EPISODE 19

[INTRODUCTION]

[0:00:05.3] Benjamin Felix: This is the Rational Reminder Podcast. A weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix and Cameron Passmore.

[INTERVIEW]

[0:00:17.6] BF: Welcome to Episode 19 of the Relational Reminder Podcast. In today's episode, we were very fortunate to be joined by Shane Parrish. If you don't know who Shane is, he runs the Farnam Street blog, which has to be one of the most valuable collections of information that exist on the internet. Farnam Street's stated intention is mastering the best of other people have already figured out and the site gets over a million visitors.

[0:00:41.9] Cameron Passmore: Incredible, absolutely incredible.

[0:00:43.5] BF: It's a huge site. And the content is, if you haven't been there, it's worth checking out. The content is unbelievable in terms of improving yourself and thinking better and learning better, anyway, we are very fortunate that Shane lives in Ottawa because he thought it was kind of cool just to have another podcaster in Ottawa to talk to.

[0:01:00.0] CP: Yeah, very close to the office which I've been reading his stuff for years and I had no idea he was A, from here and B, was actually so close to our office so that was pretty cool.

[0:01:08.0] BF: That's crazy. Shane has interviewed Ray Dalio not long ago but he's spoken with some pretty serious people in his podcast. I think we were really lucky to have him.

[0:01:16.4] CP: Yeah, this is a true gift. This one Ben did solo with Shane, which was great. It was a very peaceful, thoughtful, interesting conversation that I know listeners are going to love.

[0:01:26.1] BF: Shane's just got so much information in his head that we can – anybody can get a ton of value from.

Anyway, we'll go ahead and start the interview with Shane.

[INTERVIEW]

[0:01:39.2] BF: Welcome to Episode 19 of the Rational Reminder Podcast. Today we are very pleased to be bringing you a conversation with one of the most thoughtful, insightful, and well-read people that we know of who just happens to be in Ottawa.

Shane Parrish, welcome to the Rational Reminder Podcast.

[0:01:54.8] SP: Thanks for that generous introduction, I'm happy to be here.

[0:01:57.9] BF: I'd like to start by asking you about decision making which is one of the things that you're really well known for. Can you briefly explain what mental models are and why they're important?

[0:02:07.2] SP: Mental models are a representation in your mind of how something works. If you think of concepts like gravity, they're sort of illusive but we come up with these models in our head that allow us to think about forward and backwards. Forward would be if I drop this pencil, I know what's going to happen because I have this idea of gravity backwards if I see something or I hear something hit the floor, I can work backwards and I can sort of determine what happens because I have this understanding of gravity.

If you think about how we think, in models. The way that we determine what's important is through mental models, the way that we try to predict the future is by the models in our head and it's this unconscious sort of layer and then better the models that you have in your brain, the better, the better able you are to see reality and the way that you can think of this in multiple ways but one way is like tracing pit. Each piece of paper has just a little bit of the final picture but by layering them one on top of each other, you can come to the conclusion that you can see what the paper is supposed to be.

The more models you have, the better but only if those models are relevant to the question at hand, right? It doesn't do any good to have a model for this question or this particular problem if it doesn't help.

[0:03:22.8] BF: That's really interesting. I know on the Farnam Street blog, there are 109 mental models in your lattice work is what you call it. Clearly, if you could master all of them, that would be ideal but for someone who is making investment decisions, do you think there are a top list of mental models that are the most important.

[0:03:39.3] Shane Parrish: I think like the ones from ecology and sort of general thinking, the most important ones from an investing landscape and the ecology is in then what, right? Just thinking through, obviously there's specific ones to understanding business vocabulary, generally speaking, I mean, you want to have a general knowledge of the world and you want to have that knowledge of the world reliable and so by reliable, we mean, time tested.

I think taking those models and applying them to investments can help make you a more rational investor if that's your goal but it's really about thinking through problems or removing blind spots if you will. If you think of poker, if you knew everybody else's hand you would know what to play. If you can remove your blind spots in making an investment, you're better able to see the possible outcomes or avoid negative outcomes.

[0:04:32.2] BF: That makes a lot of sense. I think taking maybe a little bit of a different angle on that last question. You mentioned biases which is one of the things mental models are Important for overcoming, which biases do you think are the most harmful to investors.

[0:04:44.9] SP: I think overconfidence is a huge one and also, maybe less talked about is just the bias for action. We feel sort of like, if we have a bank account balance or you're a fund manager or something, you have this imperative pressure to do something with that money and I think that causes you to overvalue information that you get.

It causes you to take unrewarded risks because you're overvaluing information. I think that the confidence, every trade that you make is you know, you're signaling to somebody else that you know more than they do and I think that you need to understand how you arrived at that conclusion and then think through the other side a lot better than maybe the person who can sell it.

That's a really tough game to play long term, given some of the environmental constraints that investors face. If you're a stay at home sort of like investor trying to invest on the side, you don't really have the time and energy to invest in that. If you're somebody who manages money for a living then you know, that is your job. But much of that job is becoming selling and sort of marketing and gathering assets and then using leverage on your ideas to get a better return.

I think there's a whole swath of people that are sort of in between that or they want this knowledge of investing as Alexander Pope said in one of his poems, "a little knowledge is a dangerous thing." I think we convince ourselves that we're probably smarter than we are. If you look at anybody who started in investing, post 2009, they've known nothing but this hockey stick of slope, of returns and whether they invested individually or in index fund or mutual funds, it's almost like every asset class and every type of investment has done really well over the past 10 years.

[0:06:32.1] BF: Right. Are there any investors that you think have done a very good job of practicing in action?

[0:06:38.7] SP: None that would be public. If you think of money management, one of the things that's really interesting to me is that people who manage family money or family offices have a structural advantage that active investors don't really have or you passive investors don't have. That is that they can let money just sit on the sidelines or more concerned with sort of wealth preservation than necessarily accumulation.

That gets you out of this sort of relative return biased that we have now where you might take risks just to keep your relative return up and you start focusing on an absolute return and for some people, that makes a lot of sense and it depends on your circumstances and how much capital have you had and what you want to do with that capital.

For some people, that doesn't make sense. If you're 20 or younger, you might want to take a lot more risks than if you're sort of like 50 and older and trying to cement your children's education or your retirement or preserve the wealth that you've spent your lifetime building.

[0:07:40.6] BF: You mentioned process when you were talking about family offices and that's one of the things that I wanted to talk to you about. Can you just speak a little bit about the importance of process, particularly when we're making investment decisions?

[0:07:51.6] SP: Yeah, I think – well, with any decision processes, super important because you're making – in investing you're making a repeat decision so you're constantly choosing to invest or not invest and then you have to find some way to calibrate those decisions. The way that you can calibrate them, one of the ways that you can calibrate them is to give yourself feedback on the quality of those decisions.

I think that following a reasonably consistent process will help you calibrate easier and identify gaps and your decision making an identify gaps in your knowledge. Those gaps will become more transparent to you and it's only through that transparency that you have any really hope of systemically overcoming them.

Then you can also change the process to accommodate for all your strong or where you're weak and the process can be both individual, it could be team made, you can have processes within teams and organizations, you can have individual sort of process, you can have organizational processes.

Those decisions might have more heavy-handed processes for something that's large and consequential and irreversible and they might have smaller sort of lightweight process for something that's relatively inconsequential and reversible.

[0:09:05.2] BF: Interesting. One of the things you mentioned documenting decisions is that like decision journals which I know you've written about quite a bit?

[0:09:11.1] SP: Yeah, decision journals are just super helpful for keeping your ego in check but one of the problems is they help keep your ego in check. People don't actually like the feedback that it gives them sometimes because you're outlining not only an outcome but you're outlining why you think that outcome will occur and the people that we been them with, like one on one, a lot of those people get outcomes that they thought they were going to get but they happen for different reasons and they thought, that can be a very humbling sort of experience because then you go back and you start to convince yourself that I knew that all along.

I was right all a long and that's not the case because you've written it out and you've written it out in your own writings, you can't even convince yourself that somebody else did it. I think that decision drills can be super helpful for also like one of the under rated things about decision journals is knowledge sharing. We talk in large organizations about how we actually transfer knowledge from one generation to another or from one person to another.

Too often, that's like, here's what I would do in this situation. Those types of questions don't actually transfer knowledge, they transfer what to do in this particular circumstance. But that particular circumstances probably not going to crop up again. There will be a variation on that and if we don't understand the thinking behind the decisions, we're not going to be able to make those decisions as effectively moving forward and by understanding thinking, what I mean is, you don't go to a –

If you're trying to find a doctor, you don't go to a doctor and say, "who would you recommend?" Because that's just giving you an answer to your question, it doesn't actually help you in the future. What you want to ask is go to a doctor and ask, "what would you consider if you were looking for a doctor?"

What variables would matter to you and if you can calibrate that over two or three people, then you can start to actually learn what matters and what doesn't matter and that helps you not only make this one decision but it helps you make multiple decisions in the future. The next time you have to pick out a doctor, you don't have to reestablish that knowledge, you might have to update it to see if something has changed.

Now you've really transferred some degree of knowledge from somebody else into yourself and you've been able to use that knowledge and put it to use.

[0:11:22.2] BF: That's great. Now, I know that you've been involved with hedge funds in the past and I think currently, applying some of the ideas that you were just talking about, can you talk a little bit about that at your experience, doing that, and what you might have learned from it?

[0:11:34.5] SP: Yeah, I was in the board of a small RA in the US for four years and one of the things that became very clear in that process was that structurally, there's a lot of pressure to be all invested all the time, that doesn't necessarily align with maximizing investment returns. If you look at – take something like Berkshire Hathaway or The Daily Journal Corporation, right?

At various point in each of their sort of lifespans that people have followed them. They've had a massive amount of catch for years. If you think of activists sort of investors, had those companies not been controlled at some point or an activist investor would have come in, taken control of the company, dividend that money out and then put the company sort of back up.

Then we wouldn't be talking about Berkshire Hathaway or The Daily Journal Corporation in any way shape or form. Structurally, they had this advantage and that advantage is the ability to do nothing and the ability to look stupid. I think the ability to look stupid is an absolutely underrated aspect to not only investing but life.

There's a great quote by Lu Brock who said, "if you show me a man who is not willing to look stupid, I can show you a man that I can beat every time." If we go look at sort of famous investors and we go look at Warren Buffet who is on the cover of Time Magazine in like 2000 as this old guy who is out of touch and doesn't know what's going on because he had all this money and he wasn't invested in internet stocks now.

He was willing to look stupid in the most noticeable way possible. If we're not willing to look stupid, we're doomed to sort of like average results. Average results compare to not the world but compared to people with the similar means to us it's more education to us. If we're not willing to do something different, we're just going to be part of the herd and if we're not part of the herd, it's usually luck that gets us out of it.

But if we are willing to be different, we are willing to look stupid and we are willing to do something that's different, that's where we move away from sort of the ghost distribution and we start moving either left or right. Left being negative and right being a positive sort of outcome. If you can move one sort of like standard deviation away, that's worth a lot of points of leverage if you can manage a lot of people's money.

If you can get that and luck and you can move two or three sorts of standard deviations away, well now you have something that we look up to and try to reverse engineer success and how did they do that?

[0:14:04.6] BF: Wow, do you think there are some circumstances where skill is more important and some circumstances where intuition is more important when it comes to investing?

[0:14:16.0] SP: I think they go together, I don't' know if they're necessarily sort of like opposite each other. I think you need a good intuition for sort of where to look and what opportunities and what patterns might be profitable. I think you also need the skills to ascertain the quality and degree of opportunity there. I think a lot of people have one and not the other and it's rare that you can put them both together.

Part of this skill would be looking at a pattern that you've determined like cannabis stocks or you know, technology and then going back and looking at these massive sorts of shifts. This is one of the things Buffett had in an interview that very few people have ever read which I find surprising, given the degree to which people study him is that everybody goes back and looks for what's different in this circumstance and the more intelligent you are, the more reasons you can find, why this circumstance is different.

Then you convince yourself with this great story about why this circumstance is different, why you're right. One of the things that he went back to look at was, what's the same between technology stocks coming on and airlines, right? We have this big, massive disruption and we had this technology that benefited a lot of people and he started looking for not only what's different but what's the same and I think that comes back to the mental models that we think help us think through problems, right?

We need to be able to take the other side of the argument but importantly, we need to be able to walk around the problem in a three-dimensional way so that we have a good view of what we're dealing with. I think too often, intelligent people and by nature, people who go in to investing are type A massively intelligent in a way, we're more prone to convincing ourselves that we're right and we can tell ourselves better stories about why I want to write and more convincing stories about why we're writing.

[0:16:08.3] BF: I know you've experienced investing both in public companies and also in private companies. What do you think is different for someone making decisions about those two different types of equity investments?

[0:16:19.5] SP: They're massively different sort of markets, right? In public, you can get in and out in nanoseconds. You can easily correct mistakes. You can – you have way more information availability, private markets offer probably, potentially higher returns but they also, you can't get in and out easily, you have to figure out who is running the company, there's a whole host of variables now that you're now actively involved in including strategy of the company.

Board level oversight, financial controls and it goes pretty deep in the rabbit hole. If you're the majority investor and a private company and something happens to that CEO, who is going to stop in? There're different scales of private investment too, right? If you're sort of a company earning between 500,000 and maybe four million, that's one sort of like trash and if you're earning between four million and 10 million, maybe you have the more sort of like management depth in place where you can sort of go over these permutations and it's less dependent on one person.

Each situation is completely unique and I think you're more apt to sort of get fooled in the private market than the public market and there's a lot more on the line.

[0:17:35.3] BF: When we're talking about the public market, one of the things that you've written about quite a bit is complex adaptive systems. Can you talk a little bit about what that means and why it makes it challenging to approach public markets?

[0:17:45.9] SP: It's a bit of an evolutionary signs, I think it's a very simple sort of way to understand this. We're all familiar with evolution, I mean, some people don't agree with it, that's their opinion. But evolution is basically gene mutation and selection of those genes to get the advantage. Evolution doesn't have a memory. One of the interesting things about evolution not having sort of this memory is that it'll make the same gene mutation, it might have made 2,000 years ago and retest it.

Too often, we don't think of it that is the environment has changed. Maybe that mutation is valuable today and it wasn't valuable. Because the environment is always changing, we have to realize that we have an impact on that environment. Not just a nap. This sort of like climate change since the world but everything is always changing, everybody is getting smarter.

Information is becoming more available and more ubiquitous. Any information advantages is just harder and harder to come by. We have to structurally change it, if you look at Berkshire Hathaway, I mean, they've structurally changed how they've invested multiple times, right? They've gone form activist just sort of equity investing to private company investing. Now they're more – you can view it, they have a ton of capital aligned with partnership investing where they're aligning with people who can operate companies more efficiently.

If you look at sort of the 50 something years of Hathaway, you've had four massive changes in how he's invested the majority of this cop out. I think that that's where I'm studying and realizing because the advantages, he's going where the puck is going instead of where it's been. It gets super competitive in one area and the better opportunity you have to go in to another area, the more diverse you will be, the more you can survive different environments. The better opportunities you have.

If you can invest in equities and private companies, you're likely to have more advantages than somebody who just specializes in one or the other. Now, that's really hard to do. I mean, he makes it look easy and it sounds pretty easy but in reality, that's incredibly difficult to have different skillsets but if you think about life, we have the same sort of thing, right? We have skillsets that are available to us today. We can develop skillsets that we know will be relevant in the future like reading, thinking critically, critical problem solving or we cannot develop those and develop something that's niche that might change, right?

Where we put that emphasis makes a huge difference on sort of our personal trajectories.

[0:20:17.9] BF: Charlie Munger who you write about a lot, he's talked about the benefits of avoiding stupidity as supposed to trying to be brilliant. An investor who maybe investing their own money, maybe investing somebody else's that might be listening to this podcast, how do you think people can implement the idea of trying not to be brilliant and instead, just trying not to be stupid. What does that look like for the average investor?

[0:20:41.5] SP: I mean, ultimately, if you can avoid negative outcomes, you're going to have positive outcomes. I think part of the problem we have in society today and supplies to investors as well as a lot of sort of people in the world is that we're always looking at other people who are doing better than we are. We have this relative sort of comparison bias. It used to be in the early 1900's or you know, late 1800's, sort of that relative comparison bias was like 30 people, right?

It was our street, our neighborhood and those neighborhoods were very sort of like, homogenous. Now, we have comparisons to everybody. My comparison network is like Instagram and it's all of my friends and their friends and I see people riding around yachts or selling their company or going on vacation or buying a new car or going out for fancy dinners. I see that every hour of everyday.

It bombards me with is other people are getting some, I deserve some, if you look at Starbucks plays on this. I don't know if they consciously did it or not but they did this advertising campaign that came out recently which was you're worth it, reward yourself, right?

Which is a play on, you work hard, you need to rework yourself. I think that we take that also internally and we think that other people are getting ahead of us, that we need to either catch up. That catch up makes us focus overly on sort of like the potential rewards of what we're doing instead of the downfalls of what we're doing if possible angles and we don't think about the ways that things could go wrong which is think about the way that didn't go right.

And, if we try and we lose, we sort of convince ourselves that they're lucky, we let our ego off the hook instead of trying and losing and thinking, that was a stupid decision, I can learn from that and move on. I think that buy inverting, you're naturally, if you can eliminate all bad outcomes, you will get a good outcome. The problem with getting wealthy is that it's simple but not easy, right?

People just want to do it at a pace that is naturally quicker than just looking around and seeing other people. We want to get rich quick and I think that's one of the biggest problems and I think that causes us to sort of like blind ourselves to the possibility of avoiding errors and I think inversion works in two ways, right? So one is avoiding bad outcomes and the other less known idea than version is asking yourself, what else would have to be true or most to be true? And there are different ways that you can think about that but that goes back again to the general thinking concepts and thinking about problems in a three-dimensional way and walking around things.

So you can see it from different angles and through those angles you get more texture into what you are dealing with.

[0:23:31.6] BF: Can you frame inversion for say someone thinking about investing in crypto or someone thinking about investing in a marijuana stock, how would they invert their decision-making process?

[0:23:41.3] SP: I don't know anything about either of those things. I think with crypto, I don't even know how to frame that because I don't know much about crypto currencies and I don't know much about cannabis stocks. I think that you want to deal with things that you understand and I think part of understanding is knowing where things can go wrong. I have yet to hear a coherent definition of crypto currency that makes sense to me and that is not to say it doesn't exist.

And it's probably to say that I am just really stupid and I don't understand what people are telling me but it is also the case that no two people see the same thing and for me that becomes really strange and then you have this shared belief that is taking over investing in. I mean it would be interesting to look back historically of what happens when shared beliefs fall apart.

[0:24:27.8] BF: Along those same lines can you just talk briefly about the difference between uncertainty and risk and why it's important for investors to understand that?

[0:24:35.6] SP: Yeah, I have a bit of a different take on this than a textbook take and so for me there are certainty, there's risk and uncertainty and if you view them on a continuum, certainty is going back to the pencil I draw but I know that a great degree of precision is going to fall. Risk is like roulette where I know all of the possible outcomes and I know the odds of each individual outcome but I don't know which outcome I am going to get on any given play.

And uncertainty by nature is I don't know all of the possible outcomes therefore I can't know the odds of any outcome and we live in a world of mostly uncertainty and we are taught to deal with those problems mostly like the risk and so we have this false confidence that only the things that we see or we can anticipate are things that happened and that's destructive thinking processes. So I think one of the things that Buffett has done that has been massively under-appreciated is moving away from uncertainty and towards risk and how does he do that?

I haven't heard very many people talk about this but I think one of the ways that he does that is he focuses on industries that are not prone into technological disruption. So he focuses on industries where if I learn something about the railroads in 1960 and I keep learning about it until 2008 that is cumulative knowledge. It doesn't change because technology is changing it and so that cumulative knowledge takes me a little more out of uncertainty and towards risk.

And not only towards risk but towards risk in a way where I probably knew where the odds are skewed in my favor or where they're not and I think that anything we can do that removes uncertainty it moves us towards risk from an investing point of view probably gives us better options although the payoff maybe a little less than if we nail uncertainty and we bet on double zeroes and roulette and we get the payoff. I think that we need to develop tools in the world that's out of investing.

To better deal with uncertainty in a way that we can't always know all possible outcomes and this is like where inversion comes in which is like inversion is a means to move you back from uncertainty to risk where I don't know all the possible outcomes but I know these outcomes would be really bad and how can I avoid those outcomes and that is another way to slide yourself back towards risk.

[0:27:02.7] BF: There is an ongoing debate regarding the financial markets on whether markets are efficient, so whether they incorporate all information all the time or not and if markets are not efficient you should be trying to be the market and if they are efficient you should just indexing and both sides of that debate are typically very entrenched. So I want to ask you a couple of questions about this but the first one is can you talk a little bit about grey thinking and why that's important?

[0:27:29.1] SP: Well I think we just live in a world where everything is black and white, right? You are either liberal or you're conservative. You're one thing or you're another and those things are becoming increasingly extreme and they're increasingly pervasive in our lives and I think that either or thinking is just poor thinking. It is very rare that something is literally one thing or another always and I think the question that we need to think about is under what circumstances would I change my mind on this.

What are the degrees or the edges of my knowledge on this? When did this work? When is it likely not to work and how do I understand that and I think that that moves us automatically towards me, more great thinking, right? Like I am not always conservative or liberal. I'm something in between them and I think that that type of thinking allows us to frame problems better and then another way to word that is black or white thinking is basically saying that you are a 100% certain in their opinion.

And if you are a 100% certain in it then we don't even need to talk, right? Because there is no chance that I am going to change your mind. So I think if you start ascribing mentally or even out loud, the degree to which you think that you are probably right even if it is 99% that opens you up mentally to being able to change your mind and that in it of itself is a move towards the birthday cake because now I am more receptive to what you have to say and I'd also admit that I am not one thing or another.

[0:29:01.9] BF: This is the second question I want to ask you about this topic. Can you talk a little bit about your personal thoughts on indexing versus stock picking or market timing or whatever it might be when each might make sense for the average investor?

[0:29:15.2] SP: I don't know. I mean I don't give investment advice because I don't want people to walk away to something that I would recommend and get in trouble. I don't even know if markets are – I mean they are sort of inefficient and efficient and it is under which conditions are there inefficient, where would I gain an advantage and then also acknowledging you're playing in a field of the most competitive leveraged field in the world and I think that thinking you have an advantage in that field is a very dangerous place to be.

With that said, index investing doesn't always make a ton of sense either, right? You wouldn't want to take a million dollars which represents your entire net worth and your family's future and put it all in an index fund on the top day right before a better market and so I think that there is more conservative ways of preserving wealth and I think that maybe those are all individual in terms of your goals and your aspirations. I think the thing to think about is changing your goals and aspirations.

And moving more towards a wealth preservation mindset more towards it is okay to have a bank balance full of cash. I don't need to spend it, I don't need to do anything with it. I don't need to invest it and then opportunities became super compelling, you can act and you can act in size and magnitude and I think that that is the way if you are going to be a personal investor that is probably the best way to do it. Where there is blood on the streets you have to invest but we've just seen through the financial crisis that very few people can actually put that into practice, right?

So what would probably work best for most people is this passive investing in a low cost index approach overtime where you are not putting it all in one day. You are just putting it in consistently maybe put double payments in when the market has been down 20% or more and you cut those in half when it is up to a high-water mark and you can get a little complicated in that and you can just put it aside every month and we know historically the market has gone up.

I don't know what, six or 7% from an index approach. Now the other thing we haven't seen with index funds and sort of like a massive panic with all the money you have in index funds now. So do people act like we think they will or do they act differently and so I don't think we've ever lived through a world where this much money has been passively invested and I think that it would be interesting to see how the next down turn is if somebody like Vanguard were to get 500 million people calling and trying to cash out because they are reading headlines.

That can have a huge impact on the market and the other thing I think you want to think about index investing is what role do those companies play in corporate governance and are they just sitting out or are they passive to management? Are they activist index investing? Sort of where they are taking a stake with companies and they're taking a stand and they are trying to more align compensation and management, are they your advocate or are they just passive?

And so we take a passive index investing is you put money in it and they do this and it is a low cost or is there a value added to that in terms of we actually knew we're advocating for you and here's how we are advocating for you and here is the transparency around how we are advocating for you and I think that you might be willing to pay more, slightly more from an index fund approach if somebody is actually doing things that you agree with interacting with managers.

[0:32:50.4] BF: Those are really interesting insights about indexing. It definitely makes me think a little bit. So I do want to shift from investing a little bit, I know we talked a lot about decision making but I was trying to relate it to investing as much as possible but I want to get away from that completely now. So you Shane, you've got an interesting life because you run Farnam

Street. I assume there's lot of flexibility, you get a lot of time to learn and think, how do you define happiness for yourself?

[0:33:15.3] SP: The absence of desire is happiness, right? So I am super fortunate to have been born in Canada, to go through a world class public education system to have free health care. I'm fortunate to have given back to that country for 15 years when I worked for the government. I think being able to do what I want to do is happiness and every year I want to do more of the things that we don't want to do and every year I just want to do more of what I want to do and less of what I don't want to do.

I want to arrange my life around that but I think there is not a lot that I want in life that is material or there's not a lot of things that I am jealous of and I think the key to happiness is letting go of expectations. It is letting go of the feeling that people are going to reciprocate, letting go that the idea that the world is fair and just going at each moment as this moment matters and this is the most important moment in your life. It is so fragile, you never know when it is going to end and that doesn't mean you need to maximize the next four hours.

We are not going to go off shoot heroine after this but it does mean that you have to be conscious about being present in the moment with the people that you're with, right? It means that you – when I am with my kids, I am 100% with my kids and it means that you are not looking towards the future. I will give you a parenting anecdote because I know we have a parenting question coming up soon but one of the things that I've seen derail parents the most is happiness.

So derail their happiness as a parent is they are always waiting for the next phase in their kid's life. So when their kids are born, it's like, "Oh I can't wait to go sleep through the night" and they sleep through the night and it's like, "Oh I can't wait for them to learn out of diapers" and then they learn the diapers and say, "I can't wait until they go to school" and it is always this theory that the next stage of life is always going to be easier and those people, I am generalizing here.

So not everybody who goes through this obviously has this opinion but they also tend to regret that approach but they don't realize it until it is too late. So their kids go to university and they're like, "Man I wish I took more time to cuddle with them" or "I wish I would have invested more in my relationship with them" I wish I wouldn't have worked so hard because now after it's gone I realize what's important and I think by living in the moment and not fast forwarding into the future and not being overly focused on the past.

We want to focus on the past just to learn. So we don't, to the extent possible, we don't make the same mistakes over and over again. That doesn't mean we have to regret those mistakes. So we just want to avoid them in the future and staying in the normal figure in is really the key to happiness because in that moment you don't need any car, you don't need a vacation. You don't need a better iPhone. You just need what you have right now and I think that we lose track of that.

[0:36:11.5] BF: The absence of desire is a definition of happiness that is one of the best definitions that I have ever heard. That is very insightful. I know you touched on parenting and we do have a question coming up right now. Can you talk a little bit about a lesson that you learned yourself about parenting in the last year?

[0:36:28.0] SP: I think my kids point out how much I don't know in a regular basis even things that I think I know, I mean kids are infamous for their five wise add nausea and I think that the deeper my kids get the more I realize that I don't understand but I think the big lesson I've learned with my kids as a single parent is just connecting with them and that's tougher than it sounds, right? It is hard to go out to guy friends and be like, "How do you emotionally connect with your kids?"

But I think exploring that with my kids and taking the time to be with them and be present with them and develop routines around what works for them but also what works for responding has been super important over the last year and so we have been trained. Like every morning they get out of bed and they come for cuddles in my bed and so it's the best 10 to 15 minutes in my day, they're eight and nine now and they would eventually going to stop but that is a good chance for us to connect.

It is a good chance for us to set expectations in the day, it is a good chance for us to wake up slowly and I think physical connection is important to you. So I think cuddles are massively important for kids and too often we get busy, right? And we forget about connecting and that's not only parenting. It is relationships. We disengage, we focus on what's right in front of us which is not necessarily what's most important. What's most important is our relationship with our kids or our spouse and we can lose track about them.

I think that kids are really good at pointing that out if you let them and you're receptive to that. Too often we just block them out. They let you know when they want attention and we have this unconditional love with kids that we can also apply to other people in our lives and I think we do that naturally with children and we don't do it as naturally with adults. So that was probably the other big lesson that I learned was that it is possible to connect with adults in the same way that you connect with kids.

[0:38:34.9] BF: We posted on Twitter to see if anybody had questions, they want us to ask you and something that came up in a few different tweets answering that was asking about how can we teach kids do a better job teaching kids about money and I know financial literacy is not necessarily your expertise but learning definitely is. Do you have any thoughts on how we can be better with teaching young kids about money and finances as they grow up?

[0:38:58.3] SP: I don't know. I mean I can tell you what I do with my kids but to the extent that we can teach kids about money, I mean money is important but it should be the most important thing. You need it to enable your life but it shouldn't control your life and I think any lessons that you can show your kids are just living what you want them to learn, right? So if you are over leveraged and you're fragile and interest rate going up a quarter of a basis point is going to change your lifestyle that's also what you are showing your kids.

And maybe that is a choice you're making and maybe it is not a choice and for a lot of people, I understand completely that that is not necessarily a conscious choice they're making. They just don't have any alternatives but I think if you do have alternatives and you are living that way then I think you're just really modeling that for your kids and we think we hide it from our kids but our kids know. They know how we spend money. They watch us spend money.

They know the frequency to which we say no to them or I don't even like saying no to my kids but especially when it comes to buying something. I am like, "Oh that costs this much" how do you think we can make that money, right? So instead of me offering money and it is also a way to gauge how much they really want this thing right? We can sell brownies, we can make lemonade, we can go door to door or we can do a host of things and I hope you do all of those things.

But what I always do is pull out my wallet and buy something for you. The other thing I do with my kids personally is I just make them save half their money. So if they get a birthday gift and it is 10 bucks, five bucks goes into their savings jar and they can spend that five dollars any way they want and then five bucks goes in the bank and we invest that money in the bank. I give them a dad bank rate of interest so they get about 15% of the trust a year and we invest in companies.

And one of the cutest things that happened with my kids is investing companies for them that we can talk about. So like we own, they own one share of Kraft Heinz and the reason they own that is because they understand ketchup and so ketchup becomes the means by which I educate them about money and so what we do is we take 100 pennies and we go through the Kraft income statement and I'm like, "Well 100 pennies came in and here is what happened with that money".

And so they can visualize it and then we think about what would cause more pennies to come in, what would cause fewer pennies to go out and we try to conceptualize it and this became hilarious because we went to Wendy's for lunch one day and my oldest at the time he was six at the time and we had just finished talking about this and he was so excited that he ran up to the counter and grab a handful of this Heinz ketchup packages and he went around to every table and he's like:

"You need more ketchup because the more ketchup you can consume the more money I am going to make" and it was hilarious. It was funny and cute but it was also a demonstrated understanding of what we were talking about and too often we think that kids won't understand financial statements and that's because they're in quantities kids don't can make sense of but if you break it down into a 100 pennies or even a 100 loonies or whatever it is some mechanism where they can see it and you visualize.

Well this money went to management and this money went to producing the food. Well now they start to conceptualize not only money coming in but where that money is being spent. A lot of adults don't even have a grasp of that and it would be a good exercise for them to better understand the investment they have but if you invest in things that kids understand like Disney or food products that they consume or toy companies, I think that that's a way to just have a conversations with your kids about money.

And the other thing is teaching them that money works for you. So every time they get a dividend it's like, "You didn't do anything over the past few months but here's what happened" and that happened because you saved and I think that that ultimately is a really good lesson but going back to happiness I mean the absence of desire is the ultimate lesson you want to teach your kids, right? Whatever circumstance you are in life it doesn't have to be better.

I think like Viktor Frankl who survived the holocaust, he said that the last freedom that can be taken from a man is the ability to choose how you respond to any given situation and I think there's something not only stoic in that but I think that there is something quite profound in terms of our overall happiness.

[0:43:23.7] BF: Frankl's book on his experience in the holocaust is an unbelievable read. The last question that I have for you Shane, you write a lot about reading and how to read properly in a way that you'll retain information and my favorite part about that I think is that you talk about reading a book, putting it down and then coming back to read it again later because you are at that point a different person based on the information that you've taken from the book and on your experiences since you've finished it the first time. Are there any books that you've read and then changed your mind on the second time?

[0:43:55.4] SP: I would say Marcus Aurelius, Meditation is one that I picked up in University and hated it. I absolutely hated it and then I got divorced and I had a whole new context, a whole new meaning, a whole new understanding for me. There's been a lot of books where it hasn't been that black and white right? That's dark where it's like I pick up a book and it is a struggle to read it and often when I read I am just not ready for the book. I am not ready for the messages in the book, I am not receptive to them so I can put it down.

Maybe it is above my level, maybe it is something that's way more niched or esoteric than I thought it would be and then I could come back to it but what I do get out of rereading books that I reread is a deepening fluency of the subject. So if you understand, if you read a book the first time, you understand the arc of the story. The second time you read it, you are going to pay attention to different details. You are going to pay attention to different facts, different arguments because you already know where it's going and now you are layering that stuff on.

So you have a skeleton of the book but now you're layering that onto the skeleton and that enables you in it of itself just to retain more and understand deeper in terms of where the new ounces are and I think that that's super important but we are so focused on reading the wrong things these days and I think we lose track of time.

[0:45:24.9] BF: That's great. Shane, that's all the questions that I have for you. We really appreciate your thoughts and your time.

[0:45:30.1] SP: Thank you so much for having me.

[END]