a social policy, where all it takes is one sick nurse to make the entire linguistic effort seem staged and for effect ... which of course it was. [The fact that we go along with a game – that we act AS IF we believe in the Common Knowledge of an announced consensus – does NOT mean that we have accepted the party line in our heart of hearts.](#) It does NOT mean that we are myopic game-players, unerringly led this way or that [by the oh-so-clever words of the Missionaries](#). But that's how it's been taken, to terrible effect.

I am calm. But I am angry, too. It doesn't have to be this way ... this consensus-by-fiat style of policy leadership where we are always only one counter-factual reveal – the sick nurse or the sick economy – away from a breakdown in market or governmental confidence. I am angry that we have been consistently misjudged and underestimated, treated as children to be "educated" rather than as citizens to be trusted. **I am angry that our most important political institutions have sacrificed their most important asset – [not their credibility, but their authenticity](#) – on the altar of political expediency, all in a misconceived notion of what it means to *lead*.**

And yet here we are. On the precipice of that breakdown in confidence. A cold wind of change is starting to blow. Can you feel it?

To subscribe to Epsilon Theory:

- Sign up here: www.salientpartners.com/epsilontheory/subscribe
- **OR** send an email bhunt@salientpartners.com with your name, email address, and company affiliation (optional).

There is no charge to subscribe to Epsilon Theory and your email address will not be shared with anyone.

Follow me on Twitter: @EpsilonTheory

To unsubscribe to Epsilon Theory:

- Send an email to bhunt@salientpartners.com with “unsubscribe” in the subject line.

DISCLOSURES

This commentary is being provided to you by individual personnel of Salient Partners, L.P. and affiliates (“Salient”) and is provided as general information only and should not be taken as investment advice. The opinions expressed in these materials represent the personal views of the author(s) and do not necessarily represent the opinions of Salient. It is not investment research or a research recommendation, as it does not constitute substantive research or analysis. Any action that you take as a result of information contained in this document is ultimately your responsibility. Salient will not accept liability for any loss or damage, including without limitation to any loss of profit, which may arise directly or indirectly from use of or reliance on such information. Consult your investment advisor before making any investment decisions. It must be noted, that no one can accurately predict the future of the market with certainty or guarantee future investment performance. Past performance is not a guarantee of future results.

Statements in this communication are forward-looking statements.

The forward-looking statements and other views expressed herein are as of the date of this publication. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. Salient disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein.

This information is neither an offer to sell nor a solicitation of any offer to buy any securities. Any offering or solicitation will be made only to eligible investors and pursuant to any applicable Private Placement Memorandum and other governing documents, all of which must be read in their entirety.

Salient commentary has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Salient recommends that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. The appropriateness of a particular investment or strategy will depend on an investor’s individual circumstances and objectives.