

Houston Objectivism Society Newsletter

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Next HOS Meeting: Why Ancient Greece is My Favorite Civilization

This videotaped lecture, given aboard a ship during this summer's cruise of the Greek islands, presents Dr. Leonard Peikoff's analysis of the essentials of Greek culture. He names the fundamental virtue underlying their culture as man-worship and explains why Greece laid the foundation of all human values. He goes on from there to discuss a number of characteristics of their culture, comparing Greek ideas to those of the Founding Fathers and others of the Enlightenment.

The meeting will be held on October 11 at 6:30 p.m. at the Clubroom of The Meridian apartment complex, 6263 Westheimer (between Hillcroft and Fountainview), across from Payless Shoes. The Clubroom is located upstairs facing Westheimer.

NOTE: Attending members are asked to contribute \$2 to help pay for the expenses of renting this clubroom. We have not been recovering rental costs, and would like to encourage those who have not been contributing to do so. Those attending are asked to bring snack items.

Investing: An Objective Approach

by Pete Jamison

Can you do just as good with a dart board as with a broker? If so, does it *have* to be that way? Why do many funds seem to do worse than the dart board? How can you tell if a crash or a boom is on the horizon? Could Objectivism give an investor any comparative advantage?

Lyceum International's seminar "Investing: An Objective Approach" with Dr. Yaron Brook, held at the Intercontinental Airport Hyatt Hotel, answered these questions and more on September 6. Dr. Brook, a lecturer in economics, was familiar to many in this audience from previous Lyceum events and to those who knew him from his postgraduate days at UT. Covered topics ran from defining investment to examining how prices are set within a market to the immediate future of the economy.

Brook opened by describing investment simply as a way to purchase a financial asset over a period of time, with the expectation of profit and in the form of reasonably predictable shares, and he denied the view proclaimed by critics of business (and by many business professionals) that investment is akin to gambling. When one invests, one is participating piecemeal in ownership of labor and capital interests, of production. This is not the fast, random payoff of the lotto.

Coverage quickly progressed

from investment in general to the financial markets in specific. Several common types of investment, Brook noted, aren't part of the financial markets at all. Bank savings accounts and gold bullion holding (another form of saving) merely maintain purchasing power; little interest accrues (none in gold's case). Real estate and investments in businesses, your own or a friend's, are also alternatives to the financial markets-- alternatives which are far less liquid. Stocks and bonds were Brook's main focus.

At this point, the subject of risk arose. Risk was identified as the measure of likelihood that events worse than expected will occur. Although difficult to quantify in convenient units, it can be lessened proportional to the explicit knowledge one possesses. And Brook also mentioned a proportional relationship that does *not* exist -- that of risk and reward.

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Mere high risk will not guarantee any return whatsoever.

Money market instruments, bonds and stocks constitute...

The Financial Markets

These markets are the arena in which wealth passes from the savers to the producers. They're largely of a secondary nature, the primary nature being a transaction between a buyer of an instrument and the company issuing it. Most trades happen with no contact between traders and issuing companies because (as with a share of stock) trades occur between the current and the future owners. This secondary market "pumps" the primary market considerably, for one wouldn't buy on the assumption that it would be impossible to unload if things went badly. These markets are great sources of information, making better purchases possible, up to and including corporate takeovers of

poorly managed companies. Some definitions included:

Money Markets: low-return, short term instruments typically holding bank overnight loans. Treasury bills and other short term government securities can be included in this category. A typical return would be 4 to 5 percent.

Bonds: essentially an IOU contract, they're loans with prespecified rates of return and maturity dates. They carry inflation risk due to the rates being fixed.

Stocks: documents of ownership and claims on residual company assets (first call on assets devolving to creditors).

Yaron noted that long term bonds have generally done worse than stocks. A high-yield bond can do fine for awhile but sustained inflation rates of as little as 6% can kill the bond market.

Pricing Financial Assets

How are the prices for stocks, bonds, etc. decided upon? From where do they come? Dr. Brook identified three views familiar in many respects to Objectivists:

Subjective Pricing View: everybody values a company differently. Prices are psychological creations of lemming-like tendencies in us all. Ultimately, prices are meaningless.

Intrinsic Pricing View: there's a "true" value of a cash flow or a stock "out there" somewhere. It's a Platonic form. The market's got to be right, so there's no way to beat it. And if you *do* beat it, you were just lucky.

Objective Pricing View: prices reflect the information that the best traders have. Prices reflect successful trades - - not the market.

This last Brook described as a "socially objective" valuation, uncertain but rational in nature. Luckily, he said, traders don't typically pay attention to economists.

Investment Strategy

Dr. Brook spent a good deal of time discussing differences in passive and active strategies and expanded on tactics of buy-and-hold vs. market "timing". But he progressed to the general point that, to do well, you must know something that the market does not know. In other words, to make a good trade it takes some comparative advantage, so as to beat the market to facts which eventually will come to light. Personal experiences can contribute to this advantage (assuming the relevant authorities don't call it insider trading), Peter Lynch being one author that's used this approach (see sidebar). Brook suggests that Objectivists use their philosophical knowledge in addition to all other facts obtainable, watching the behavior as well as performance of the person at the head of a company. The individual productivity of the leader can strongly affect the "culture" of an operation. Al Dunlop and Jack Welch (the latter of GE) are mentioned as ones to watch, discounting, Brook added, the politics of the leader, since so many people are compartmentalized today, being rational in some areas and quite the opposite in others.

Regarding mutual funds, they were described merely as cases of investing in which decisions are deferred to the manager of that group of holdings. Brook favored those tied to market indexes over

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managed active funds. Otherwise, do the research and choose your own. You'd save on management fees in addition to making choices at least as good as those the manager would probably make.

The Economy

Dr. Brook thinks the fundamental situation is rather good for the next decade or so, for the following reasons. First, the "Atlases" of the world haven't given up yet: productive people still get up and go to work. Second, the low regulation and high impact of technology improvements, the so-called third industrial revolution, unleashes productivity that didn't exist before. Third, there's a pragmatic leaning toward the market, possibly a result of so many overt planning schemes going down to failure. Fourth, global free trade agreements such as the EEC, NAFTA, GATT, South

Sea and Latin American cooperation combine to reduce costs everywhere. Fifth, the current efficiency of the financial markets coupled with typically low inflation may be beating some types of business cycles. And sixth, 1980's restructuring, which unseated entrenched, unresponsive ownership and gave pink slips to bad managers had a long-term positive effect, contributing to today's positives.

Conclusion

I haven't given away everything. If you weren't there, you should have been. The knowledge and strategies Dr. Brook imparted were so good, they were worth financing in a way of which Brook may not approve-- by credit card. As I'm aware some of us did. We-- I mean, such people should consider it a wise investment.

HOS Meeting Summaries

Manners as Philosophy

August 9, 1997

The August HOS meeting featured a presentation by Steve Miller titled "Manners as Philosophy."

Quoting columnist Judith Martin, also known as Miss Manners, Steve made a distinction between etiquette and manners. Manners are the principles underlying a system of etiquette, while etiquette is the particular rules used to express those principles.

The subject of etiquette is no less impractical than philosophy. Indeed, etiquette is subsumed under ethics. Etiquette provides rules for social interaction. Citing an example of a gang member who shot a rival for showing disrespect, Steve explained that all societies have rules of etiquette. The etiquette of a culture, or subculture, will reflect its dominant ethics.

Tradition and custom also play a role in etiquette. The issue of respect can be derived from ethics; how respect is demonstrated is largely determined by the customs of the culture. For example, in Japan it is a sign of respect to remove one's shoes upon arriving for dinner; in America this would be viewed as rude.

Judith Martin identifies three branches of etiquette: regulative, symbolic, and ritual. Regulative etiquette is often regarded as

A Brief Look at Peter Lynch

The former head of the Fidelity Magellan fund is an exponent of the "buy what you know" theory (favorably mentioned by Brook) and the author of two bestsellers, *One Up on Wall Street* and *Beating the Street*. In the second book, he describes how a class of sixth-graders used "buying only what one knows" (which they got from reading his first book) to beat over ninety percent of the fund managers working at the time, including Lynch himself.

The approach, also associated with Warren Buffett, is simply to avoid buying into companies active in markets and products beyond one's

ability to understand, follow or verify. In investing, one sticks to the familiar, as in the case of the sixth-graders' purchase of shares in Mattel ("every kid understands that"), Nintendo (their impression of this game system's popularity was borne out) and definitely not in the case of IBM, the only instance in which parental advice was taken. Lynch advocates looking for winners simply by going to the mall; if you see a crowd at Victoria's Secret, be it women purchasing clothing or men purchasing the catalog, this is important information.

The approach is mitigated by the observation that hit products are only the first indication of a good stock. If it's a

one-product company and that product is selling fast, then this company should be considered. But if the hit product is a subunit of an unremarkable company, the product's effect on the share price could be minimal. And this condition could change, as in the case of Taco Bell, rocketing up until purchased by Pepsi in the late 80's, the moral being that one should keep tabs on management and ownership news.

Lynch currently contributes to the competent (but in my opinion politically smarmy) financial slick *Worth* magazine and maintains an advisory role at Fidelity Investments.

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“common sense”, and it intended to make social interaction easier. In a sense, it restricts freedom of expression more than the law does or should. For example, legally you have a right to tell someone he is ugly, but doing so creates unnecessary conflicts. Regulative etiquette also includes such things as courtesy in traffic, keeping appointments, waiting in line, etc.

A species of regulatory etiquette, which Judith Martin calls institutional etiquette, carries practical consequences for violators. Such etiquette governs activities like legislative sessions and meetings, providing rules for those proceedings. Violators are subject to such penalties as removal from the meeting, or censure.

Symbolic etiquette deals more with form and tradition, such as clothing and body language. Because such etiquette has optional elements, it is often viewed as unimportant. For example, addressing a professor by his first name may be verbally correct, but it can be symbolically insulting (i.e., demonstrating a lack of respect).

Ritual etiquette makes certain events more esthetically pleasing or emotionally reassuring. Fancy restaurants have dress codes so diners can enjoy an elegant dinner; funerals have a format to permit mourners to express their grief and show respect to the deceased.

These three branches of etiquette provide a means for nonverbal communication with others, making daily life more pleasant and providing the basis for elegance for special occasions. Etiquette is an expression of the fact that we are civilized men, and contributes to making us so.

Steve noted that Objectivists have two special concerns regarding

etiquette: the importance of etiquette in the role of philosophical salesman, and possible conflicts between one's principles and the rules of etiquette.

Giving a talk to a group new to Objectivism should not be done in jeans and a t-shirt. Doing so would violate symbolic etiquette, causing the audience to question whether you take them, or your ideas seriously. Don't respond to every “Merry Christmas” with an explanation that you are an atheist. Such a greeting is almost always an expression of good will with no philosophical meaning intended. When debating others on philosophical issues, initially grant them the benefit of the doubt (until they deserve otherwise). If your purpose is to expose others to your ideas, showing respect for them and yourself is not only correct etiquette, but also practically beneficial.

Conforming to social norms does not necessarily make one unprincipled. Etiquette's purpose is to make social interaction easier and more enjoyable. Following the rules of etiquette, when they do not conflict with one's principles, is the logical thing to do. For example, while the combination of red and yellow did not logically have to be called “orange”, any English-speaking person wishing to be understood should use that term.

However, in any conflict between etiquette and one's principles, the rules of etiquette should be discarded. It is generally considered rude to discuss politics and religion in social settings. Universally applied, such a rule is irrational. As with all ethical issues, context is crucial.

The news media frequently decries the declining compliance with etiquette in our society. This

problem comes from the erosion of philosophy, confusion about the nature of etiquette, and fundamental changes within our society.

Because etiquette derives from ethics, irrational ethics will lead to destructive rules of social interaction. The case of the gang member who shot a rival for showing disrespect is one example.

The historically recent social and economic gains made by women have caught many men by surprise. Before women became common in the workplace, men dealt with women almost exclusively in social situations. Many men dropped context and found themselves unable to adapt their etiquette system to this change. The result was either treating women like men, or treating women as they would in a social setting, neither of which was appropriate.

Because of the link between philosophy and manners, etiquette is a subject in need of attention from Objectivists. Not only will our interactions with others improve, it will help make our lives more pleasant and fulfilling.

Essay Awards Ceremony August 29, 1997

On August 29 HOS members gathered with this year's essay contest winners, their families and friends. Natalie Carnes won first place in *The Fountainhead* contest. Her essay is printed in this issue of the newsletter.

Sam White, last year's *Athem* essay winner, placed second in this year's *Fountainhead* contest. Sonali Ahluwalia was this year's *Anthem* winner.

The Fountainhead Essay Winner

by Natalie Carnes

The noble soul does not imitate. It refuses to borrow and it scoffs at pretense. The noble soul is independent. To use a mind that recognizes no authority above itself and defines standards and values to adhere to consistently-- this is the nature of a man prompted by an independent soul. *The Fountainhead*, in projecting such a man as its hero, centers around a theme of independence from which the plot, the characters, and the dialogue are all derived. Most excerpts from *The Fountainhead* can, consequently, be traced to this theme, either as a direct expression of it or as a more subtle extension. Four quotations in particular, by accenting the major developments of the theme of independence, stand as proof of this theory. By studying these quotations, one may witness the evolution of a philosophy of independence.

Keating: "How do you always manage to decide?"

Roark: "How can you let others decide for you?"

Howard Roark was an innovator. He exercised his creative faculty to produce the new, the original, the unborrowed. Peter Keating was a parasite. He employed what skills he had to exploit the talents of others. This confrontation between the innovator who premises his actions on independence and the parasite who thrives on dependence introduced the importance of decision-making to independence. Making a judgment requires acting on values, assessing priorities. Only

a man with a concept of self can delineate values since only he has a standard by which to gauge them (i.e., his self). A man such as Keating-- who sold his soul and his opportunity to hold convictions-- retains only a shell of a self, a vessel into which he pours the ideas, beliefs, and opinions of others. He fakes reality. Not deciding or, in Ayn Rand's terms, "blinking out," is an attempt to shield oneself from truth, to pretend reality away. Shrinking from decisions and neglecting to direct the course of one's life indicates indifference toward life in general. This idea reduces to that fundamental choice which man makes in determining his approach to life: to live or not to live. Roark chose life, and, to sustain it, he articulated values consistent with and made decisions in accordance with those values. Keating, by default, chose death. By contrasting the independent man with the second-hander, this quotation illustrates independence as a positive action, a decision one makes. It helps establish the first attribute of independence as accepting responsibility for one's life.

Toohey: "If your first concern is for what you are or think or feel or have or haven't got-- you're still a common egotist."

Keating: "You mean, I must want to be unhappy?"

Toohey: "No. You must stop wanting anything."

In his attempt to rule the world, Ellsworth Toohey espoused

altruism: the doctrine that demands self-sacrifice, self-denial, self-annihilation. He persuaded men to erase themselves and sell their souls. His method was to work by first extinguishing their desires. A desire is a form of emotion, a subconscious response that engages values as its standard for reaction. Toohey's instruction to "not want anything" was in fact a command to abandon values. As it is man's rationality that weighs his values, Toohey was trying to persuade man to distrust his rationality, and, as it is rationality that guides men's actions, men who distrust their rationality are no longer self-sufficient. He was arguing for men to forsake their independence. Selflessness, the state in which one has achieved the abnegation of all values, is a doctrine incompatible with life. Consistent adherence to altruism results in death, and the nature of every living thing rebels against it instinctively. Man cannot live as an absolute altruist, and he will destroy his concept of self-worth in trying. In this way, altruism is a double poison, not only will it destroy self-respect by preaching that the self is only a tool for sacrifice, it will also destroy self-respect by offering man an ideal that by definition no living creature can attain. Toohey, however, is merely advocating a concept entrenched in American culture and embedded in many American minds: sacrifice, surrendering a higher value for the sake of an inferior one. It is the battle cry of the altruist. While sacrifice is exalted as the moral ideal, desire is condemned as a confession of weakness or evil.

When men stifle their desires, they are unhappy; it is in this state once again that men are no longer independent. Their need for happiness is unfulfilled, and they turn to alternatives (in Toohey's plan, himself and his lies) for substitutes; they become dependent on an external force and leave themselves open to control. The second attribute of independence, therefore, is expressing the desires of one's mind.

Dominique: "Roark, I can accept anything, except what seems to be the easiest for most people: the halfway, the almost, the just-about, the in-between."

Dominique Francon loved ideals and hated the world. Her struggle throughout the book is unique; she is a moral character, flawed only in her fear of people. She believed the world to be a pernicious place that exerted its power to destroy any greatness that might accidentally develop there. She spent her life avoiding love for anything that might entangle her in the world's web of pain and suffering. After meeting Roark, she realized she would utterly fail in this mission, and she eventually forced herself to marry the man she despised as her "gesture of protest" (p375). The context of the excerpt is a speech Dominique gave Roark as she told him she was renouncing happiness in the world. However, although this speech originates from a character whose premise is flawed, this quotation is a profound tribute to integrity (i.e., acting on one's standards wholly, continually, and invariably.) Rand addressed this issue when she declared, "There are two sides to every issue: one side is right and the other is wrong, but the

middle is always evil." (*For the New Intellectual*, p173). Compromise is acceptable only if it is on applications of the same fundamental truth. Any businessman could attest to the necessity of negotiation. To compromise one's life or the standards that govern it is not a proper compromise. As justification, Rand analyzed the metaphysical composition of man. She explained that man is an integration of matter and consciousness (ibid, p129); key to realizing the magnitude of such a statement is understanding the implications of "integration." To integrate is to bring into accord, and an integration of matter and consciousness means that the two cannot be divided. Man's beliefs and behavior are to stem from the same source. It is this understanding of "integrate" that gives meaning to the virtue Dominique worships: integrity. Dominique spurns the idea that she ought to surrender her own integration of matter and consciousness, her own reality, to that of others. This is the third attribute of independence: refusing to compromise on basic truths.

Roark: "Independence is the only gauge of human virtue and value. What a man is and makes of himself - not what he has or hasn't done for others."

In this speech depicting the soul of an individualist, Roark stressed that people are faced not with the choice of power or submission, but with the choice of independence or dependence. This point is central to grasping the message of the novel that altruism is the creed contending that a person ought to sacrifice himself to others, whether it is by

selling his soul to rule another or selling his soul to be ruled by another. Seeking either power or submission is a facet of dependence because it is to others one must look to fulfill this goal. The choice of independence or dependence is simply a restatement of the fundamental choice of life or death, for life requires independence. Because it is accepting responsibility for one's own thoughts and actions, independence is the means to life. To avoid any misunderstanding, that statement is not an assertion that any independent judgment is moral; it means that only issues decided with reference to furthering one's own life are virtuous, since life ought to be the standard for one's values. This interpretation is validated by the second part of the quotation which elaborates on independence saying, "What a man is and makes of himself-- not what he has or hasn't done for others." The emphasis rests with the contrast between egoism and altruism, and it may be inferred that the significance of the quotation does also. As it draws this distinction with altruism, it establishes a link between independence and egoism and labels those ideas as the standard for behavior. Condensing this information, the fourth attribute of independence is generating one's own life.

The independent man accepts responsibility for his life, expresses his desires, refuses to compromise himself, and perpetrates his own life. As it weaves these ideas throughout the story, *The Fountainhead* illustrates one all-encompassing concept: independence is essential to life.