

# WHAT IS LOBBYSEVEN

## A Mathematician's Apology

*"The road to hell is paved with good intentions" – Samuel Johnson*

I'm sorry for writing this.

I'm sorry that writing it carries an implication that you might want to read it.

But, if this is to eventually become a successful endeavor, eventually it must pass into the hands of people who haven't known me personally for a decade or more. Those people likely want to know where I'm coming from.

We all have cognitive bias. What we say and think is determined by our view of the world. Show me somebody who claims to communicate without bias, and I'll show you a liar. The best we can hope for is to understand who is passing us information and why. For those of you who don't know me, hopefully this note – which I will try to keep mercifully short – will help you to see the biases in my writing. Then, you are free to incorporate it into your world view, forming part of the bias of your own communication.

- Who are you? What is LobbySeven?
- What cognitive biases are you preemptively declaring?
- What's your angle? Why are you writing this in the first place?

### Who are you? What is LobbySeven?

My name is Nicholas Cohen. At the time of writing this, I'm 36 years old. I live in a townhouse in Brooklyn, with a wife and two small children. I have never before written for public consumption and have no formal training as a writer - but you probably figured that out on your own.

A brief resume<sup>1</sup> would include:

- Graduated from MIT with a degree in Mathematics (Theoretical) in 2002.
- Drafted out of school into the Equity Derivatives Group at JPMorgan.
- Spent 5 years at JPM in sales, electronic trading, flow trading and a year managing

one of the largest derivative transactions in history.<sup>2</sup>

- Moved to BNP Paribas in 2007 to manage Equity Index Exotics.
- Promoted several times to larger management roles at BNP, 2009-2016.

After 15 years at large banks, I felt like doing something a bit different. Going out on your own isn't easy, but sometimes it's just nice to have a new set of problems to solve. So I decided to start a consulting firm.

<sup>1</sup> You can find a bit more on [LinkedIn](#) if you like.

<sup>2</sup> [Wall Street Journal](#). I'm not aware of anywhere online where my name is mentioned regarding this trade.

While trying to avoid this project becoming a pitch for consulting work,<sup>3</sup> I have a few areas of specialization where I hope to add value:

- **Structured Products and Exotics:** Having run BNP's structured business in the Americas for 2 years (and been a senior member of the business much longer), I can work with banks, asset managers or others to build out and execute a business plan. Specifically – I had a lot of success at creating products/lines of business in the “new regulatory environment”.
- **Systems Integration:** A big problem that financial institutions have today is massive, complex systems architecture which generate huge costs while still failing to meet users' needs. LobbySeven is not set up to rebuild your entire infrastructure, but I have had success designing tools to meet specific demands. At a minimum, an independent voice is often better positioned to help determine an organization's needs.
- **Risk Management:** In today's investment management world, the realized risks of an investment vehicle must align with what was promised to investors and other stakeholders. But CIOs and PMs are rightfully more focused on their investment strategy than building a risk management framework. Having managed all types of risk, I'm well positioned to help people formulate a risk management strategy, and systematize or code it as applicable.

End of pitch.

As for the name – “Lobby 7” is the main entrance to MIT's campus.

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<sup>3</sup> [yet]

<sup>4</sup> No, I don't feel the need to verify everything that I state as fact.

## **What cognitive biases are you preemptively declaring?**

My goal is to make this newsletter as fact-oriented as possible. When I say something which requires verification, I include a footnote that states where I found the information. If I do not put in a reference where one is needed, please tell me, I'll add it. I use footnotes so that readers can see the information on which the narrative is based. I use only sources I believe to be reputable; the US Census Bureau is a rigorous organization and I trust their reports. If I report something from a source you do not think is reputable, please let me know this too – preferably with some evidence. I'm a mathematician, I like things that I can prove.

But regurgitating census.gov is not going to lead to interesting content.<sup>4</sup> One piece of feedback I've received is that while fact-based and historical information is interesting, it is also important to include my thoughts about what may happen in the future. When I'm giving my opinion as opposed to stating a fact, I'll try to phrase it as “My view is...” or something similar.

I take all of this seriously. No matter what your political persuasion (and don't worry, mine will be disclosed shortly), the recent election has told us about the importance of understanding why people write something or say something. I actively try to read things written by people I disagree with. It is a critical element of my thought process. But whatever I read, I do so with as much awareness as possible of where it is coming from.

So, I'll get to it. I'm going to list these from most to least important, according to my personal view.

### *1. I am an Empiricist*

I define an Empiricist<sup>5</sup> as somebody who operates primarily through the scientific method. An

<sup>5</sup> I don't link to Wikipedia unless it is purely a definitional issue (i.e. [like here](#)) or I'm trying to be ironic. But I do use it – a very helpful place to look if you need to find a primary source.

Empiricist travels around (metaphorically speaking), observing the world. Based on these observations, he or she forms hypotheses about how the world works. These hypotheses are continually tested via more observations and experiments. Based on positive results these hypotheses become stronger; based on negative results they are refined or discarded. These observations and experiments may be from secondary sources; I don't need to personally see an up quark to think that the Standard Model does a good job of explaining particle physics. I trust books and reports from sources I view as reputable. But an Empiricist doesn't "believe," in the sense that they don't accept things on faith, without evidence.<sup>6</sup> Personally, I try to never use that word in any context.<sup>7</sup> If I do slip up, please never interpret it as "accept without evidence" but rather "think true based on evidence".

## 2. *I am a Bayesian*

The human mind is not "wired" to think probabilistically. We like to think in terms of certainties, and are not good at understanding what it means when we hear that something has a "10% chance to happen." My favorite question to demonstrate this is: if a weatherman says there is a 20% chance of rain, and then it does rain, was he right or wrong?<sup>8</sup>

I find Bayesian Statistics to be the most useful framework for training my mind to operate probabilistically. It is also consistent with Empiricism; Bayesian probability involves working with hypotheses and refining their probabilities as new

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<sup>6</sup> This doesn't imply that empiricists are a priori atheists. I know empiricists in good standing who, in their observations, think that theism is the best way to describe the world. I don't agree, but I also don't think they are crazy.

<sup>7</sup> I checked for you – it didn't appear on Volumes 1 or 2.

<sup>8</sup> Trick question - in the Bayesian world, you can't really ask this.

<sup>9</sup> This always felt to me like an invasion of privacy, but [here](#) it is. If you don't trust me, just send a note and I can share my birthdate + ZIP code. You are welcome to look

information is received. In 15 years of managing risk, I found this method applicable to many situations. As a trader, if you wait until something is certain, the opportunity will have passed. You need to constantly refine assumptions based on new information, incorporate this information into your hypothesis and act despite lack of certainty.

## 3. *I am a Democrat*

In New York State, you can look up for yourself a voter's party registration,<sup>9</sup> but I'll save you the trouble. I am registered with the Democratic Party and have been for more than ten years.

I am a Democrat because I have analyzed the policies of the two parties, considered how these policies are likely to work and determined that the Democratic policies are significantly more likely to lead to better outcomes for the country as well as myself. In fact, I would consider myself a "strong Democrat" in that I am literally not aware of many areas where I would expect the Republican policy to lead to a better result than the relevant Democratic policy.<sup>10</sup> This analysis is based on both analyzing the theory underlying the policies (e.g. what I will soon be continuing in the "Healthcare" series) but also by observing the results when these policies have been enacted previously.<sup>11</sup>

Beyond policy, my opinion is that the manner in which Republican politicians behave and govern is antithetical to the principles of our nation and detrimental to its future. Voter suppression based on race is undemocratic.<sup>12</sup> Refusing to consider a

up past political contributions on your own – they are also public above a threshold.

<sup>10</sup> Frankly, based on the [GOP Platform](#) and [Better Way](#) documents, there are very few GOP policies which I can properly analyze – many are not "reality-based."

<sup>11</sup> The best example of this today is [Kansas](#) (complete Republican control) vs. [California](#) (complete Democratic control). It's a fascinating comparison.

<sup>12</sup> [4th Circuit Decision](#) on North Carolina voter ID law. See especially pg. 11, "new provisions target African-Americans with almost surgical precision" or pg. 61, "the State has failed to identify even a single individual who

Supreme Court justice appointment is unprecedented.<sup>13</sup> Manufacturing fiscal brinksmanship crises will eventually lead to disaster.<sup>14</sup> It is the view of the Republican Party that government is incompetent, and is itself the problem. We have strong evidence that this is true for Republican-run governments.<sup>15</sup>

#### 4. *I am unequivocally opposed to Donald Trump*

This is not the same as being a Democrat. I'm happy for people of all political stripes to join me in actively opposing this scam artist and would-be dictator.<sup>16</sup> Forgetting that I am opposed to his policies – such as they exist<sup>17</sup> – I view his election as an existential threat to our representative democracy.

This will be explored further in a later volume, but republics are fragile systems. The more power the executive holds, the more fragile the republic is. The only way I know to prevent a would-be American tyrant from becoming an in-fact American tyrant is to not elect him President. The institutional “guardrails” to prevent a President from destroying our democratic institutions are not as strong as you think they are.

Looking at our present situation, there is very little I can say about his past that hasn't already been said.<sup>18</sup> But when I look at everything I know about Trump, the one constant through his life is that he has abused any power he has been given. A landlord refusing to rent to African Americans is an abuse of power. Lying to the New Jersey Casino Control Commission to get your casino approved is an abuse of power. Creating a public company, loading it with overpriced properties and personal debt, bankrupting public investors while paying yourself large salaries and bonuses is an abuse of power.

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has ever been charged with committing in-person voter fraud...”

<sup>13</sup> [NYU Law Review](#)

<sup>14</sup> [WSJ](#)

<sup>15</sup> [https://en.wikipedia.org/wiki/Hurricane\\_Katrina](https://en.wikipedia.org/wiki/Hurricane_Katrina);  
[https://en.wikipedia.org/wiki/Financial\\_crisis\\_of\\_2007-8](https://en.wikipedia.org/wiki/Financial_crisis_of_2007-8)

<sup>16</sup> See [here](#) and [here](#).

Walking in on naked, underage pageant contestants in the dressing room because nobody can stop you is an abuse of power<sup>19</sup>. Abuse of power is the defining characteristic of Donald Trump. Maybe, now that he has been given more power, he will change. But since the election, this hypothesis looks weak.

#### 5. *I am from Detroit and live in Brooklyn*

More than personal trivia, I find that each of these places does much to define who I am and how I think. While the part of Detroit I am from is not exactly “average”, the entire Detroit area has a certain sensibility which I think gives me some insight into the famous “white male working class” which is in the center of the discussion today. Detroiters wake up every day with a chip on their shoulder because those other cities think they are better than us. If you don't know Brooklyn, the Saturday Night Live “bubble” description hits a bit close to home. Even the non-hipster portions are iconoclastic and frequently just odd. Both places lead me to eschew popular opinion and avoid assimilation of thought.

#### **What's your angle? Why are you writing this in the first place?**

Like most things, LobbySeven Commentary has its own genesis story. Knowing that I had something to say about Government, a friend posted a request in a group chat to explain how Social Security works. After making sure that they really wanted to know (I do tend to respond to a simple question with a ten-page answer), I wrote a stream of consciousness that would become the skeleton for Volume 1. At dinner with the same friends some weeks later, I was informed (to my surprise, actually) that they found my analysis interesting, and thought others would as

<sup>17</sup> Coincidentally, just before going to print, I found [this article](#), linking Trump and anti-Empiricism.

<sup>18</sup> But this [Chrome Extension](#) might help.

<sup>19</sup> See [here](#), [here](#), [here](#), and [here](#). I chose the links randomly – feel free to find other sources, these are very well documented. And of course I'm sure you can come up with your own, other examples.

well. After a draft written for the inner circle, we were off.

While the intended audience is financial service professionals, this isn't research and I'm not going to be making trade recommendations. Even predictions of future economic conditions will be rare. If you are in this line of work, you know much more about your product than I do, and there are plenty of people already telling you how to trade it. The intended use is as a new piece of information to incorporate into your own views.

Writing today, I can't say where this side project on my side project will lead. I have received feedback that it could have commercial appeal – and at some point in my life I will need to find some gainful enterprise. So that might happen in the future. But in the short term, I'm happy to continue producing it, even if the result is purely thought leadership collateral or even just something I enjoy writing.

If there is something I hope readers get from it, I would say it is an understanding of how important and how complex our government is. It is always a critical time for each of us to know what our government is doing, and how its decisions affect us and our country. But the information available is becoming simplistic, focused on scandal and politics to the detriment of policy and procedure. You can find headlines on who had dinner with who or quotes from unnamed staffers, but little on a recent CBO<sup>20</sup> analysis. As an individual, and a complete outsider, I don't expect to be able to make up for a lack of good reporting by the professionals. But with that as my lofty goal, we'll attach a new tagline to the next Volume:

[“They write politics, we write government”](#)

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<sup>20</sup> That's the Congressional Budget Office. You'll hear more about them.

Of course, I'll write about things other than government too, and you have no way to stop me.

I'm often asked how I know about this stuff. While I obviously have to look up dates and figures, so far I know the narrative before I sit down to write. But, I never sat down with a glass of whiskey and decided to figure out how Medicare is funded. Like many topics, government has a network effect in terms of your ability to understand it. Once you understand the basics of how it operates, the easier it is to incorporate new details. Oh, and so far I've cherry picked subjects that I know best; it will get more challenging for me.

Having taken up far too much of your time already, I'll push my luck by asking something of my readers.<sup>21</sup> As I've said above, I have no training at this, so feedback is critical for me to put together pieces that are relevant and enjoyable. If you want to complain about the topic, length, detail, clarity, or writing style, please do. And I want this to be interactive, so ask questions and I'll answer them in the next Volume. Is there a topic you'd like to know more about? Like the terrible band playing your cousin's wedding, I'm happy to take requests. And to keep this going, I need to increase the subscriber list. I can't promise it will always be free...so now is definitely the best time to sign up your friends, clients and coworkers.

Ok, that's enough. Thanks for indulging. Back to healthcare.

<sup>21</sup> Indulge me – you are getting this for free after all.