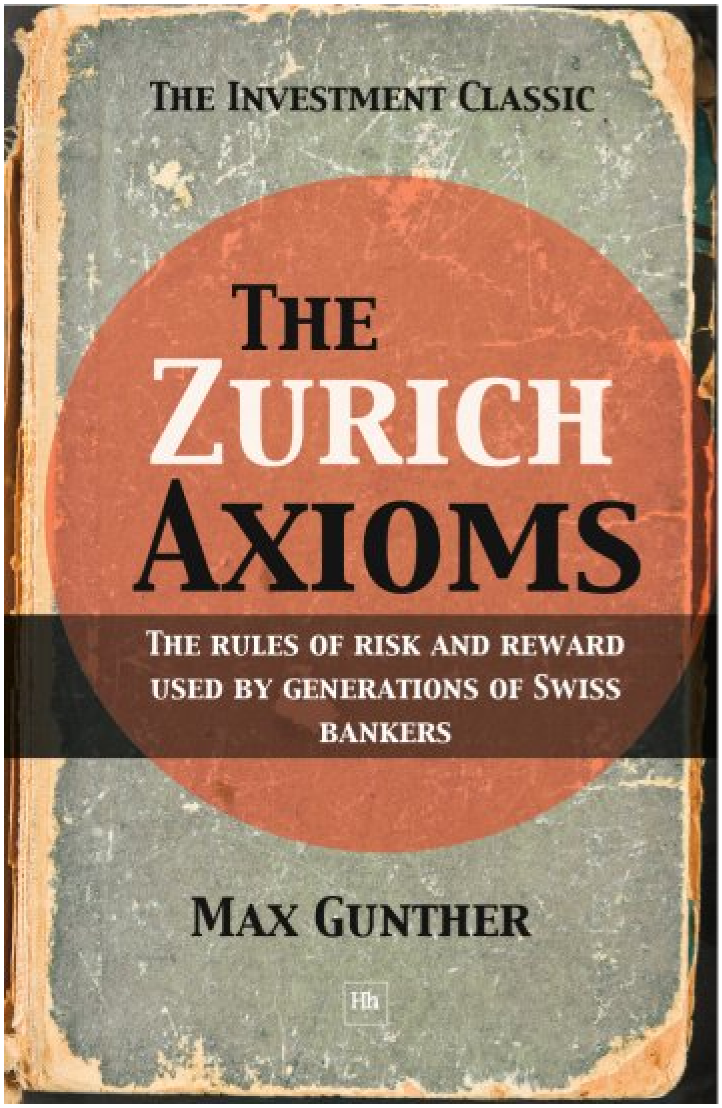
THE INVESTMENT CLASSIC
THE ZURICH AXIOMS
THE RULES OF RISK AND REWARD USED BY GENERATIONS OF SWISS BANKERS
MAX GUNTHER
Hh

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Introduction

What the Axioms are and how they came to be

Consider the puzzle of Switzerland. This ancestral home of mine is a rocky little place about half the size of Maine. It has not one inch of seacoast. It is one of the most mineral-poor lands on earth. It possesses not a drop of oil to call its own, barely a bucket of coal. As for farming, its climate and topography are inhospitable to just about everything.

It has stayed out of European wars for 300 years; chiefly because, in all that time, there has never been an invader who really wanted it.

Yet the Swiss are among the most affluent people in the world. In per capita income they rank with the Americans; West Germans; and Japanese. Their currency is among the world's soundest.

How do the Swiss do it?

They do it by being the world's cleverest investors, speculators, and gamblers.

This book is about betting to win.

Perhaps that makes it sound like a book for everybody. It is not. Everybody wants to win, of course. But not everybody wants to bet, and therein lies a difference of the greatest magnitude.

Many people, probably most, want to win without betting. That is an entirely understandable wish. There is nothing reprehensible about it. Indeed, many of our hoariest old Work Ethic teachings urge it upon us. We are told that risk-taking is foolish. A prudent man or woman places no bets beyond those that are required by the unalterable basic terms of human existence. The well-lived life is a nose-to-the-grindstone life, perhaps somewhat dull but safe. A bird in the hand . . .

Well, everybody understands the trade-offs. If you have a philosophical bias against betting, you will find little that is useful to you in this book – unless, of course, it changes your mind.

But if you do not mind taking reasonable risks – or better, if you enjoy risk, as the Swiss do – then this book is for you. The Zurich Axioms are all about risk and its management. If you study the Axioms with the diligence they deserve, they can enable you to win more of your bets than you ever thought possible.

Let’s not mince words. They can make you rich.

The book is about betting in its broadest sense. You will find the stock market mentioned frequently because that is where most of my experience has been, but the book is not limited to that great supermarket of dreams. The Axioms apply as well to speculation in commodities, precious metals, art or antiques; to gambles in real estate; to the thrust and parry of daily business; to casino and table gambling. The Axioms apply, in short, to any situation in which you put money at risk in order to get more money.

All of life is a gamble, as every adult knows. Many people, probably most, are unhappy with this fact and spend their lives figuring out how to place as few bets as possible. Others, however, take the opposite route, and among these are the Swiss.

Not all Swiss men and women display this trait, of course, but large numbers do – enough, certainly, to allow for generalisations about the Swiss national character. The Swiss did not become the world’s bankers by sitting in dark rooms chewing their fingernails. They did it by facing risk head-on and figuring out how to manage it.

The Swiss, amid their mountains, look around at the world and find it full of risk. They know it is possible to cut one’s personal risks to a minimum – but they also know that if you do that, you abandon all hope of becoming anything but a face in the crowd.

To make any kind of gain in life – a gain of wealth, personal stature, whatever you define as “gain” – you must place some of your material and/or emotional capital at risk. You must make a commitment of money, time, love, *something*. That is the law of the universe. Except by blind chance, it cannot be circumvented. No creature on earth is excused from obedience to this pitiless law. To become a butterfly, a caterpillar must grow fat; and to grow fat, it must venture out where birds are. There are no appeals. It is the *law*.

The Swiss, observing all this, conclude that the sensible way to conduct one’s life is not to shun risk but to expose oneself to it deliberately. To join the game; to *bet*. But not in the caterpillar’s mindless way. To bet, instead, with care and thought. To bet in such a way that large gains are more likely than large losses. *To bet and win*.

Can this be done? Indeed. There is a formula for doing it. Or perhaps ‘formula’ is the wrong word, since it suggests mechanical actions and a lack of choice. A better word might be ‘philosophy’. This formula or philosophy consists of twelve profound and mysterious rules of risk-taking called the Zurich Axioms.

Be warned: the Axioms are somewhat startling when you first encounter them. They are not the kind of investment advice most counselors hand out. Indeed, they contradict some of the most cherished clichés of the investment-advice business.

The most successful Swiss speculators pay scant attention to conventional investment advice. They have a better way.

The term ‘Zurich Axioms’ was coined by a club of Swiss stock and commodity plungers who collected around Wall Street after the Second World War. My father was one of the founding members. It wasn’t a formal club. There were no by-laws, dues, or membership lists. It was simply a group of men and women who liked each other, wanted to get rich, and shared the belief that nobody ever got rich on a salary. They met irregularly at Oscar’s Delmonico and other Wall Street watering places. The meetings continued all through the 1950s, 1960s, and 1970s.

They talked about many things, but mainly about risk. The work of codifying the Zurich Axioms got started when I asked my father a question he couldn’t answer.

My father was a Swiss banker, Zurich-born and bred. The given names on his birth certificate were Franz Heinrich, but in America everybody called him Frank Henry. When he died a few years ago his obituaries made much of the fact that he had headed the New York branch of the Schweizerbankverein – Zurich’s financial colossus, the Swiss Bank

Corporation. That job was important to him, but he once told me that what he really wanted engraved on his tombstone was this sentence: “He gambled and won.”

Frank Henry and I started to talk about speculation while I was in high school. He would look at my report card and grumble that the curriculum was incomplete. “They don’t teach you the thing you need most of all”, he would say. “Speculation. How to take risks and win. A boy growing up in America without knowing how to speculate – why, that’s like being in a gold mine without a shovel!”

And when I was in college and the army, trying to make choices about future careers, Frank Henry would say, “Don’t just think in terms of a salary. People never get rich on salaries, and a lot of people get poor on them. You’ve got to have something else going for you. A couple of good speculations, that’s what you need”.

Typical Swiss talk. I absorbed it as part of my education. When I got out of the army with a few hundred dollars in back pay and poker winnings, I took Frank Henry’s advice and shunned savings institutions, which he regarded with the greatest scorn. I put the money into the stock market. I won some, lost some, and ended with about the same amount I’d started with.

Meanwhile, Frank Henry was having a ball in the same market. Among other ventures, he made a bundle on some wildly speculative Canadian uranium-mining stocks.

“What is this?” I asked gloomily. “I invest prudently and get nowhere. You buy moose pasture and get rich. Is there something I don’t understand?”

“You have to know how to do it”, he said.

“Well, okay. Teach me.”

He stared at me silently, stumped.

What he had in his head, it turned out, were rules of speculative play that he had absorbed over a lifetime. These rules are in the air – understood but seldom articulated – in Swiss banking and speculative circles. Having lived in these circles since he got his first clerk-apprentice job at age seventeen, Frank Henry had assimilated the rules into his very bones. But he could not specifically identify them or explain them to me.

He asked his Swiss Wall Street friends about them. The friends didn't know exactly what the rules were either.

But from that moment on they made it their business to get the rules separated and clarified in their minds. It started as a game with them, but it grew more serious as the years went by. They formed the habit of questioning themselves and one another about important speculative moves: "Why are you buying gold now? . . . What made you sell this stock when everybody else was buying? . . . Why are you doing this instead of that?" They forced each other to articulate the thinking that guided them.

The list of rules evolved gradually. It grew shorter, sharper, tidier, and more useful as time went on. Nobody remembers who coined the term 'Zurich Axioms', but that is the name by which the rules came to be known and are still known.

The Axioms have not changed very much in the last several years. They have stopped evolving. As far as anybody knows, they are now in their final form: twelve Major Axioms and sixteen Minor Axioms.

Their value seems to me incalculable. They grow bigger each time I study them – a sure sign of fundamental verity. They are rich in secondary and tertiary layers of meaning, some coldly pragmatic, some verging on the mystical. They are not just a philosophy of speculation; they are guideposts for successful living.

They have made a lot of people rich.

The First Major Axiom: On Risk

Worry is not a sickness but a sign of health. If you are not worried, you are not risking enough.

Two young women friends graduated from college many years ago and decided to seek their fortunes together. They went to Wall Street and worked at a succession of jobs. Eventually both ended as employees of E. F. Hutton, one of the bigger stock brokerages. That was how they met Gerald M. Loeb.

Loeb, who died a few years ago, was one of the most respected investment counselors on the Street. This bald, genial man was a veteran of the hellish bear markets of the 1930s and the astounding bull markets that followed the Second World War. He kept his cool through all of it. He was born poor but died rich. His book *The Battle for Investment Survival* may have been the most popular market-strategy handbook of all time. It was certainly among the most readable, for Loeb was a born storyteller.

He told this story about the young women one night at a restaurant near the American Stock Exchange, where he had met Frank Henry and me for dinner. The story made a point he felt needed to be made about risk.

The young women both shyly approached him for investment advice. They approached him at separate times, but he knew of their close friendship and was certain they compared notes. Their financial situations in the beginning were identical. They had launched promising careers and were moving up modestly in pay and status. Their salary checks were beginning to do more than cover the bare essentials of existence. They had something left over after settling with the Internal Revenue Service each year. The amount was not large, but was enough to be concerned about, and there was the promise of more in the future. Their question to Gerald Loeb: what should they do with it?

Over toast and tea at his favorite snack shop, the fatherly Loeb tried to sort out the trade-offs for them. But it quickly became apparent to him that each of them already had her mind made up. All they wanted from him was confirmation.

In telling the story, Loeb mischievously dubbed one of the women Sober Sylvia and the other Mad Mary. Sylvia's ambition for her money was to find a haven of perfect safety. She wanted to put the money into an interest-bearing bank account or some other savings-like deposit with an all-but-guaranteed return and all-but-guaranteed preservation of capital. Mary, on the other hand, wanted to take some risks in the hope of making her little handful of capital grow more meaningfully.

They carried out their respective strategies. A year later Sylvia had intact capital, an increment of interest, and a cozy feeling of security. Mary had a bloody nose. She had taken a beating in a stormy market. The value of her stocks had declined about 25 percent since she had bought them.

Sylvia was generous enough not to crow. Instead, she seemed horrified. “That's terrible!”, she said when she learned the extent of her friend's misfortune. “Why, you've lost a quarter of your money. How awful!”

The three of them were having lunch together, as they occasionally did. Loeb watched Mary intently. He winced as he waited for her reaction to Sylvia's outburst of sympathy. He was afraid Mary's early loss would discourage her and drive her out of the game, as happens to many a neophyte speculator. (“They all expect to be big winners instantly”, he would say mournfully. “When they don't triple their money the very first year they go off pouting like spoiled kids.”)

But Mary had what it takes. She smiled, unperturbed. “Yes”, she said, “it's true I've got a loss. But look what else I've got.” She leaned across the table toward her friend. “Sylvia”, she said, “I'm having an adventure.”

Most people grasp at security as though it were the most important thing in the world. Security does seem to have a lot going for it. It gives you that cozy immersed feeling, like being in a warm bed on a winter night. It engenders a sense of tranquility.

Most psychiatrists and psychologists these days would consider that a good thing. It is the central assumption of modern psychology that mental health means, above all, being calm. This unexplored assumption has dominated shrinkish thought for decades. *How to Stop Worrying and Start Living* was one of the earlier books dealing with this dogma, and *The Relaxation Response* was one of the later ones. Worry is harmful, the shrinks assure us. They offer no trustworthy evidence that the statement is true. It has become accepted as true through sheer relentless assertion.

Devotees of mystical and meditational disciplines, particularly the eastern varieties, go further still. They value tranquility so much that in many cases they are willing to endure poverty for its sake. Some Buddhist sects, for example, hold that one shouldn’t strive for possessions and should even give away what one has. The theory is that the less you own, the less you will have to worry about.

The philosophy behind the Zurich Axioms is, of course, the exact opposite. Perhaps freedom from worry is nice in some ways. But any good Swiss speculator will tell you that if your main goal in life is to escape worry, you are going to stay poor.

You are also going to be bored silly.

Life ought to be an adventure, not a vegetation. An adventure may be defined as an episode in which you face some kind of jeopardy and try to overcome it. While facing the jeopardy, your natural and healthy response is going to be a state of worry.

Worry is an integral part of life’s grandest enjoyments. Love affairs, for instance. If you are afraid to commit yourself and take personal risks, you will never fall in love. Your life may then be as calm as a tidal pool, but who wants it? Another example: sports. An athletic event is an episode in which athletes, and vicariously spectators, deliberately expose themselves to jeopardy – and do a powerful lot of worrying about it. It is a minor adventure for most of the spectators and a major one for the athletes. It is a situation of carefully created risk. We wouldn’t attend sports events and other contests if we didn’t get some basic satisfaction out of them. We need adventure.

Perhaps we need tranquility at times too. But we get plenty of that at night when we sleep – plus, on most days, another couple of hours at odd times