

Building Social Wealth

How to Win Friends and Cultivate Relationships

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You must be the change you wish to see in the world.

Mahatma Gandhi

I don't have many original ideas, and this essay isn't one of them. I've always tried to synthesize the best ideas from other people, and over the past few years, I have shamelessly cloned the shameless cloning espoused by Mohnish Pabrai. In that vein, this essay is almost entirely a combination of ideas from Peter Kaufman (editor of *Poor Charlie's Almanack*) and Guy Spier (author of *The Education of a Value Investor*) regarding how to build social wealth.

Negativity Bias and the Elevator

The term 'negativity bias' refers to the notion that negative experiences have a greater effect on a person's psychological state than those that are neutral or positive. It isn't clear exactly how much more a negative experience affects a person than a positive one, but there seems to be some consensus that a 3:1 ratio (positive:negative) allows for flourishing. John Gottman famously studied marriages and found that successful marriages had a ratio of 5 positive interactions to 1 negative interaction. Daniel Kahneman (author of *Thinking Fast and Slow*) found that people had a loss aversion ratio of between 1.5 and 2.5, meaning that a loss that is identical to a gain is valued between 1.5 and 2.5 times more than the gain.

This bias has a pervasive effect on how we interact with each other. Peter Kaufman uses a story about an elevator as an example, which goes like this:

You're standing in front of an elevator. The doors open. And inside the elevator is one solitary stranger, you've never met this person before in your whole life. You have three choices for how you're going to behave as you walk into this elevator: choice number one you can smile say 'good morning'; choice number two, you can scowl at this stranger; and choice number three, you can do nothing.

The most likely outcome for each of these choices is a mirrored or neutral response: if you smile and say 'good morning', then it is likely the stranger will do the same; if you scowl, then the stranger will likely make a weird face or ignore you, and if you do nothing, the stranger will also likely do nothing. However, in the instances where you smile and say 'good morning', and the stranger ignores you or scowls at you, the negativity bias comes into play. While this uneven response may not happen that often, psychologically, it has a much more negative effect than the times when the stranger mirrors back positivity. **As a result, to avoid this negativity, we default to being neutral, rather than positive.**

Peter's Solution

Peter likes to say: "When you do as everyone else does, don't be surprised when you get what everyone else gets." Thus, to get a better outcome, you have to do something different and better. **If 90% of the time, positivity would yield a positive result, but 10% of the time it doesn't, our psychological biases**

are making us miss out on the 90%! This is not rational behavior. Peter talks about this beautifully, so I'll let him speak for himself (from a transcript provided by Richard Lewis at Latticework Investing, with minor editing for brevity):

*Now let me tie this to your lives. I'm going to do a psychic reading of anybody in this room. What's your name? (Answer: "Emily") **Emily, your entire life you've been on a quest, an odyssey, a search for that individual that you can 100 percent absolutely and completely trust. But who's not just trustworthy, but principled, and courageous, and competent, and kind, and loyal, and understanding, and forgiving, and unselfish.***

I'm right aren't I? (Answer: "Dead on") You know what else? If you ever think you may have encountered this person, you are going to probe and probe and test and test to make sure that they are real, that you're not being fooled. And the paradox is that it looks like you're probing for weakness, but you're not. You're probing for strength. And the worst day of your life is if instead of strength you get back weakness. And now you feel betrayed. You know why? You've got to start your search all over again. It's the worst thing in the whole world isn't it? Does everybody here agree with me on this? Look how simple this is.

*Here's your 22 second course in leadership. That's all it takes. All you have to do is take that list that's in Emily's head, and every single other person in this room, every single other person in the whole world, has this list in their head – **trustworthy, principled, courageous, competent, loyal, kind, understanding, forgiving, unselfish, and in every single one of your interactions with others, be the list!***

*Have you all heard of opportunity cost? Here's the classic illustration of opportunity cost. You have a finite number of something, it's important. If you're doing 'A' with it, it means what? It means you're not doing B or C or D or E. What do you have to do? You have to evaluate all the different alternatives and pick the one that's most optimal. Is that fair? So you've got one lifetime. How do you want to spend your one lifetime? Do you want to spend your one lifetime like most people do, fighting with everybody around them? No. I just told you how to avoid that. And in exchange have what? A celebratory life. Instead of an antagonistic fighting life. **All you have to do is go positive, go first, be patient enough.** You know we have to be patient for a week with a puppy. Do you know how long it usually takes for a human being to do all the probing and testing that Emily was going to do and to find out that you're for real? It takes six months. This is why nobody does it. 'Oh it takes too long.' Compared to what? Look at the plan B that everybody uses. It's terrible! It doesn't work. They spend their whole lives fighting with everybody.*

Cultivating the Right Relationships

Peter's solution is excellent for being the person that deserves good relationships, but it doesn't address the selection process. Charlie Munger (Vice Chairman of Berkshire Hathaway) has said:

The difference between a good business and a bad business is that good businesses throw up one easy decision after another. The bad businesses throw up painful decisions time after time.

I believe this sentiment also applies to relationships, but identifying whether a relationship will be good or bad at the outset is difficult. In his book, *The Education of a Value Investor*, Guy Spier talks about an interesting, and I believe effective, strategy to quickly identify high-quality relationships.

First, Guy casts a wide net: he is typically open to conversation from strangers, and he sends thank you notes to an incredible number of people that he interacts with. Additionally, when he meets someone, **he tries to do something nice or helpful for them**, which could be as simple as a sincere compliment or an introduction that might be beneficial. It is important that whatever is given is done freely and without an expectation of recompense; in other words, follow Peter's advice: be generous and go first! Once he has given something, Guy watches to see how the person responds. Some people are takers, who take whatever help is given and do not reciprocate; clearly, these relationships are asymmetric and not worth pursuing. Some are matchers, who will try to match whatever they have received; these relationships are perfectly good for acquaintances. And finally, there are the givers, who will more than match whatever they receive; these are the relationships to pursue, as they cultivate a virtuous cycle of giving. **These relationships will improve the lives of everyone involved and will yield one serendipity after another.** As Guy puts it: "What I'm trying to do is simply create an ecosystem for myself in which everybody is the type of person who wants to find ways of helping others."

This method has a lot of positive side effects, which Guy describes in his book:

The crazy thing is that, when you start to live this way, everything becomes so much more joyful. There is a sense of flow and alignment with the universe that I never felt when everything was about what I could take for myself. Again, I don't want to make this sound like I'm some kind of saint. But this experience of finding ways to serve others has been so overwhelmingly positive that I now find myself looking for more and more opportunities to help.

How to Build Social Wealth

Putting these ideas together:

1. Be the person you are looking for and go first.
2. Be generous with people you meet, and observe their response.
3. Prune the takers, keep the matchers, and cultivate the givers.

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