

## The Wisdom Paradox

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“But that’s just the trouble with me. I give myself very good advice, but I very seldom follow it”  
*A quote from Alice in Lewis Carroll’s “Alice’s Adventures in Wonderland” (1865)*

Who would have imagined that we would one day be toting a device small enough to fit into a shirt pocket with access to the collective knowledge of humanity? And who would have thought that “democratizing” such access would cause deep divisions and tensions amongst us, reviving a form of tribalism that we believed had been long gone? None of this was really predictable if only because history hangs by a thread, the outcomes of seemingly random events and freak accidents if you will. We never really know what comes next if we can’t imagine every single possible scenario that can occur.

The Titanic was the biggest passenger ship of its time, and yet it didn’t survive its maiden voyage. Everyone was so caught by its magnificence that nobody bothered to carefully think through the consequences of a collision with an iceberg. Yes, it is obvious after the facts, but that is only because such events are tainted by our hindsight biases<sup>1</sup>. If the world that surrounds us is hopelessly random, the opposite is almost always true when it comes to our behaviors, governed by our immutable senses of “greed” and “fear” that are buried deep into our reptilian minds. More predictable also means potentially amenable, which is why a few governments and large corporations have been building advanced algorithms that attempt to guide our decision making towards a certain outcome.

These “manipulations” are also having consequences that don’t seem to have been properly thought out. How else does one explain the increasingly toxic divisiveness that is tearing into the social fabric of nations? It is worrying to note that when faced with global existential threats such as climate change or the pandemic, the response has been shockingly muted. Even though we are well aware of the dangers, and we have the right tools to do the job, it is in the unity and cooperativeness that we have a major deficiency<sup>2</sup>. If knowledge is power, its relative omnipresence should help propel humanity to a higher plane, and yet that is not happening. Having power is one thing, knowing how to wield it wisely is another matter entirely, and so maybe it is in the wisdom part of the equation that we are short.

If wisdom is defined as combination of experience, knowledge, and sound judgement, a sort of pragmatic reasoning that helps us navigate life’s challenges, anyone with common sense having acquired sufficient experience and knowledge over the years should be able to attain a certain level of wisdom, right? Isn’t this why our elders are perceived as having grown

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<sup>1</sup> [https://en.wikipedia.org/wiki/Hindsight\\_bias](https://en.wikipedia.org/wiki/Hindsight_bias)

<sup>2</sup> <https://www.nytimes.com/2021/08/04/opinion/technology-internet-cooperation.html>

“wiser” over time? But what if wisdom itself is being tainted by our reptilian minds, our many cognitive faults? What if, even though some of us do exhibit some form of wisdom, there is a gross asymmetry in its application, depending on the context in which it is being applied? King Solomon, the third leader of the Jewish Kingdom, was known to be a paragon of wisdom and people would travel across continents to seek his advice<sup>3</sup>.

It is therefore shocking to note the extent to which the life he led, marked by opulence, indulgence, and debauchery, diverged from the sound advice he gave others. The contrasts between the wisdom he exhibited in public and his decisions and choices on private matters were so extreme, it became known as “Solomon’s paradox”. Because our emotions tend to override our wisdom, many of our personal decisions tend to be poor when compared to the advice we give others. A recent scholarly work on the subject has revealed that not only do we all suffer some degree of “Solomon’s paradox”, but that growing older doesn’t necessarily make us wiser as some form of “asymmetry” appears to linger on throughout our lives<sup>4</sup>.

These findings are significant when we consider that they apply to a broad range of matters that affect us directly. If our decisions on which “experts” in a field to consult, what medical interventions to seek, how to structure our investment portfolios or what careers to pursue are being tainted by our emotions, we are in trouble because the risk of making mistakes and the ensuing regret become that much greater. If preserving the wisdom in our decision making requires detaching ourselves from our emotions by, say, framing the problem like it was being conducted for someone else, if it means recognizing and accepting our personal deficits or if it necessitates being open to the views of others that contradict and oppose us, then again, we are in trouble. People have become so entrenched with their confirmation biases, that it is beginning to cause some real damage<sup>5</sup>.

It is telling that high performers in various fields, whether it be sports, entertainment, or entrepreneurship, tend to surround themselves with the “best” coaches and advisors. This is not only because they have something to learn from them, but mainly because the advice they get is much less likely to be tainted by their own emotional biases. Investment management is no different, constructing a portfolio that targets specific objectives can only stand the test of time if the decision-making process is void of such biases. So don’t be too confident with your wisdom, it won’t be of much use if your judgements are being clouded by your emotions.

### ***Where Do We Go From Here?***

The market turbulences of late have been triggered by the confluence of developments that carry global contagion risk. Markets became jittery as China’s government signaled reluctance to come to the rescue of Evergrande, a large property conglomerate on the verge of defaulting. The Chinese leadership has become increasingly weary of its decades long, debt-driven infrastructure spending strategy that is starting to show cracks. An ageing population, record borrowing and major recent shifts in the geopolitical arena are inciting them to pursue other, more “sustainable” manners of preserving the recovery over the longer term.

The recovery in China will likely slow down as the economic composition is gradually rebalanced away from its over-reliance on construction projects and move more towards consumption and services. The anticipated retraining of a large segment of the labor pool and possible restructuring of entire industries will likely create headwinds for growth for some time to come. This “transition phase” should also lead to longer-term stability if it diminishes the risk of a debt-driven financial blow up with high global contagion risk from materializing. The main uncertainty at this stage is going to be in

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<sup>3</sup> <https://en.wikipedia.org/wiki/Solomon>

<sup>4</sup> [https://uwaterloo.ca/wisdom-and-culture-lab/sites/ca.wisdom-and-culture-lab/files/uploads/files/grossmann\\_kross\\_-\\_exploring\\_solomons\\_paradox\\_-\\_article\\_proof.pdf](https://uwaterloo.ca/wisdom-and-culture-lab/sites/ca.wisdom-and-culture-lab/files/uploads/files/grossmann_kross_-_exploring_solomons_paradox_-_article_proof.pdf)

<sup>5</sup> <https://www.jglobalbiosecurity.com/articles/80/print/>

figuring out what's on the mind of Xi Jinping, the Chinese leader who has been increasingly consolidating power over the years<sup>6</sup>.

What we are likely to see more of in coming years is policy interventions according to his vision, rather than the usual regulatory events of the past. The deep structural changes brought about by the pandemic, rising antagonism with major trading partners and the emergence of authoritarian capitalism as a viable competing alternative to democratically driven ones are forcing a major reset of the world order for the first time since the end of the cold war. The emergence of new alliances such as Aukus, the rekindling of old ones like Quad or a rethink of NATO are clear signs of these major policy shifts<sup>7</sup>. The stakes are high, and the effects will likely linger on for generations to come.

The other major source of turbulence has been the increasingly mixed signals on growth, inflation and the labor markets that have been emanating from the U.S. economy. This is prompting the Fed to attempt a delicate balancing act of continuing to appear accommodative (as the pandemic continued to run its course) on the one hand without compromising its longer-term objectives of ensuring that inflation remains tamed. The massive deficit spending by the federal government has allowed the economy to remain afloat during the pandemic induced lockdown headwinds, and now that most of that money has been spent, it is in the 10-year, \$3.5 trillion spending plan of the democrats where attention will be focusing.

Another worrying matter is the way in which U.S. foreign policy is being conducted since the Biden administration came to power. Whether it is the botched Afghan pullout, the recent spat with the French, the mishandling of Haitian migrants or continued tensions with the Chinese, the Biden presidency appears to differ from that of Trump only in style and not content. As the U.S. and China continue to consolidate and flex their muscles, the need for a more united Europe to chart its own course is also becoming more urgent. But Europe remains deeply divided on geopolitical matters and the exit of Merkel will only cloud its future more.

The next coming months are likely to remain volatile as a new world order begins to crystalize. History suggests that we can overcome all the major challenges we face. But that also assumes that we remain united, cooperative and continue to share common goals, the very attributes that have allowed our species to dominate all else. A cursory look at the world in the present is not very encouraging, this might just be transient, but it could also be a more permanent shift in our mindset, brought about by those sneaky algorithms. I guess time will tell.

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<sup>6</sup> If Evergrande's troubles continue to affect sentiment negatively, the broader economy and real estate market could also come under pressure, which means that the government will have to intervene at some point, like it has done in the past, to prevent a bloodbath.

<sup>7</sup> <https://www.bloomberg.com/news/articles/2021-09-23/why-the-aukus-quad-and-five-eyes-pacts-anger-china-quicktake>