Wisdom challenged decisions are widespread. The nation’s healthcare system is dysfunctional with the competition based on costs by segmentation of providers and patients rather than on quality of service to the patients. The national financial system is still excessively exposed to bubbles with housing as the next candidate. It is really hard to think of an area of activity in which we can be proud of the run-of-the-mill decisions.

The saving grace is that our system of a free society is better than the alternatives. It behooves us, however, to operate within that system with some strategy that is effective for our goals. I have written elsewhere regarding changes to the system, especially through more relevant research in academia. The focus here is on operating within the system.

As a believer in consilience, the unity of knowledge, it is reasonable to take a few areas of activity and use those as examples of good strategies, i.e., strategies that generally produce better outcomes than alternative decision making guides. The three areas selected are the card game of contract bridge, the investment aspect of real estate decision making, and a small slice of life’s decisions.

**Contract Bridge**

Maybe you want to win, or maybe you just want to play. In either case, reason is your friend. But, emotion is at the table and it may affect what you and others do.

Understand the system! That is the key to bridge and life. And, don’t confuse the rules of conventions with the rules of the game. The rules of conventions are communication aids designed to assist in reaching reasoned decisions. The rules of the game are such that everyone starts with thirteen cards, whatever they happen to be, and the right to specify trump goes to the bidding team that bids the highest (the suits are ranked, so the contract goes to the team that bids to contract for the most number of tricks, or the highest ranked suit when both teams bid for the same number of tricks). The rules require following suit when one has the suit led and there is penalty for failing to do so, but one is not estopped from overbidding, bending convention and judgment; but, there is a penalty in points for failing to make an agreed upon contract. The rules that reflect the laws of the game are not flexible; the rules of conventions are if you are willing to take the chances that are involved.

Before taking extra chances it pays to get the best information available as to the distribution of the cards, in-part by inference. When the hands are picked up, each of the four players knows where 13 of the 52 different cards are located. When the bidding

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1 Dr. Maury Seldin, a chaired professor emeritus at the American University, is the head of a social science think tank that focuses on real estate related issues ([www.hoyt.org](http://www.hoyt.org)). His credentials in bridge are underwhelming.
proceeds, clues are given as to the strength and distribution of the other 39 cards as among the other three players. Even passes provide information, just as the “dog that didn’t bark” was a clue in a Sherlock Holmes mystery story. The idea is to visualize the hands held by one’s partner and each of the two opponents.

The usual objective is to get the highest score; but, some people play just hoping not to be the loser. Others will play with a bias towards being declarer (the contract winner who specifies trump by being the highest bidder), with little consideration for points lost in not making the contract. It is helpful to understand what the others are trying to do. It is also helpful to sense if they are making emotional bids rather than reasoned bids.

The rules of the game call for players to reveal to their opponents what conventions they use in bidding. They are not required to rigorously observe the conventions, but rather the requirement is to not have secret signals in the bidding through unrevealed conventions.

Once the bidding has proceeded, the additional information from each bid may influence one’s judgment on the trick-taking power of one’s holding of cards. For example, an ace-queen or king-jack combination in a suit bid by an opponent is more valuable when the opponent is on one’s right than on one’s left. Furthermore, cards are like mass and energy as in E=mc². The card’s value is determined by when it is played – the card is the mass but the playing of it is the energy. Thus, there is location of cards and timing of play. The bidding with the expectation of the number of tricks that can be taken should reflect expectations of the location of cards and the timing of play. This visualization is hazy because it is only in the bidding stage. Once the contract is awarded and the opposition leads the first card of play, every other player sees 27 cards; the card led, one’s own thirteen and the dummy’s 13 (referring to the hand opposite the declarer that is exposed after the opposition leads the first card of play – no reference to any of the other players intended).

In the game of life, the cards are dealt with the result of unequal strength among the individuals that make up the populace. In any given hand of bridge, the trick taking power based upon cards is likely to be uneven. It may average out over a long period of time, but recent hands have no bearing on the next hand. What does have a bearing from hand-to-hand is the skill of play. Thus, there may be an inherent unevenness at the table, but the degree of unevenness changes from hand-to-hand.

It makes sense to be realistic in playing the hand that one is dealt. Sometimes the caution that restrains bidding is outweighed by the situation as for example in rubber bridge when the opposition has a partial and is vulnerable; in which case defensive bidding may knowingly take one to an unmakable contract with the idea that the loss in points is less than if one just observes bidding conventions. Sometimes that strategy produces positive points because the opposition bids beyond their trick taking capability. This is another case of timing in the development of strategy, particularly a minimax strategy.
In our societal system we believe in the rights of the individual as the source of the rights of government. Certain individual rights are inalienable, not conventions. But, we create conventions and some become rules of law. What becomes law should be observed, but uncodified conventions have some flexibility, although there may be a price for failure to observe a convention. This lack of observance must be considered with great care, especially because of the uncertainty in the predictability of outcomes.

The key to scoring at the bridge table is in predicting outcomes, not only from the bidding but also from the playing. Similarly, the key to scoring in life is also in predicting outcomes based upon behavior expectations.

In all these cases there is an interaction in which one’s own action may influence the action of the other. The action of the other may also influence one’s own action. This interdependency is what makes a viable strategy critical to success, because it is the strategy which is used to deal with the uncertainty.

Some people blindly follow the rules of conventions without introducing their own reasoning. Their behavior is relatively easy to predict. Others bid and play with emotion, unrelated to convention or reason. Their behavior is more difficult to predict, but accurate prediction has big rewards. One’s own performance is enhanced by controlling one’s own emotions and capitalizing on the poor judgment ensconced in the emotion of the opponents.

Departing from the rules of conventions based upon a reasoned strategy may bring substantial rewards. Such departure takes advantage of better predictions of outcomes than obtainable by the rules of convention. Second hand low, third hand high, makes for the start of a cute nursery rhyme, but knowing when to go high on second and low on third brings better results than listening to the alleged wisdom of the nursery rhyme. Also, sometimes the right way to play the suit is the wrong way to play the hand. That occurs when keeping one of the opponents from leading is more important than the probability associated with the play of a particular combination of a suit. Knowing the priorities in the play of the hand can enhance outcomes.

Some things are zero sum games in nature, both in life and bridge. Other things are not zero sum, but are amenable to synergism in producing additional benefits. Creating joy and interest at the bridge table may be done even when outscoring the opponents. Indeed some players are more interested in the social aspect than the competitive aspect. Pluralism teaches us that there is no one way best for all. vii So, accept what others see as best for them, and play the game with a better prediction of outcomes for scores and other sources of joy or interest.

**Real Estate Decisions**

The investment aspect of real estate decision-making is an excellent case for illustrating the development of strategy. The idea is to predict outcomes, especially by guarding against the downside of uncertainty.
The strategic process does well to consider the following: location, timing, balance, leverage, control, vision and relationships. Some of these elements were alluded to in the discussion of bridge. They will be revisited in discussing strategy in life. The point here is to provide the reader with a “heads-up” clue of what to watch for in the discussion that develops.

While the game of bridge scores in points, which in some cases is converted to money, the game of real estate investing may be thought of as scoring in money. But, money is not the only dimension for scoring in real estate investments. Trophy properties are bought with some sacrifice in monetary returns as compared to alternative investments, and some corporate home offices are investments that appear to suffer from an edifice complex. In short, pride of ownership counts, and negative pride, as with slum properties, also counts. Real estate investment is not devoid of emotion.

Our discussion assumes that the investor’s objective of investing in real estate is to make money, but that it is in the context of an investment portfolio. That relationship is important. One approach, popular among institutional investors, is to apply modern portfolio theory. In short, modern portfolio theory (MPT – and I wonder about the acronym) holds that risk is volatility of returns, and that diversification of assets with different patterns of volatility (different timing of price changes) are best combined so as to have a minimal aggregate volatility at whatever level of risk is acceptable. Thus, greater returns are achievable at various levels of risk by applying MPT than by applying alternative strategies.

That approach makes sense for diversifying business risk (the chance of not getting one’s money back). But, the investor may be especially concerned with price level risk (the risk of inflation) and the liquidity risk (inability to convert assets to cash quickly without loss). And, the investor may believe that he or she can better evaluate the quality of some types of investments and thereby be willing to more heavily weight the portfolio in that segment of investing.

There is no asset that is free from all risks, although U.S. Treasury inflation indexed bonds comes closest. The business risk is nil because the treasury can print the money to pay the debt. The inflation risk is compensated for by the indexing of returns to the consumer price index. The securities are highly marketable, but underlying capitalization rates may change so that the yields expected in the market vary and influence the price.

For an individual investor, the allocation to real estate may be made by first taking care of liquidity needs with other assets in the portfolio. Real estate returns contain a premium for the lack of liquidity so that it makes sense to allocate to real estate after liquidity needs have been met. Real estate can provide a protection against inflation because rents can be adjusted in accordance with lease terms. While the business risk is a focal point for selection of assets in which to invest, the other risks come to bear. Thus, despite MPT there are times when the portfolio may be heavily weighted in real estate because of the great fear of inflation and the provision of liquidity having been made by investing in short term highly liquid monetary assets. Also, for some investors
the conventions of MPT may not apply because they are actually better at assessing value than are their competitors – just as in bridge.

The trite location, location, location saying is often misunderstood. One wants not the best locations at a point in time, but locations that will get better. So, it is a combination of location and timing. The timing is an issue not only for the individual property in its relationship to surrounding land uses and influences, but also to the general flow of funds to real estate investments.

There are times of excessive flow of funds to real estate pushing prices to levels that are unsustainable. These may be followed by periods in which pessimism is so greater that the prices are well below long term price levels. So, timing is important, but market timing is perhaps the most difficult areas in forecasting outcomes. And, transaction costs in direct ownership of real estate are high, so investments tend to be made for long periods of time.

Taking a balanced approach is helpful in dealing with the uncertainty. Thus, spacing the timing of acquisitions of investments produces a balance. Additionally, it is important to know that there is a time to sell as well as to buy. And, a balance of types of investments also provides some protection. This approach moves towards minimizing risks and seeks to maximize within the set of selected risk constraints.

Rather than moving all the way to a balance of diversification, one may get sufficient diversification to meet a risk threshold, and focus on investments that are at locations that are likely to get better and buying at times at which there is not excessive competition. When so doing, leverage is a good way to enhance returns. Although leverage magnifies losses as well as gains, the approach of using it for acquisition, but not for refinancing, is an approach that provides some protection from great vicissitudes of the market-place. An alternative is to continue to refinance and extend holdings, but the risk level increases substantially. One needs to decide on the role that emotion will play in aggressive investment behavior and what the long term needs are from the investment portfolio.

Some investors have a vision of making the most money as the result of an ego thing. Some others look at the money for the resources necessary to support a particular quality of life, so they take a more balanced approach in their investments.

The individual investor is not plagued with the obsession of the institutional investor of not underperforming the market. Thus, not benefiting as much as others in a rapidly rising market is viewed as a strong negative for those in a fiduciary capacity of institutional investing. The institutional investor can accept lower absolute returns gracefully if everyone else is getting lower returns. It is not a reflection on their decisions, as they see it. By way of contrast, the individual investor does not have a fiduciary responsibility to a third party. Thus, the excuse that everyone else got hurt is not much consolation. Thus, the strategy for the individual investor puts a premium on absolute performance rather than relative performance. One may forego participating in the excess of booms in order to avoid getting hit hard with the adjustments of the
aftermath. Goals and risk aversion may run in a spectrum for both institutions and individuals, but the discussion focuses upon the general tendencies of strategy based upon objectives, and there are significant exceptions in both camps.

A vision is needed as to what is expected from a diversified investment portfolio and what is expected from the real estate component. This vision may provide a direct ownership of the real estate with control of the assets within the generally accepted limits of private property.

If one is not prepared for the responsibilities of direct ownership, real estate investment trusts (REITs) are a good alternative. REITs are a tax advantaged form of ownership of real estate through a corporation where the stock may be traded in the open market. Control over the assets is in the hands of the corporate management as part of a broad range of business decisions, including leverage. The values of the underlying real estate determine the long term values to the investors, but the flow of funds to various sectors of the capital market affect the short term pricing of the stock. Thus REIT stock prices may change substantially for reasons not associated with the real estate space or investment market, but rather associated with the stock market. A strategy to pursue with the REITs may include selling off when the market is overpaying and buying back when prices subside.

Most REITs specialize by type of property. The REITs vary as to locational concentration as among metropolitan areas, and tend to focus on a particular quality of location which may be identified by labels such as downtown and suburban, or quality of buildings such as class A or B, or rental levels such as high income or moderate income. These classifications infer locational attributes. The investor may balance the real estate portfolio by diversifying among REITs. An investor gets whatever leverage that exists within the particular REIT, but can select from among REITs with consideration as to the amount of leverage the REITs under consideration typically carry and the duration of the debt. The choices of REITs for a portfolio may be based on the vision that the investor has as to the role of real estate in the portfolio and the risks one is prepared to take. It all starts with a vision.

Strategy in Life

Strategy in life starts with a vision. The vision is built upon a set of goals one pursues; but, considers the assessment of risks and the proclivity of risk avoidance. Goals are based upon values which in turn are influenced by nature as well as nurture.

One clue as to values held by some people, and adjustments in vision, is in a short book by Leo Tolstoy, *The Death of Ivan Ilyich*. Ivan Ilyich was a magistrate who administered justice. As a judge, it was his job, and he did it with all fairness. But he did not pursue justice as a mission in life nor, according to my reading of the story, did he pursue any mission in his life other than fitting in to his society with the accompanying accoutrements appropriate to his vision of status. He observed the conventions.
According to my reading, Ivan Ilyich questions his choices as he is dying. He questions whether the life he lived was the “real thing.” A key quote is “Perhaps I did not live as I should have, but how could that be when I did everything one is supposed to do?” It is true that he lived by the rules of his society that governed the relationship of the individual to society. But, it appears that his value system left him without a societal purpose. As a magistrate, he did his job with justice, but it was his job, not his mission in life. It appears that he had no mission in life, and that the only personal relationship that was really close was perhaps revealed only at the end with the concern, It is the real thing, and if Ivan Ilyich missed the real thing, perhaps it was because he did not know that it existed until, on his death bed, he by happenstance placed his hand on his son's head. And his son kissed his hand.

Not every one sees “the real thing” as the same set of values. But, it is certainly worth making an assessment of what one really wants as a vision. That vision is the foundation of the strategy because it reflects where one wants to go. Without that direction, one is an Alice as in Alice Wonderland asking the Cheshire cat which way to go – who says it does not make any difference if Alice does not know the place to which she wants to get. Think of this as location, and locations getting better. Think of having the cards to play as the mass and the playing of the cards as the expenditure of energy.

This of course involves timing. Things change over time. Change is the inherent condition of nature. Understanding how things change, and forecasting the changing conditions makes a difference. Real estate investing is different at the early stages of wealth accumulation than it is at the retirement stage.

Life in general, as with as with bridge and real estate investing in particular, requires some semblance of balance. One may take a “go-for-broke” strategy from time to time as circumstances warrant. But, achieving a balance that reflects the values and risks that one is prepared to take, and maximizing within the set of constraints produces the best probabilities of outcomes over the long run. For most of us it is more painful to lose than pleasurable to gain, thus the minimax strategy works best in such cases.

Those of my generation, with an early childhood in the years of the Great Depression, tend to be much more risk averse than those of the generation of their children, the Baby Boomers. Those born in the Baby Boom generation, just after World War II, grew up in a period of great economic prosperity. Until the last decade or so there was no downside. Thus the risk constraints may well be set differently, but setting them is a part of the minimax strategy.

One can leverage in life in general by placing bigger bets on some actives or emphasizing some values more than others. It is however, useful to remember that leverage not only magnifies gains, it also magnifies losses when they occur.

One makes the choices and takes the chances. Control is an important consideration. In bridge it is essential to have control over the sequence of play with the cards having different power at different time. Sometimes one can take the tricks off the top. But
most of the time one has to count the losers as well as the winners. When the losers could endanger the contract, the control is over the timing. Sometimes it is best to give up the losers early so as to maintain control.

Temporarily giving up control in the hand is okay if one knows what the limitations are. So is giving up control as in REIT investing; it can work out as long as one knows the limitations and is prepared to bear the risks.

This essay started with a reference to the health care system. That system needs institutional reform, as do a lot of other institutional arrangements which affect our lives. But, at any point in time we have to deal with the hand that is dealt to us. My strategic approach with health care is to not give up control. The doctors are generally told that when you hear hoofs, think horses not zebras. Well, there are herds of zebras. And, if the situation is one of a symptom of a heart attack or cancer, the probabilities may work for the health care professional or the insurance company that pays, but they won’t work for the person who has the heart attack or the cancer. The box that follows contains the opening paragraphs of an article published by the *Cosmos Club Journal*

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**GETTING TO THE ROOTS OF TERRORISM**

**MAURY SELDIN**

Strategic thinking to solve a complex problem

Strategic thinking on the nature of terrorism may produce far better results than the alternatives. Some of the alternatives come so naturally that it becomes easier to make a choice based upon precedent, rather than reasoning through the particular situation.

When you go to your physician, for example, he or she probably elicits a pattern of information and then looks to match it with a set of pigeonholes to get a diagnosis, rather than search for a wide variety of possibilities. This approach works most of the time, and is efficient for the physician’s time management. It works for the patient, except when the diagnosis is reached without probing the issues sufficiently. This was my wife’s experience 15 years ago. Fortunately, she insisted on pursuing the clues and is now a cancer survivor.

This line of reasoning also applies to dealing with legal counsel. Some legal counsel will, based upon the law, tell you what you cannot do. What you may want to know is how to accomplish your goals within the law. What you are looking for is an appropriate path, not a list of barriers.

For any particular problem, there may be many workable options. Engineers may be accustomed to thinking that there is only one correct answer, and that all questions are answerable. Philosophers who buy into pluralism accept the idea that there are many different valid answers. Individuals reared in different cultures tend to see different answers. Professional training and experience, cultural background, and even heredity affect how individuals process information to arrive at a solution.

The views expressed in this essay are mine, but drawn from a richly developed set of sources. Others are not likely to see things the same way. That is the way I expect it to be. But, just as I have gleaned much of this from others, so some different others can glean from this essay and the sources cited, as well as other sources. There is a paradigm here. It has worked for me. You are welcome to use as much of it as you see that works for you. Good luck with it! May your strategies work for you!

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The U.S. health care system is in bad shape. Medical services are restricted or rationed, many patients receive poor care, and high rates of preventable medical error persist. There are wide and inexplicable differences in costs and quality among providers and across geographic areas. In well-functioning, competitive markets, such outcomes would be inconceivable. In health care, these results are intolerable. Competition in health care needs to change, say the authors. It currently operates at the wrong level. Payers, health plans, providers, physicians, and others in the system wrangle over the wrong things, in the wrong locations, and at the wrong times. System participants divide value instead of creating it. (And in some instances, they destroy it.) They shift costs onto one another, restrict access to care, stifle innovation, and hoard information—all without truly benefiting patients. This form of zero-sum competition must be replaced by competition at the level of preventing, diagnosing, and treating individual conditions and diseases. Among the authors' well-researched recommendations for reform: Standardized information about individual diseases and treatments should be collected and disseminated widely so patients can make informed choices about their care. Payers, providers, and health plans should establish transparent billing and pricing mechanisms to reduce cost shifting, confusion, pricing discrimination, and other inefficiencies in the system. And health care providers should be experts in certain conditions and treatments rather than try to be all things to all people. U.S. employers can also play a big role in reform by changing how they manage their health benefits.

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iv   The concept of consilience is authoritatively discussed by Edward O. Wilson in Consilience: The Unity of Knowledge. New York: Vintage Books, 1998. The idea is that there are principles common to different disciplines so that one may by understanding principles in one discipline learn something about another discipline. I discuss this in a book in progress that may be viewed in draft form on the website of the ASPEC Center for Scholarly Studies (ACSE), www.spicequest.com/acse/StrategicDecisions.htm. ASPEC is the Academy of Senior Professionals at Eckerd College.

v    Gambler’s fallacy arises out of a misinterpretation of the law of large numbers. A fair coin flipped a very large number of times will tend to be half heads and half tails, but can run for a long series of heads and/or a long series of tails. The length of the series of the most recent flips of heads or tails has no bearing on the probability of the next flip. The expected long term 50/50 distribution doesn’t work for a short series of flips in the way that the immediately preceding results have any bearing on the next result. See Shefrin, Hersh. Beyond Greed and Fear: Understanding Behavioral Finance and The Psychology of Investing. New York: Oxford University Press, 2002, page xv.

vi  A minimax strategy is one which a start with the idea of minimizing losses and then maximizes within that constraint. See McDonald, John, Strategy in Poker, Business, & War. New York: W. W. Norton & Company, 1950. That book, which I read over fifty years ago, inspired the title to this article. It was also influential in my first co-authored book, Real Estate Investment Strategy which was in press through several editions for almost two decades.

vii Pluralism according to Isaiah Berlin is “…the conception that there are many different ends that men may seek and still be fully rational, fully men, capable of understanding each other, as we derive it from reading Plato or the novels of medieval Japan – worlds outlooks, very remote from our own…. [The Crooked Timber of Humanity, Page 11.]

viii The clinker in this investment is the taxability of income not received. The increased value from indexing is taxed when it occurs even though the cash is not distributed. Holding this asset in retirement accounts that defer taxes until distributions overcomes the problem.

By meeting certain requirements, especially as to distribution of earnings, REITS may be exempted from paying income taxes. The investor is taxed on income distributions.

The duration refers to the weighted average length of debt. Generally the short term debt costs are more volatile and less than the costs of longer term debt, hence riskier but with lower rates when initiated.

Behavior is a result of nature and nurture; and nurture changes nature over time. Paul R. Ehrlich, in his *Human Natures: Genes, Cultures, and the Human Prospect*, writes, “Permanence is often viewed as human nature’s key feature; after all, remember, ‘you can’t change human nature’ But, of course we can - and we do, all the time. The natures of Americans today are very different from their natures in 1940. Indeed, today’s human natures everywhere are diverse products of change, of long genetic and, especially, cultural evolutionary processes.” [Page 13.]

If he played bridge today and used the point count conventions, he would not depart from them when he saw different situations. He would not be looking for them. He would go by the book.


See *Cosmos 2004; Journal of the Cosmos Club of Washington, DC*, pages 73-76. The *Cosmos Journal* of the Cosmos Club is a “journal of emerging issues and insights published annually by the Cosmos Club of Washington, D.C. which was founded in 1878. Its members have done meritorious original work in science, literature, or the arts and are known to be cultivated or have been recognized as distinguished in a learned profession or public service… The range of content reflects the broad interests of the membership which over the years has been honored with 51 Pulitzer and 29 Nobel prizes, and 42 Presidential Medals of Freedom.”