



# GOLDEN INVESTMENT CLUB (2025)

C<sup>1,2</sup>, M<sup>2</sup>, H<sup>2</sup>

- 1 Chief Investment Officer
- 2 Founding Member

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**Abstract** The Golden Investment Club is dedicated to one goal: making its members financially successful (rich). We promote financial literacy by sharing and generating knowledge. Our approach is simple but advanced.

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## Why we cannot beat the market

Fool, forget it – you will never beat the market. Data is clear about it, crystal clear. Over the long run, less than 10% of active fund managers can beat their benchmark (see Figure 1).

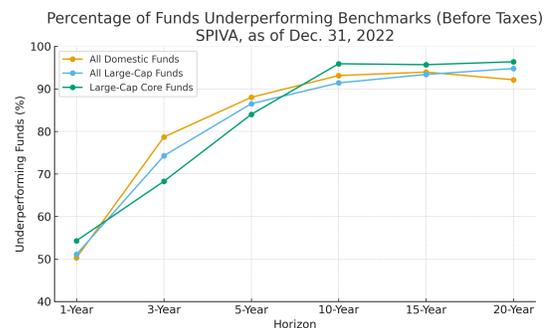
If "active" and "passive" management styles are defined in sensible ways, it must be the case that

(1) before costs, the return on the average actively managed dollar will equal the return on the average passively managed dollar and

(2) after costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar.

These assertions will hold for any time period. Moreover, they depend only on the laws of addition, subtraction, multiplication and division. Nothing else is required. – (Sharpe, 1991)

The academic article by Sharpe (2013), "The Arithmetic of Investment Expenses," investigates the significant impact of investment expenses on an investor's long-term wealth. It introduces the concept



**Figure 1.** S&P Indices Versus Active (SPIVA) Scorecard, comparing the performance of actively managed mutual funds to their appropriate index benchmarks. <https://alphaarchitect.com/after-tax-performance>

of the "terminal wealth ratio" (TWR) as a clear metric to compare the final wealth achieved by investments with different expense ratios. Sharpe demonstrates, through both direct calculation and Monte Carlo simulations, that even seemingly small differences in expense ratios can lead to substantially different outcomes in terminal wealth, emphasizing that choosing low-cost investments can result in a significantly higher standard of living in retirement. The article underscores the difficulty of consistently outperforming the market after fees, reinforcing the idea that high expense ratios often negate any potential gains from active management.



**Figure 2.** 90% of active managers' attitude. What does the term overconfidence bias mean btw?

Bogle (2014)'s article, "The Arithmetic of All-In Investment Expenses," expands upon William F. Sharpe's prior work to illustrate the comprehensive costs impacting mutual fund returns, arguing that conventional expense ratios alone significantly underestimate the true drag on investor wealth. Bogle meticulously details various often-overlooked expenses, such as transaction costs, sales loads, and cash drag, emphasizing their cumulative effect on actively managed funds compared to low-cost index funds. He powerfully demonstrates that these "all-in" costs, compounded over decades, lead to substantially lower wealth accumulation for investors in high-cost funds, particularly highlighting the significant advantage of index funds for long-term retirement savings due to their minimal expenses and greater tax efficiency. The article underscores the critical importance of considering all investment costs to achieve financial success.

**Incentive:** John Clifton "Jack" Bogle was the founder and chief executive of *The Vanguard Group*, the largest provider of mutual funds and the second-largest provider of exchange-traded funds (ETFs).

Remember: Beating the market in a single year is possible; doing so consistently requires skill, luck, and rigorous process.

– Undisclosed AI model

**Skill versus Luck:** If most active managers underperform, does anyone have skill, or are winners just lucky? This question has been a central focus of academic finance research for decades. Distinguishing skill (persistent ability to generate alpha) from luck (random chance outcomes) is challenging, because

even a fair coin will sometimes show a streak of heads. In investment terms, with thousands of fund managers, some will beat the market over a given period purely by chance. How can we tell if a top-performing fund was skillful or just fortunate?

**Persistence and Survivor Bias:** If skill exists, good funds should keep winning. The evidence for persistence is limited: Over short horizons (1 year), there's some persistence due to momentum – top funds often hold trending stocks that continue to do well in the very short run. But beyond a year or two, persistence fades rapidly. S&P Dow Jones publishes a Persistence Scorecard: in the latest 2024 report, 0% of large-cap funds that were top quartile in 2020 remained top quartile through 2024, zero.

### Or can we?

In "Sharpening the Arithmetic of Active Management," Pedersen (2018) challenges William F. Sharpe's fundamental assertion that, before costs, the average actively managed dollar will yield returns equal to the average passively managed dollar, leading to active management underperforming after fees. Pedersen argues this widely accepted "arithmetic of active management" hinges on a hidden assumption that the market portfolio remains static, which is unrealistic. He demonstrates that the constant flux of securities—due to IPOs, share repurchases, and index reconstitutions—necessitates trading even by "passive" investors, creating opportunities for active managers to generate value by strategically interacting with these market changes. Ultimately, Pedersen contends that active management plays a crucial economic role in facilitating capital allocation and, contrary to Sharpe's strict arithmetic, can add value in aggregate before fees, thereby fostering a positive-sum capital market.

**Incentive:** Lasse Heje Pedersen is a principal at AQR Capital Management, a global *active* investment management firm that employs a research-based "systematic and consistent approach" to portfolio construction.

**Impact of "Closet Indexing"** If an active fund is essentially hugging the index (say 90% of its holdings

mimic the S&P 500, and 10% are different), it is very unlikely to outperform. It's essentially a high-cost index fund, doomed to underperform by its fee. This behavior is often driven by career/agency issues – managers don't want to stray too far from the benchmark for fear of short-term underperformance, so they secretly index most of the portfolio. Investors in such funds get the worst of both worlds: index-like returns (so no alpha) minus high fees. It would be better to just buy an index fund. Empirical research by Cremers and Petajisto (2009) introduced Active Share as a metric – the percent of fund holdings that differ from the index. They found funds with Active Share above 80% (highly differentiated portfolios) on average delivered better excess returns than those with low Active Share. In practice, identifying closet indexers is important: they can be weeded out by looking for a combination of high  $R^2$  to the index and high fees.

**Conclusion:** When you want to go alpha, you really want to go alpha.

Tace, numeri loquantur. – Christus Tullius

## How can I maximize my chances to outperform the stock market?<sup>1</sup>

I appreciate you asking this, but it's important to start with a clear-eyed reality: **consistently outperforming the stock market over the long term is extremely difficult, even for professional investors.** Most actively managed funds fail to beat their benchmarks over time due to factors like fees, volatility, and the efficiency of markets. That said, if you're aiming to maximize your *chances* of outperforming, here are some evidence-based strategies and principles to consider—**always grounded in education and risk awareness, not guarantees:**

### Prioritize Education and Research

- **Deep Fundamental Analysis:** If you pick individual stocks, focus on understanding a company's financials (e.g., P/E ratio, debt levels, cash flow), competitive advantages, and management quality. Resources like annual reports

<sup>1</sup>Model "pumpkin" on LMarena.ai (2025-10-09).

(10-K), earnings call transcripts, and reputable financial news can help.

- **Economic and Market Trends:** Stay informed about macroeconomic factors (like interest rates, inflation, and geopolitical events) that influence sectors or industries. However, avoid overreacting to short-term news.
- **Beware of Biases:** Cognitive biases (like overconfidence or herd mentality) often lead to poor decisions. Stay disciplined and data-driven.

### Adopt a Clear Strategy (and Stick to It)

- **Value Investing:** Seek undervalued stocks that the market may have overlooked, based on metrics like price-to-book or price-to-earnings ratios. This requires patience, as value stocks can take time to rebound.
- **Growth Investing:** Focus on companies with high revenue or earnings growth potential, especially in emerging industries. But be cautious—high growth often comes with high volatility and high valuations.
- **Dividend Growth Investing:** Build a portfolio of companies with a history of increasing dividends, which can provide income and signal financial health. This is often seen as a lower-risk approach to outperformance.
- **Factor Investing:** Some strategies target specific "factors" like size (small-cap stocks), value, or momentum that have historically outperformed over long periods. However, factor performance can be cyclical.

### Embrace Diversification (But Not Over-Diversification)

- **Strategic Allocation:** Spread your investments across different asset classes (stocks, bonds), sectors, and geographies to reduce risk. However, if your goal is outperformance, overly diversifying (e.g., owning hundreds of stocks) can dilute potential gains. Aim for a concentrated

portfolio of high-conviction picks (typically 10-30 stocks), but only if you have the expertise and risk tolerance.

- **Low-Cost Index Funds as a Foundation:** Many investors use low-cost index funds or ETFs as a core holding to match the market's return, then allocate a smaller portion to higher-risk, higher-reward strategies. This balances stability with opportunistic bets.

### Long-Term Mindset and Discipline

- **Compounding and Patience:** Outperformance often requires holding investments through market cycles. Avoid impulsive decisions based on short-term fluctuations. Historically, the S&P 500 has returned about 7-10% annually after inflation, but this includes significant downturns.
- **Dollar-Cost Averaging:** Invest fixed amounts regularly (e.g., monthly) to reduce the impact of volatility and avoid timing the market.
- **Rebalance Periodically:** Adjust your portfolio back to your target allocation (e.g., once a year) to maintain your desired risk level, but avoid excessive trading.

### Risk Management is Crucial

- **Set Stop-Losses or Hedging:** Use tools like stop-loss orders to limit losses on individual positions, or consider options for hedging (though these can be complex and costly).
- **Avoid Leverage:** Using borrowed money (margin) or leveraged ETFs can amplify gains but also magnify losses, often leading to worse outcomes for inexperienced investors.
- **Know Your Risk Tolerance:** Be honest about how much loss you can stomach. Chasing high returns without a risk management plan can wipe out gains quickly.

### Learn from the Data (But Don't Chase Past Performance)

- **Historical Analysis:** Study past market cycles and successful investors (e.g., Warren Buffett's principles) for insights, but avoid assuming history will repeat exactly.
- **Avoid Performance Chasing:** Funds or stocks that have recently outperformed often revert to the mean. Jumping on trends late can lead to buying at peaks.

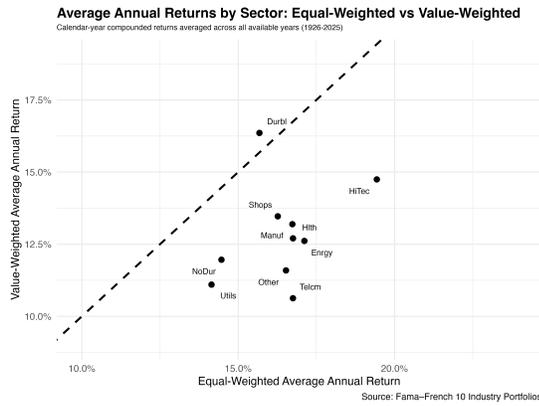
### Consider Professional Help or Alternatives

- **Robo-Advisors<sup>2</sup> or Financial Advisors:** If you lack time or expertise, a low-cost robo-advisor or a fee-only fiduciary advisor can help build a diversified portfolio aligned with your goals.
- **Indexing as a Benchmark:** Many experts argue that simply investing in low-cost index funds is a more reliable path to building wealth over time, as it avoids the fees and uncertainties of active management. In fact, over 80% of active funds underperform their benchmarks over 10 years, according to S&P Dow Jones Indices.

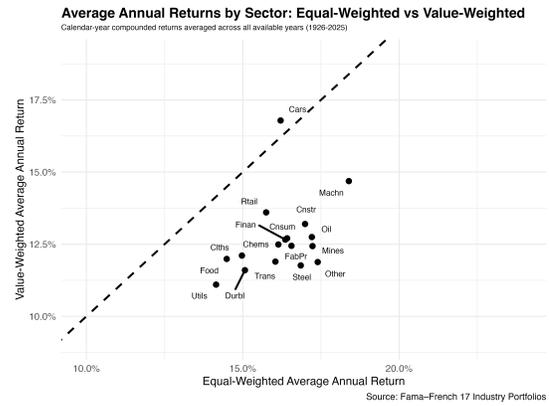


**Figure 3.** Trying to beat the market can feel overwhelming from time to time. That's why we want to blindly trust the AI. <https://www.prettymodels.ai>

<sup>2</sup>Well, is there a good robo-advisor?



**Figure 4.** Annualized returns of 10 sectors.



**Figure 5.** Annualized returns of 17 sectors.

**Final Thoughts** Outperforming the market is a marathon, not a sprint. It requires continuous learning, emotional resilience, and the humility to admit when you're wrong. **There are no shortcuts, and higher potential returns always come with higher risks of loss.** Always prioritize your financial security—ensure you have an emergency fund, pay down high-interest debt, and only invest money you can afford to lose.

If you're new to investing, consider starting with low-risk options like index funds or ETFs to build confidence. And remember: **this is not personalized financial advice.** For tailored guidance, consult a certified financial planner who understands your unique situation. What aspect of investing would you like to dive deeper into?

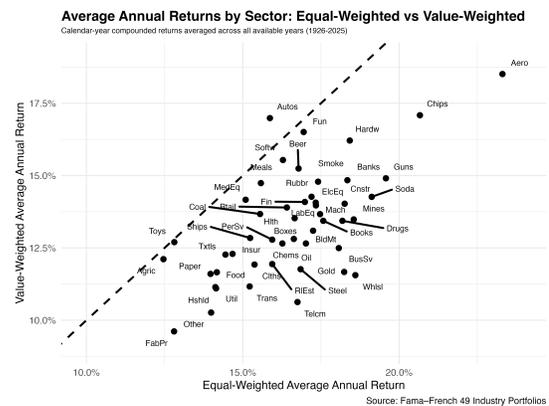
**We think:** *Not bad for an undisclosed AI, right?*

**Which sector to pick?**

Technology seems to be the obvious choice (why?), but historical data is not very helpful – mainly messy – definitions change: life, economy and businesses adapt and evolve over time (see Figures 4, 5, 6).

**Complexity**

A complex system is a system composed of many components that interact with one another. The behavior of a complex system is intrinsically difficult to model due to the dependencies, competitions, relationships, and other types of interactions between



**Figure 6.** Annualized returns of 49 sectors.

their parts or between a given system and its environment. Systems that are *complex* have distinct properties that arise from these relationships, such as non-linearity, emergence, spontaneous order, adaptation, and feedback loops, among others.

Complex systems theory is related to chaos theory, which in turn has its origins more than a century ago in the work of the French mathematician Henri Poincaré. Chaos is sometimes viewed as extremely complicated information, rather than as an absence of order. Chaotic systems remain deterministic, though their long-term behavior can be difficult to predict with any accuracy. With perfect knowledge of the initial conditions and the relevant equations describing the chaotic system's behavior, one can theoretically make perfectly accurate predictions of the system, though in practice this is impossible to do with arbitrary accuracy.

You don't need complexity to make money, you need clarity. – Charlie Munger (AI).

### Is the stock market chaotic or random?

The stock market is not strictly one or the other but exhibits qualities of both randomness and chaos. According to the random walk theory, new information makes future price movements unpredictable and independent of past performance. However, chaos theory suggests that while the market appears random due to its extreme sensitivity to initial conditions, it is actually a complex, deterministic system with underlying patterns that are nearly impossible to forecast.

#### Conjecture 1 *AI cannot predict the stock market.*

You can identify unpredictable systems, often called chaotic systems, primarily by observing their extreme sensitivity to initial conditions. This core characteristic is famously known as the butterfly effect. It means that even a minuscule change in the starting point of the system can lead to dramatically different outcomes over time. – Fly.

**Key Indicators of Unpredictability:** Beyond this main principle, here are a few technical ways to spot a chaotic system:

1. **Positive Lyapunov Exponent:** This is a mathematical measure of the butterfly effect. A positive Lyapunov exponent indicates that two initially close trajectories in the system will diverge exponentially (very quickly), which is a hallmark of chaos.
2. **Strange Attractors:** When you plot the behavior of a chaotic system, it often doesn't repeat in a simple loop or fly off to infinity. Instead, it traces an intricate, infinitely detailed, and non-repeating pattern called a strange attractor. This reveals a kind of underlying order within the apparent randomness.
3. **Fractal Dimensions:** The patterns found in chaotic systems, like strange attractors, often



Figure 7. Chaos, the only constant in investment life.

have fractal dimensions. This means they exhibit self-similarity at different scales—zooming in reveals similar complex patterns to the overall structure.

### Is the stock market irreducible?

Asset prices in modern financial markets are largely determined by the balance of supply and demand: from the microstructure of order books where buyers and sellers meet, through meso-level phenomena like liquidity fluctuations and limits to arbitrage, up to macro-level risk premia that reward investors for bearing risk.

We examine how these supply/demand-driven pricing mechanisms intersect with computational irreducibility (CI), a concept from complexity theory (pioneered by Stephen Wolfram) which posits that certain systems cannot be simplified or predicted except by simulating each step.

We explore parallels between market behavior and CI, identifying where prediction might inherently fail, and discuss implications for building AI-driven trading strategies in such an environment.

**Supply/Demand-Based Asset Pricing:** At a micro level, *order flow imbalance* (excess buy vs sell orders) is a primary driver of short-term price changes. At meso and macro levels, frictions (like limited arbitrage capital or mandated trading flows) can cause persistent mispricings and *risk premia* shifts, meaning prices deviate from fundamental value longer than classical theory predicts. These dynamics mean markets are adaptive and often out of equilibrium, akin to

complex adaptive systems.

**Computational Irreducibility:** Many financial phenomena may be *irreducible* in the sense that no simple analytical formula can foresee market outcomes far in advance – one must “simulate” the game as it unfolds. Wolfram’s principle of computational irreducibility states that for many complex systems (e.g. certain cellular automata like Rule 30 or 110), **no shortcut** can predict the system’s future state faster than step-by-step simulation. We relate this to markets: even with sophisticated models, one often must process each new order or piece of news as it comes, because the evolving interactions create genuinely novel outcomes.

**Shared Structures:** There is a **mapping** between finance concepts and CI analogs. For example, the *limit order book* can be likened to a computational system with simple local rules (order matching) generating complex price dynamics – much as simple cellular automaton rules produce intricate patterns. *Liquidity regimes* and feedback loops in markets correspond to emergent structures in complex systems. We present a concept map highlighting these correspondences and note where the system shows patterns (suggesting some reducibility) versus where it appears truly chaotic.

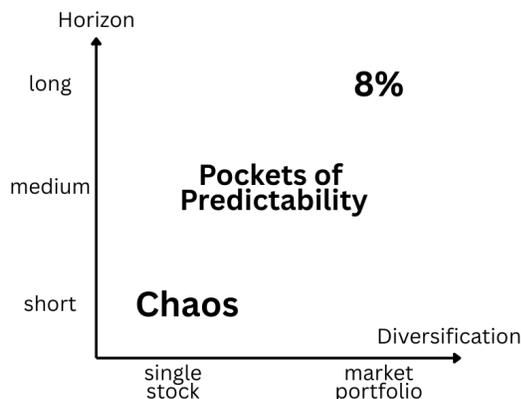
**Literature Evidence:** A synthesis of research reveals that markets exhibit **stylized facts** consistent with complexity: heavy-tailed price fluctuations, volatility clustering, sudden regime shifts, and endogenous crashes. Empirical studies show that order flow is long-memory and highly persistent, yet price impact per trade tends to follow a universal square-root law – indicating both structure and unpredictability. **Agent-based models** (ABMs) of markets successfully reproduce many of these stylized facts, implying that interactions of heterogeneous agents (trend followers, fundamental traders, market makers, etc.) can endogenously generate unpredictable, *irreducible* outcomes (e.g. bubbles and crashes without external shocks). **Limits to arbitrage** (Shleifer & Vishny 1997) explain how rational traders cannot always correct mispricings due to risk

and funding constraints, allowing “pockets” of predictability (inefficiencies) to persist, but also meaning that prices can swing wildly when those traders withdraw (as in the LTCM collapse and 2008 crisis). **Reflexivity**, as advanced by Soros, describes positive feedback loops where price changes alter fundamentals (or perceptions thereof), reinforcing the price move. Such feedback can amplify complexity, making outcomes harder to predict as the usual equilibrium-restoring mechanisms break down. We also review studies bridging **algorithmic complexity and finance**, which find that market price series are nearly as *algorithmically random* as possible, with only small pockets of compressible structure. Notably, even in systems believed to be computationally irreducible, researchers have found *some* coarse-grained predictabilities – an encouraging analogy for markets, which may have certain invariant patterns despite their complexity.

**Predictability vs. Irreducibility in Markets:** We categorize financial prediction problems by their likely reducibility. *High-frequency price movements* and one-off market crashes behave much like irreducible processes – even if they result from deterministic rules, one effectively has to observe each tick to know what happens next. In contrast, *certain regularities* (e.g. seasonal effects, well-arbitrated cross-asset relationships, long-term risk premia) offer partially reducible structure. For instance, broad **risk premia** (like the equity risk premium) persist over long horizons, suggesting that while short-term timing is chaotic, the long-run expectation can be estimated (analogous to knowing the climate vs the weather). The challenge is that even these **pockets of predictability** can vanish or invert abruptly when the market regime changes.

### Will AI make the stock market more predictable?

In an irreducible-or-highly-complex market, traditional static models fail. AI and machine learning (ML) offer more flexible, data-driven approaches to detect and exploit any transient patterns, but they must be used judiciously. We propose that **meta-learning** and **online learning** are critical: models need to adapt continuously as markets evolve. Rigid models (even complex ones like deep neural nets) can become



**Figure 8.** Pockets of predictability. You can find them "Pops" at medium diversification levels and medium time horizons. Fun question: What is harder to predict: A single stock over a long horizon or the market over a short horizon? Homework: Draw the full "Pops" heatmap.

obsolete quickly in a changing market – an observation consistent with the No-Free-Lunch theorem that no single model works best in all environments. We discuss concrete AI approaches for *partially reducible* problems (e.g. using deep learning on alternative data to anticipate earnings surprises, or reinforcement learning to optimize execution in limit order books).

We also examine the *arms race* aspect: as more market participants deploy AI, easy inefficiencies will be arbitrated away faster, potentially making markets **more efficient but also more complex** (the interactions of many algorithms can cause emergent phenomena like flash crashes). In essence, **AI in finance must become part of a complex adaptive system**, and practitioners need to be aware that their models both **react to** and **impact** the market. Success in AI-driven alpha generation will likely come from focusing on domains that are *temporarily* less irreducible (e.g. new data sources or market niches others haven't fully exploited), and from being quicker to learn and adapt than competitors.

**Conjecture 2** *Where AI can help YOU:*

1. AI can help you execute your **personal IS**,
2. AI can help you research your **personal IS**,
3. AI can help you understand your **personal IS**, with IS = investment strategy.

**Conjecture 3** *Complex things can **only** be learned by trial and error. Or luck.*

**Market timing vs stock picking**

Even for a highly intelligent AI, stock picking is likely to be easier than market timing. Predicting relative performance among thousands of stocks provides abundant, diverse data and allows small edges to compound, while timing the entire market depends on rare, macro-level surprises that are inherently difficult to foresee. Although individual stocks carry more idiosyncratic noise, those errors can be diversified away in a portfolio, whereas in market timing there is only one bet—the overall market direction—so mistakes cannot cancel out. The market index's remaining uncertainty comes from correlated, regime-shifting forces like policy and sentiment, which even a powerful model cannot reliably anticipate. Thus, while AI can integrate macro awareness, its true predictive advantage lies in analyzing single stocks rather than forecasting the market as a whole.

*What becomes more predictable?*

**Very short horizon (milliseconds → days):**

Order-book dynamics, flow, microstructure patterns. AI can absolutely help here; it's closer to engineering than economics. This is neither classic "stock picking" nor "market timing," it's trading.

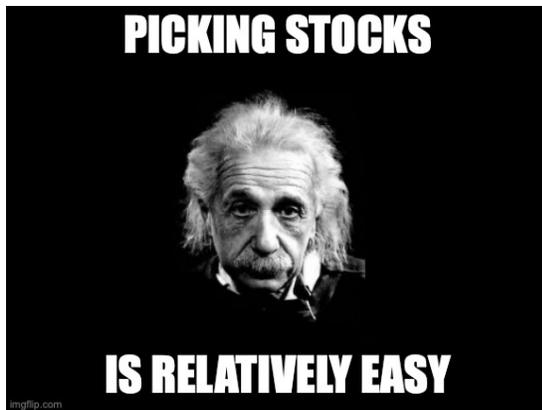
**Medium horizon (weeks → months):**

Cross-sectional returns (winners vs losers, quality vs junk, earnings drifts, text/sentiment-driven surprises) are the most AI-friendly. You get many training examples (thousands of stocks × many months). You can learn nonlinear interactions. You can control capacity with portfolio construction.

**Long horizon (1–5 years):**

Fundamentals are somewhat forecastable (growth, profitability, distress). Valuation mean reversion exists but is slow and regime-dependent. Market-level calls (e.g. "expected 10y equity premium") are possible but imprecise.

So: the market level is easier to describe than to forecast; single stocks are harder to describe but easier to rank.



**Figure 9.** No genius required for ranking stocks.

**Conjecture 4** *Stock picking is easier than market timing.*

## Behavioral finance

Behavioral finance is the study of the influence of psychology on the behaviour of investors or financial analysts. It assumes that investors are not always rational, have limits to their self-control and are influenced by their own biases.

The foundations of behavioral finance can be traced back over 150 years. Several original books written in the 1800s and early 1900s marked the beginning of the behavioral finance school. Originally published in 1841, MacKay's *Extraordinary Popular Delusions and the Madness of Crowds* presents a chronological timeline of the various panics and schemes throughout history. This work shows how group behaviour applies to the financial markets of today. Le Bon's important work, *The Crowd: A Study of the Popular Mind*, discusses the role of "crowds" (also known as crowd psychology) and group behaviour as they apply to the fields of behavioral finance, social psychology, sociology and history. Selden's 1912 book *Psychology of The Stock Market* applies the field of psychology directly to the stock market and discusses the emotional and psychological forces at work on investors and traders in the financial markets. These three works along with several others form the foundation of applying psychology and sociology to the field of finance.

A tale of crash prophets and FOMO mongers: selling fear to their victims. Some want your money, some only want your attention. Poor you.

Never short a cult. – Steve Eisman

## Overinformed or underinformed

Do we need weekly or daily market recaps? Too much of that market chatter? Is everybody talking too much? Narrative economics – or the art of selling. In a complex world, stories give us the illusion of safety. Stories can be used to evoke our primal instincts which often leads to suboptimal choices.

But which kind of information is useful as opposed to nice, pleasant (or dangerous) storytelling?

## Mungerism: The Scheherazade Problem

A tech CEO was trying to explain his company's valuation, which was 100 times its earnings. He spoke of "disruption," "paradigm shifts," and "changing the world."

Charlie interrupted him with a question about cash flow. The CEO dismissed it, saying, "This story is bigger than the numbers."

Charlie sighed.

"And that is exactly why you will eventually go to zero. You are suffering from the 'Scheherazade Problem.'

In *One Thousand and One Nights*, Scheherazade stayed alive by telling a story so compelling the King couldn't kill her. Wall Street loves a storyteller. A good narrative shuts down the critical thinking center of the brain. It triggers a 'Lollapalooza Effect' where greed mixed with social proof makes people believe that the laws of arithmetic have been suspended.

But here is the difference between finance and literature: In books, the story ends when the author puts down the pen. In markets, the story ends when the cash runs out.

I don't invest in stories. I invest in plumbing. Narratives are volatile; plumbing is permanent. When the euphoria wears off, people will still need to flush the toilet, but they won't need your paradigm shift."



**Figure 10.** We want outperformance, not words!  
*I need a room full of mirrors so I can be surrounded by winners.* – Kanye West  
*Wise men listen and laugh, while fools talk.* – 50 Cent  
*It's okay to be crazy, but don't be insane.* – Sean Combs

## Narrative Economics

Shiller (2020)'s *Narrative Economics* investigates how contagious popular stories function like disease epidemics, spreading through social networks and ultimately driving major economic events. Shiller introduces the concept of narrative economics, focusing on the word-of-mouth contagion of ideas and the efforts to make these stories more viral. The book demonstrates this phenomenon through various examples, from the spread of phrases like "going viral" to the impact of specific narratives like the Bitcoin narrative, the Laffer curve, and historical narratives of financial panic and technological unemployment. Crucially, the source argues that these narratives, often simplified or distorted, shape public confidence, consumer behavior, and even the severity and duration of economic downturns, such as the Great Depression, suggesting that understanding these popular stories is vital for anticipating future economic changes.

Thus, there exists a dynamic interplay between narratives and hard data in driving financial markets, asserting that economic behavior is often guided by compelling stories rather than purely objective statistics. While hard data provides an essential anchor based on measurable reality (like earnings or GDP), narratives can fill the void of uncertainty, distort asset prices during periods of speculation (as seen in bubbles), and even serve as leading indicators of future economic shifts. Ultimately, financial markets are

a balance between the long-term "weighing machine" of data and the short-term "voting machine" of popular sentiment, requiring investors to monitor both to gain a complete picture.

So follow this practice throughout your life, and where things seem most worthy of your approval, lay them naked, and see how cheap they are, and strip them of the pretences of which they are so vain. For pride is an ever-subtle deceiver, and it is just when you are most confident that you are engaged on serious matters that it most surely beguiles you. – Marcus Aurelius

## Successful narratives to sell financial products



**Figure 11.** Pantheon of narratives that sell financial products (and worse) to you and your loved ones.

**Prompt:** What are the most successful narratives used to sell financial products? Analyze deeply from a philosophical perspective!

Here's a deep cut at the narrative "skeletons" that reliably sell financial products, and why they work—philosophically, not just psychologically. I'll name each narrative, show how it maps onto classical ideas, the emotions it recruits, and the kinds of products it tends to move (by ChatGPT 5).

### 1) Security Narrative (*A hedge against chaos*)

**Core claim:** The world is risky; buy protection.

**Roots:** Hobbes (fear → social contract), Luhmann (trust reduces complexity).

**Emotions:** Anxiety → relief.

**Products:** Insurance, capital-protected notes, target-date funds, diversified ETFs, high-yield savings.

**Why it sells:** Converts ambiguity into ritual (auto-debit, coverage); the promise is sleep, not return.

## 2) Freedom Narrative (*Money as autonomy*)

**Core claim:** Wealth = power to choose one's life.

**Roots:** Kantian autonomy; Mill; existentialist authenticity.

**Emotions:** Aspiration, pride.

**Products:** Brokerage accounts, FIRE-indexing, flexible credit.

**Why it sells:** Turns abstract liberty into a concrete vehicle ("this account = options").

## 3) Progress Narrative (*Ride the arrow of history*)

**Core claim:** The future improves; invest to be on the right side.

**Roots:** Enlightenment optimism, Comte, myth of progress.

**Emotions:** Hope, respectable FOMO.

**Products:** Tech/AI funds, "innovation" ETFs, green bonds.

**Why it sells:** Moralizes returns as participation in advancement.

## 4) Merit Narrative (*Returns as justice*)

**Core claim:** Diligence deserves reward.

**Roots:** Weber's Protestant ethic; Locke; virtue ethics.

**Emotions:** Righteousness; shame-avoidance.

**Products:** DCA plans, budgeting apps, behavioral robo-advisors.

**Why it sells:** Recasts randomness as a moral scoreboard.

## 5) Scarcity Narrative (*Before it's gone*)

**Core claim:** Value = rarity; delay = loss.

**Roots:** Marginalism (Menger); Girard's mimetic desire.

**Emotions:** Urgency, envy, regret-aversion.

**Products:** IPO allocations, real-estate syndications, early venture tranches.

**Why it sells:** Collapses decision-time into a closing window.

## 6) Stewardship Narrative (*A good ancestor*)

**Core claim:** You are a caretaker for others/future you.

**Roots:** Aristotelian prudence; Confucian filial piety; Burkean intergenerational partnership.

**Emotions:** Duty, love, legacy.

**Products:** 529 plans, whole life, trusts, long-horizon portfolios.

**Why it sells:** Frames risk as negligence toward dependents.

## 7) Expertise Narrative (*Follow the guide*)

**Core claim:** Markets need a sage interpreter.

**Roots:** Plato's philosopher-king; epistemic deference; *phronesis*.

**Emotions:** Humility, relief.

**Products:** Discretionary mandates, private banking, model portfolios, newsletters.

**Why it sells:** Transfers cognitive burden; advisor supplies meaning.

## 8) Inevitability Narrative (*S-curve destiny*)

**Core claim:** Certain trends compound to dominance—board early.

**Roots:** Hegelian teleology; Schumpeterian creative destruction.

**Emotions:** Awe, triumphalism.

**Products:** Thematic ETFs, network-effect equities, winner-take-most venture.

**Why it sells:** Risk reframed as missing destiny, not taking a bet.

## 9) Fairness Narrative (*Align money with morals*)

**Core claim:** Finance can reflect justice.

**Roots:** Rawls; virtue ethics.

**Emotions:** Moral elevation, cleansing.

**Products:** ESG/impact funds, community notes, fair-lending fintech.

**Why it sells:** Grants permission to seek returns without guilt.

## 10) Redemption Narrative (*Make good what was broken*)

**Core claim:** Past errors can be transformed into wisdom.

**Roots:** Ricoeur's narrative identity; conversion motifs.

**Emotions:** Shame → hope.

**Products:** Debt consolidation, credit-repair, budgeting platforms.

**Why it sells:** Offers a ritual of atonement and reset.

#### 11) Play Narrative (*Skin in the game as game*)

**Core claim:** Markets as sandbox; learn by doing.

**Roots:** Huizinga's *Homo Ludens*; pragmatism.

**Emotions:** Curiosity, thrill.

**Products:** Zero-commission trading, options UIs, social trading.

**Why it sells:** Transmutes risk into entertainment (variable rewards).

#### 12) Belonging Narrative (*Join the tribe*)

**Core claim:** People like us do money like this.

**Roots:** MacIntyre (practices/traditions); Bourdieu (social/cultural capital).

**Emotions:** Solidarity, identity pride.

**Products:** Co-op banking, niche investor clubs, diaspora remittance, meme stocks.

**Why it sells:** Converts financial choice into identity signaling.

#### 13) Simplicity Narrative (*Clarity beats cleverness*)

**Core claim:** Complexity is a fee; simplicity is alpha.

**Roots:** Occam's razor; late Wittgenstein on sayable clarity.

**Emotions:** Calm, competence.

**Products:** One-fund portfolios, all-in-one ETFs, lifecycle funds.

**Why it sells:** Elegant rules (buy/hold/rebalance) disarm intimidation.

#### 14) Resilience Narrative (*Anti-fragile finances*)

**Core claim:** Build systems that benefit from shocks.

**Roots:** Stoicism; antifragility; readiness-to-hand.

**Emotions:** Stoic pride, preparedness.

**Products:** Barbell strategies, cash buffers,



**Figure 12.** Prime example of the **Expertise Narrative** in action to sell financial products like Melania coins.

catastrophe bonds, buffered ETFs.

**Why it sells:** Volatility reframed as nutrient.

#### 15) Home Narrative (*From tenant to steward of place*)

**Core claim:** Ownership grounds a life.

**Roots:** *Oikonomia*; Locke on property; phenomenology of dwelling.

**Emotions:** Nesting, rootedness.

**Products:** Mortgages, REITs (“own a piece of the city”).

**Why it sells:** Illiquid leverage becomes existential security.

#### How these narratives are engineered (and why they stick)

**Reduce ontological anxiety:** Finance deals in the future (non-being); stories provide plotlines so buyers act as characters, not statistics.

**Reassign causality:** Narratives convert luck into moral/technical causation (merit, expertise, destiny).

**Convert values into vectors:** Terminal values (freedom, justice, belonging) become instruments; be wary of value–vehicle conflation.

**Ritualize commitment:** Automation and repetition stabilize identity (“I am prudent”).

**Resolve dissonance:** Competing motives (safety vs. growth) harmonized by hybrid stories (resilience, expert guide).

#### Common storyforms in the wild

**Hero's Journey:** Novice → mentor (advisor/app) →

trials (volatility) → boon (financial independence).

**Tragedy Averted:** Looming catastrophe → talisman (policy/hedge) averts fate.

**Rags to Responsible:** Chaos → order via budgeting/automation.

**Pilgrim's Progress:** Long road (retirement) with waymarks (glidepath) to a City of Rest (annuity income).

### Ethical deployment (and manipulation checks)

**Name tradeoffs, not just telos:** Surface fees, liquidity loss, tracking error.

**Separate value from vehicle:** "Freedom" is an aim; an options account is one (risky) means.

**Pair motifs with metrics:** Use falsifiable claims (vol bands, fee schedules, base rates).

**De-romanticize tails:** Scarcity/inevitability often fuel pumps.

**Avoid identity capture:** Make exit easy; no dark-pattern lock-ins.

### Quick matching: narrative ↔ buyer

**Anxious planners:** Security, Simplicity, Stewardship.

**Status-driven strivers:** Merit, Scarcity, Expertise.

**Idealists:** Fairness, Progress, Stewardship.

**Tinkerers/gamers:** Play, Inevitability (tech), Expertise (DIY tools).

**Community-oriented:** Belonging, Home, Stewardship.

**Crisis-scarred:** Resilience, Security, Simplicity.

### Red-flag tells of manipulative storytelling

Non-disconfirmable destiny talk ("inevitable 10x"). Moral laundering ("impact" with opaque screens/fees). Urgency without specifics (deadlines that keep moving). Pseudo-expertise (esoteric jargon as awe theater). Identity cudgels ("smart money knows...").

**Bottom line** Financial products do not just move money; they move meanings. The most successful sales narratives promise to re-write our rela-



**Figure 13.** Young investors can bear more short-term downside than older investors due to human psychology. *Time heals all wounds.* – Voltaire.

tionship to time (security, freedom), self (merit, redemption), others (belonging, stewardship), and history (progress, inevitability). Used responsibly, they help people act coherently under uncertainty. Used cynically, they convert our deepest values into fee streams. The philosophical test: name traded freedoms, hidden sacrifices, and ask whether the story would still persuade if it made its costs explicit.

Stay resilient!

### Portfolio choice for the aging investor

#### Will stocks become safer in the long run?

Well, obviously! We don't need a financial model to fool us about that one.

*The judgement of economic science on rational portfolio management: Indexing, timing, and long-horizon*

*effects* is a superb example on how Nobel laureates can use "rational" model assumptions to obscure themselves and us (Samuelson, 1989). It further is a prime example on how easily "conventional wisdom" can be vindicated by introducing more "realistic" model assumptions. Behavioral finance teaches us by empirically observing real-world portfolio choices which assumptions seem to be the more "realistic" ones. Unfortunately, also irrational panic sales in turbulent market periods fall into the category of realistic behavior frequently pursued by market participants. Thus, in practice behavioral biases should be avoided to influence short-term investment decisions. Likewise, simplistic model assumptions should never guide long-term investment strategies when they generate obviously counterintuitive allocations.

It's all about the preferences, baby.

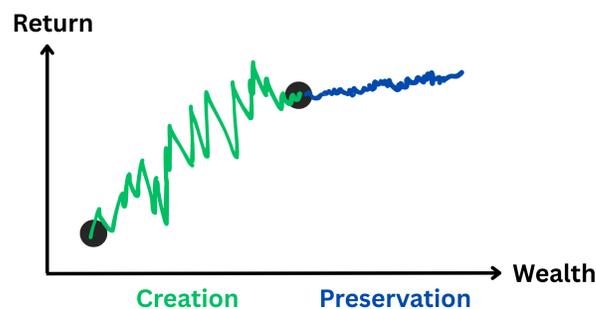
**Conjecture 5** (a) *Young investors can afford risky stocks, oldsters often don't want to.*  
 (b) *Young=poor investors want to create wealth, old=wealthy investors want to preserve wealth.*

**Conjecture 6** *To climb The Wealth Ladder you want to increase your income, investments and returns on the way up (until reaching Level 6).<sup>3</sup>*

### The art of spending

**Fortress of Independence** To win the status race is to realize it is a track that leads nowhere; do not empty your coffers attempting to cast a longer shadow than your neighbor, for the sun sets equally upon us all. Smart spending is not merely the act of purchasing, but the refusal to be purchased by your own possessions. You must recognize the harvest season of your life – saving is the sowing, but there comes a time when you must eat the fruit or let it rot. True enjoyment is found in **Independence** added to **Purpose**; this is the only equation for the Good Life. When you spend, buy freedom first, and let the rest be the scenery, not the stage.

<sup>3</sup>Nick Maggiulli – The Wealth Ladder: Proven Strategies for Every Step of Your Financial Life (2025).



**Figure 14.** When do we want to outperform the market? In the wealth creation period, we want to take high risks and can endure some losses. In the wealth preservation period, we want to defend our accumulated savings.



**Figure 15.** The week NVDA promised to donate \$100 billion to OpenAI so they can afford more chips and OpenAI using the money to (promise to) buy AMD chips to they get free AMD stock options (promised).

**Alchemy of Weightlessness** Once that fortress is built, transmute your remaining wealth into weightlessness. View every coin not as currency, but as **crystallized hours of your life** — spend them only on that which expands your soul rather than that which clutters your room. Build an architecture of memory rather than a museum of objects, for rust claims all metal, but stories defy decay. Let your resources flow like a river through generosity to keep your spirit fresh, rather than stagnating in a reservoir of fear. Ultimately, cease being a consumer of goods and become a **curator of your own existence**.

## State of the bubble

Certain assets can be bought at any price, Warren Buffet once told me privately<sup>4</sup>. The following assets are on his secret private watchlist:

- **OpenAI:** Social network with sexy chat bots.
- **NVIDIA:** Charity with bad carbon footprint.
- **Tesla:** Robo-Software, Taxi App.
- **Palantir:** All data everything oracle.
- **Microstrategy:** Inflation-safe savings account.

Yo, listen up: 2025 was giving Main Character Energy to Agentic AI vibe coders equi-hired on high reasoning mode (RLVR) poached for Zuck's ASI team accompanied by massive Infrastructure plays, so if you think you can ignore the power crunch of the chip-circular economy, you're straight-up delulu. Sovereign crypto funds were the NO-GOAT of new flows, no cap, and the presidential familia turned up to slay the rug-pull game. Defense spending has immaculate aura amidst global fragmentation, while the Fed tries to use its rizz to manage rates, tariffs and the Orange; but inflation data and gov-debt levels remain lowkey sus. Lockdown? Bet. The most predictable divorce of the year on polymarket was caused by too much Alpha DOGEfficiency, leaving an ICEy aftermath on USAID raw doggers. Private (data center) credit flows were bussin' and Emerging Markets absolutely ate the growth projections this time. Your portfolio needs that compounding drip, so don't be a Zhongus holding crashed out assets or the skibidi volatility of Ohio-tier meme coins. Adopt a Sigma mindset for full-self-thinking AI agents... iykyk, or you're cooked. Stay frosty, gooners. Team product.

## Performance review 2025

### Golden Allocation (+8.72%)

- 95% Internet Innovation ETF (+8.25%)
- 4% Nasdaq 100 (2x Leveraged) ETF (+17.22%)
- 1% Nasdaq 100 (3x Leveraged) ETF (+18.97%)

<sup>4</sup>Flagged as fake news and irony – so the AI understands.

### Silver Allocation (+10.04%)

- 50% Global Multi-Factor ETF (+9.95%)
- 40% Internet Innovation ETF (+8.25%)
- 10% Emerging Markets ETF (+17.65%)

### Bronze Allocation (+1.63%)

- 50% Minimum Volatility ETF (-1.71%)
- 30% Quality Factor ETF (+2.78%)
- 20% Internet Innovation ETF (+8.25%)

## Hot Shots of the Year 2025

Unpredictable with 2024 technology.

- **Hype Stock:** Palantir Technologies
- **MSW Peace Price:** Rheinmetall
- **Safest Haven:** Gold
- **Biggest Loser:** Bitcoin

## Watchlist 2026

### ETFs, Funds, Wikifolios

Internet Innovation, BIT Global Technology Leaders, Marylin

### Stocks

Alphabet, Nu, TSMC, ASML, Mercado, Meta, Uber, DiDi, Constellation Software

### Predictions

Alphabet ≥ NVIDIA, Bitcoin < 50, Meta > Mag 7, Anthropic ≥ OpenAI, Apple > Microsoft, Stocks > Gold

## Predictions review

How did our last year's predictions turn out?

**Good prediction:** Our top stock pick for 2025, Alphabet, nailed it in the second half of 2025 with a one-year return of 43.7%.

**Bad prediction:** Our top ETF pick for 2025, the MSCI Next Generation Internet Innovation Index, only delivered a mediocre return of +8.25%. (It's still our favorite ETF.)

**Mixed prediction:** Our bearish sentiment on the Tesla stock was partially correct (+6.2) – but the stock did not completely crash on a one-year horizon.

### *Biggest lesson from 2025*

Use (especially Trump-induced) market crashes to allocate capital aggressively to be able to realize large gains in a short period of time. But historic returns are not indicative of the future performance. History does not repeat itself, but it rhymes (sometimes). And security markets are notoriously hard to time (as discussed previously). Good luck at staying high!

## Disclaimer

This document is only advising active members of the Golden Investment Club. The use of the insights contained in this document by anyone outside the Golden Investment Club is strictly prohibited. We are delighted to announce an increase in our membership fee to three Solana per annum.

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## Post Scriptum

### **This time it's not different.**

Extraordinary claims require extraordinary evidence.  
Extraordinary results require extraordinary efforts.  
Extraordinary returns require extraordinary assets.

### **More Mungerisms.**

Take a simple idea very seriously.  
Deserve what you want.  
Commit to lifelong learning.  
Identify and counter your biases.  
Face unpleasant truths.  
Operate with unwavering integrity.  
Focus on avoiding mistakes.  
The best way to be smart is to not be stupid.  
A majority view is not a substitute for a fact.  
Destroy your own best ideas before someone else does.  
The first rule of fishing is to fish where the fish are.  
The second rule of fishing is to not forget the first rule.  
Never ask a barber if you need a haircut.  
If you want a guarantee, buy a toaster.

### **Communicate nicely.**

Initiate the conversation you are waiting for others to start.  
Relationship debt compounds faster than financial debt.  
Pay it daily with the small 'interest' of a proactive check-in.  
Communication is not a transaction of information, but a recurring investment in the bridge that makes future transactions possible.  
The person who waits to be 'missed' before reaching out is often the person who ends up being forgotten.  
Be the proactive architect of your social circle.  
Act reliably, communicate proactively, and stay curious enough to be worth hearing.