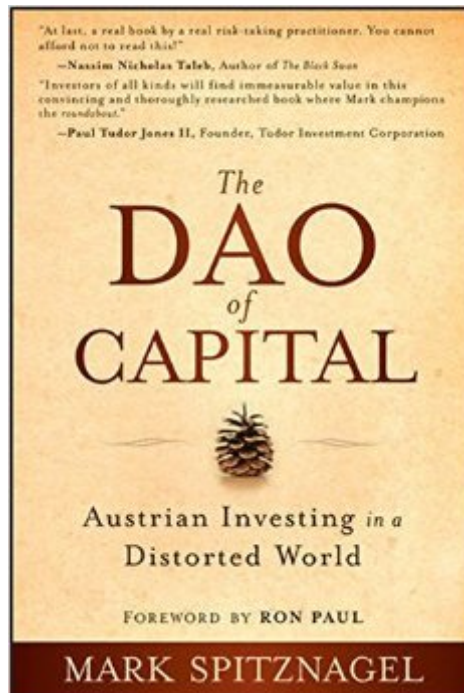


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The Dao Of Capital: Austrian Investing In A Distorted World



Synopsis

As today's preeminent doomsday investor Mark Spitznagel describes his Daoist and roundabout investment approach, "one gains by losing and loses by gaining." This is Austrian Investing, an archetypal, counterintuitive, and proven approach, gleaned from the 150-year-old Austrian School of economics, that is both timeless and exceedingly timely. In *The Dao of Capital*, hedge fund manager and tail-hedging pioneer Mark Spitznagel "with one of the top returns on capital of the financial crisis, as well as over a career" takes us on a gripping, circuitous journey from the Chicago trading pits, over the coniferous boreal forests and canonical strategists from Warring States China to Napoleonic Europe to burgeoning industrial America, to the great economic thinkers of late 19th century Austria. We arrive at his central investment methodology of Austrian Investing, where victory comes not from waging the immediate decisive battle, but rather from the roundabout approach of seeking the intermediate positional advantage (what he calls *shi*), of aiming at the indirect means rather than directly at the ends. The monumental challenge is in seeing time differently, in a whole new intertemporal dimension, one that is so contrary to our wiring. Spitznagel is the first to condense the theories of Ludwig von Mises and his Austrian School of economics into a cohesive and "as Spitznagel has shown" highly effective investment methodology. From identifying the monetary distortions and non-randomness of stock market routs (Spitznagel's bread and butter) to scorned highly-productive assets, in Ron Paul's words from the foreword, Spitznagel "brings Austrian economics from the ivory tower to the investment portfolio." *The Dao of Capital* provides a rare and accessible look through the lens of one of today's great investors to discover a profound harmony with the market process "a harmony that is so essential today.

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Customer Reviews

Let me explain why I think this is a great book. First, this book makes a major contribution to the field of economics. Economics is in desperate need of a different paradigm, as the existing theories (heavily based on John Maynard Keynes and Milton Friedman) are not working; there is a need for an "agonizing reappraisal". It may seem odd, but I did not read this book primarily to learn more about investing, nor to learn more about the BLACK SWAN. Rather, I wanted to learn about the "Austrian" approach to economics, which was sorely neglected in economics professional education (as it was - and still is - neglected in virtually all colleges and universities in the U.S.). Spitznagel has thoroughly studied the writings of the Austrians (over the past 150 years), and he has presented their views in a fresh way, making it clear that these "old" ideas are not only relevant today, but when properly interpreted, and when combined with certain recent contributions of others (e.g., behavioral economics), they constitute a formidable new approach to economics and economic policy. Second, the examples Spitznagel uses as illustrations of Austrian "round-aboutness" are superb; they are unusual and outstanding, and are presented in depth: The "Pit" on The Chicago Board of Trade, ancient Chinese philosophy and martial arts, the conifers and pine cones, Clausewitz and military strategy, the caterpillar and the butterfly, Henry Ford and the assembly line, Robinson Crusoe, and many others.

First and foremost, I highly recommend reading this book. The journey is admittedly round about, but the unique perspective is worth the time investment. What to Expect The Dao of Capital is not an investment manual, or a tactical handbook. Instead this is more of a treatise - see - The Art of War, a paradigm from which to view strategy itself. The focus is strategy, and underlying philosophy, not tactics. Spitznagel's perspective on life as a whole is unique and enlightening. Yes, he is (extremely) repetitive at times, and could have benefitted from an editor with a bit tighter fist, but please do not let that discourage what will most assuredly be a valuable investment of your time. The author has a gift for conceptual perspective, but at times his brilliance unnecessarily complicates his choice of metaphors - making the book a bit more difficult to continually comprehend than it necessarily needs to be. At times I found myself having to retreat in the book to go back and review a previous metaphor, so that I could keep up with the current concept being stressed. Now, while the retreating to advance strategy may fit well with the overall positional advantage theme of the book, there is still something to be said for concise simplicity when

conveying your message. Specific Tactics for Investing My personal desire upon purchase of this book was to garner some insight on specific investments, in what I already knew was a distorted market. I already shared much of the author's theoretical economic view (Austrian) and his political philosophies (liberty), and therefore already shared his belief of a Fed created distortion in the market.

Money manager Mark Spitznagel has written a very wordy paean to Austrian Economics. If ever a book needed a tight fisted editor this one is it. However, once you get beyond reading every thing Spitznagel knows about Austrian Economics the reader will get a better understanding of economics and the investment process. The key takeaways from the book are the core notions of Austrian Economics which value roundabout (indirect) production over direct production and the role of monetary policy to distort investment decisions. For example, in the case of the former, the direct route to catching a fish would be to try to grab one in a pond while the roundabout and far more profitable route would be to make a net first and then use it to catch fish. In case of the latter, the low interest policy of the Federal Reserve induces investment that will be proved unprofitable once interest rates normalize leading to a bust. This knowledge leads investors to hedge tail risks when stock market trade at high price/replacement cost ratios and to buy individual stocks that with high returns on capital that won't be affected by increases in interest rates. Nothing really new here, but puts some real foundation underneath it. That is the value of the book. Spitznagel uses the biographies of the three great Austrian economists, Carl Menger Eugen von Bohm-Bawerk and Ludvig von Mises to explain Austrian economic theory. All of that is to the good, but he leaves out perhaps the greatest Austrian economists of all time, Joseph Schumpeter and Friedrich von Hayek. I guess Schumpeter's and Hayek's work don't quite fit into his theories. He also ignores the work of three American economists who built on the work of the Austrians: Irving Fisher, Frank Knight and Jack Hirshleifer, a former professor of mine.

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