

The
WISDOM
of
FINANCE

DISCOVERING HUMANITY
in the WORLD OF RISK *and* RETURN

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HOUGHTON MIFFLIN HARCOURT
BOSTON NEW YORK 2017

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Houghton Mifflin Harcourt 01/14/17

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Money is a kind of poetry.

—Wallace Stevens, *Opus Posthumous*

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AUTHOR'S NOTE

This book is not about the latest study that will help you make money in the stock market or that will nudge you into saving more. And it's not about the optimal allocation of your retirement assets.

This book is about humanizing finance by bridging the divide between finance and literature, history, philosophy, music, movies, and religion.

This book is about how the philosopher Charles Sanders Peirce and the poet Wallace Stevens are insightful guides to the ideas of risk and insurance, and how Lizzie Bennet of *Pride and Prejudice* and Violet Effingham of *Phineas Finn* are masterful risk managers. This book looks to the parable of the talents and John Milton for insight on value creation and valuation; to the financing of dowries in Renaissance Florence and the movie *Working Girl* for insight on mergers; to the epic downfall of the richest man in the American colonies and to the Greek tragedies for insight on bankruptcy and financial distress; and to Jeff Koons's career and Mr. Stevens of *Remains of the Day* for insight on the power and peril of leverage.

In short, this book is about how the humanities can illuminate the central ideas of finance. But, this book is also about how the ideas of finance provide surprising insight on common aspects of our humanity.

So, this book is also about how understanding insurance can help us make sense of and confront the disorder of the world; how understanding the Capital Asset Pricing Model can allow us to real-

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ize the value of relationships and the nature of unconditional love; how understanding value creation can help us live a meaningful life; how understanding bankruptcy can help us react to failure; and how appreciating theories of leverage can teach us about the value of commitments.

For readers unfamiliar with, but curious about, finance, this book attempts to outline the main ideas of finance without a single equation or graph—and only with stories. I'm always struck by how intimidating finance is to many of my students. There's a reason for this—some people in finance want to intimidate other people. By attaching stories to the ideas of finance, previously intimidating material will hopefully become accessible and fun. For concerned citizens or aspiring professionals, finance has never been more important—and ignorance of it has never been more costly. At a minimum, when someone you know starts going on about options, leverage, or alpha generation, you'll know what they're talking about.

For students or practitioners of finance, this book allows them to revisit the big ideas of finance in a fresh, different way. Many practitioners of finance I see in my classroom were taught finance in a mechanistic way that has led to a fragile understanding of the fundamental ideas. When I probe them for the underlying intuitions, their understanding of the formulae helps little, and they can struggle to relay the conceptual underpinnings of what they do. By seeing these same ideas in a completely different way than you're used to, you will deepen your understanding and, most importantly, your intuitions.

For those readers engaged in finance deeply, the book holds one final promise. Your endeavors are routinely maligned today, and it can be difficult to make sense of one's life when your work is characterized in such a negative way. But there is great value—and there are great values—in finance. By reconnecting to that value—and those values—perhaps you can understand your life's work

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as a meaningful extension of the values you hold dear. At the end of his poem about a recreational woodchopper, “Two Tramps in Mud Time,” Robert Frost captures vividly how important it is for us to understand our work and our lives as an integrated whole.

My object in living is to unite
My avocation and my vocation
As my two eyes make one in sight.
Only where love and need are one,
And the work is play for mortal stakes,
Is the deed ever really done
For Heaven and the future's sakes.

Most ambitiously, this book endeavors to improve the practice of finance by rediscovering the humanity of the core ideas of finance. The demonization of finance is counterproductive, and regulation, while helpful, holds only limited promise for addressing the transformation of finance into an extractive, rather than a value-creating, industry. Perhaps we can all find our way back to a more noble profession by enlivening the ideas of finance through stories that illuminate our lives and our work.

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