

THE STOIC CAPITALIST

Advice for the Exceptionally Ambitious

Robert Rosenkranz

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To my wife and muse, Alexandra Munroe

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Risking It All

When I was thirty-five, I was a partner at Oppenheimer & Co, an up-and-coming research and investment house. Most people would think I was doing very well, but in my own internal dialog, I was a second-tier partner in a second-tier firm. I was a long way from my working-class roots, but miles short of the life I wanted. It was a sunny spring Saturday in 1978, and I was trying to collect my thoughts by strolling through Central Park in New York. Just across Fifth Avenue was the Pierre, probably the most elegant residential hotel in the city. Among its residents was Joe Mailman. Joe was one of the wealthiest men I knew, and we had an appointment that I knew could change my life.

Joe's origins were as humble as my own. He had started as a pawnbroker in Utica, a dreary industrial town in upstate New York, had moved on to buying and liquidating failed manufacturers, had gained control of an oil trucking business, and had parlayed that into the second largest holding in a major oil company, Hess Oil. His wife Phyllis was a stunning and fashionable woman, who imported clothing from emerging French designers to her Madison Avenue boutique. He was a generous philanthropist, who gave a naming gift to the Mailman School of Public Health at Columbia and established the Mailman Center for Child Development at the University of Miami's Miller School of Medicine. But in business he was tough and no nonsense.

I met Joe four or five years earlier through a former Oppenheimer colleague. Joe was around forty years my senior but despite our age difference we struck up a real friendship. We

had a business relationship too. It consisted of a single successful investment: Joe and a group of his friends had invested \$3.5 million in a leveraged buyout transaction I organized with another Oppenheimer colleague. Within a few years, he got all his money back and held a twenty percent stake valued at \$10 million in a thriving business. (Multiply these figures by eight or ten to get a sense of what they mean in today's dollars).

However, Joe was not happy. As he saw it, he had invested most of the money, I had done most of the work, and Oppenheimer got most of the rewards. That didn't sit well with Joe, and he proposed that he and his friends provide the capital to launch a buyout business that I would run. Our visit would determine if we could agree on terms that would work for both of us. At the appointed hour, I walked through the elegant hotel lobby, and asked the elevator attendant to bring me to Joe's floor in the tower. It was not the first time I had been to his sprawling apartment or noted the dense hang of fine paintings. They were impressionist, and they did impress. Joe was a friend, but I was on his turf, and he held most of the chips.

We envisioned a firm specializing in leveraged buyouts, subsequently rechristened private equity. Because such deals could be extremely lucrative, LBOs were becoming all the rage on Wall Street. Firms like Kohlberg Kravis Roberts and Clayton Dubilier had set up shop to take advantage. Such firms employed a standard fee structure that has largely persisted to this day. The general partners (the people who did the LBOs and actually ran the firm) would find limited partners (investors) whose money would serve as equity for the deals. Over time, as the deals panned out, the limited partners would collect eighty percent of the profit their investment had made, while the general partners would claim twenty percent. This general partner share was known as a "carried interest."

I assumed our business arrangements would be similar. Joe proposed investing \$4 million initially. He promised additional

support as the firm succeeded and I took him at his word. I would have liked a bigger commitment but felt I could live with that figure. But then Joe started pushing back against the whole concept of the carried interest. He trusted my judgment, he said, but he just didn't feel comfortable in a transaction that put the general partner in a "heads I win, tails he loses" position. What was going on, I wondered. He had proposed that I leave a lucrative partnership at Oppenheimer to start a new firm with his backing, and now he was not trying to tweak terms in his favor but rather questioning the standard structure altogether.

I felt Joe was a straight shooter and I didn't take his question as a negotiating ploy, but as a genuine concern. And it so happened that I agreed with him. The standard fee structure does give the general partner an incentive to take excessive risk, to swing for the fences every time he gets up to bat. I told Joe he was right that the standard structure would not align our interests very well.

Then I made a proposal that astonished him. I said I would put my entire liquid net worth on the line—\$400,000. Moreover, I would forego any carried interest. Instead, I asked for fifty percent of the profits, and agreed to absorb fifty percent of the losses. I was volunteering to take an extraordinary amount of risk. A twenty percent loss of the firm's capital would wipe me out entirely. Joe could therefore be confident I would do everything possible to reduce risk to a minimum. My suggestion would make our interests symmetrical: heads we both win, tails we both lose. My proposal demonstrated a lot of self-confidence, a lot of courage, and earned Joe's respect. He agreed to go forward on that basis. I called the firm Rosenkranz & Co., so Joe and his investors would know whom to acknowledge or blame.

This is a book about what came before and after that momentous day. But it won't be a conventional "rags to riches" memoir. Rather, it's a series of personal stories and precepts. They often link to the philosophical ideas of the Stoics and

the psychological ideas of Cognitive Behavioral Therapy (CBT). I began to study CBT about a decade ago with Dr. Baruch Fishman, a leading figure in the field. He encouraged me to read the Stoics, in which CBT is rooted. Stoicism and CBT seemed remarkably consistent with the habits of mind that had come naturally to me since early childhood.

These philosophical and psychological insights, reflected in lessons taken from my own experiences, offer a sort of how-to-do-it guide for the exceptionally ambitious: a template for realizing one's childhood dreams.

*I Was An Only Child; My Parents
Were Only Parents*

As a child, I didn't feel safe at home. One of my earliest memories is of being awakened by a large, heavy animal sitting on my chest. It was a cat that had climbed in through the window of our ground-floor, one-bedroom apartment on West 79th Street in Manhattan (Think *West Side Story*, not today's gentrified Upper West Side neighborhood). I was momentarily terrified, but the cat seemed as startled by the encounter as I was, and it quickly left the same way it had entered. On another occasion it was a different kind of cat; a cat burglar who came in the same way, tiptoed through the apartment while we were sleeping, and took my dad's wallet and watch.

I didn't feel I could rely on my parents. When I was seven, the age at which children begin to see their parents in relation to the larger world, I recognized that mine were not succeeding. My mother was a clerk in a drugstore and my father had lost his job as an assistant in a law office. He had been unemployed for two years, and my mother felt the enormous pressure of paying the bills with only her income. I remember sitting doing homework on the living room sofa (which converted to my parents' bed at night). My mother was at the small round table we used for dining, with a big stack of bills in front of her. It was the first day of the month, and for my mother it was a point of pride to pay all our bills promptly. She was practically shrieking at my father: "Do you want them to cut off our electricity? Do you want them to cut off our phone?" He tried to calm her

down, “Perhaps the butcher can wait?” My mother yelled, “No, he can’t! I could never go into that shop again, I would be so embarrassed.”

I was frightened by my mother’s emotional intensity and dismayed by my father’s passivity. I felt angry at my mother for blowing things out of proportion (perhaps the butcher could in fact wait) and for being so harsh on my father; I felt angry at my father for being unable to stand up to my mother and for being so ineffectual that he couldn’t find a job. My mother quite literally wore the pants in the family—she dressed exclusively in pant suits and did not own a single dress.* Her name was Pauline, but everyone called her Paul. The gender issues here are obvious in retrospect but of course didn’t register with me at the time. What did register was the feeling that both my parents were seriously deficient.

I have a vivid memory from when I was eight of my mother yelling hysterically at my father about a headache that she was convinced was caused by a brain tumor. My father tried to comfort her and said, “Paul, it’s just one of your migraines, get some sleep and you’ll feel better when you get up.” She was not comforted and replied, “I am telling you it’s a tumor! When they take me out of here in a pine box, then you’ll know I was right.” A pine box was a coffin, and I understood that my mother was terrified of dying. While I felt that she was hysterical and my father was probably right, the image of my mother in a coffin was too scary and painful for an eight-year-old to deal with.

Any mother who would express herself in such language in front of a small child clearly lacked the rudiments of emotional self-regulation. Of course, I didn’t think in those terms exactly,

*Though my mother didn’t own a dress, she once sent me to school wearing one. My third-grade class was meant to wear Halloween costumes that day, and rather than buy a costume, she borrowed a dress from one of my cousins. Whatever was she thinking? It didn’t occur to me that anyone would mistake me for a girl, any more than they would mistake me for a pirate or a cowboy. But when a passerby on the street did, I was mortified.

but close. The threat of death was part of my psychic world. When I was four, my maternal grandmother was on her deathbed, and I remember driving to her apartment in the Bronx and being left alone in the car while my mother and father went upstairs. When I was five, my mother's sister died after a battle with cancer. She was my favorite aunt, and I was struck by the slogan the American Cancer Society used at the time: "Cancer strikes one in five." At age six, I became the youngest volunteer for the American Cancer Society. I was written up in its publication and told the interviewer I wanted to be a psychiatrist when I grew up. This ambition, surely odd for a six-year-old, reflected my sense that something was seriously wrong with my mother, and that through study I could understand it and make things right. I don't remember being anxious; I recall feeling a powerful determination to figure out how the world worked. I wanted to understand the arenas my parents found so challenging: the inner emotional world which was confounding my mother and the outer financial world where my father was struggling.

Despite all these issues, I knew my parents loved me, and I sensed that they saw me as the best thing in their lives. My mother was one of seven siblings and my father one of six, and I had forty-four first cousins. My mother's siblings included a few schoolteachers, a housewife, and a cab driver. My father's most financially successful brother was a contractor building homes and commercial buildings in central Long Island. His other siblings were small-scale businessmen, an optometrist, a tailor, a gas station owner. Most of my aunts and uncles were living in circumstances like ours in the Bronx, or Queens, or central Long Island. My mother was proud to be living in Manhattan, proud of her relative sophistication, and especially proud to think she had the smartest child in the bunch. I may have stood tall among my cousins, but the landscape was awfully flat: only eight or nine of them ultimately graduated from college and none achieved any conspicuous worldly success.

My father was as well-educated as any of my aunts and uncles. He was a graduate of St. John's University and New York Law School. (Not to be confused with the NYU law school, this was more like a trade school preparing working-class students to pass a bar exam.) My dad worked for a sole practitioner in Brooklyn, but the practice floundered, and my dad was laid off. He had plenty of time for me, particularly in those two years when he wasn't working. He would play mathematical games with me, give me challenging problems or riddles to solve, and word puzzles to figure out.* Playing with my dad was one of my favorite activities. But much of our "play" was intended to challenge my mind. He helped me experience learning as fun. It's an attitude that has stayed with me for a lifetime and is one of the most important precepts of all.

While I didn't realize it at the time, luck played a role too. I began my schooling in first grade. (Private nursery schools or kindergartens were not affordable options for my parents). There was a public school, P.S. 87, about a block from our apartment. My first-grade teacher, Mrs. Rosensweig, thought I was exceptionally capable. It was my good fortune to have landed in the classroom of someone so determined and motivated when I was so young. (Thanks to my father's math games, I was years ahead of classmates who were just learning to add and subtract). She invited my parents to school for a meeting and told them she felt I would not be challenged enough if I continued in public school. She urged them to consider private school. My parents thanked her but explained that there was absolutely no way they could afford school fees. Mrs. Rosensweig took it upon herself to arrange a spot for me in second grade at the Bentley

*Here are three examples that give the flavor of the games my father would set up for me to work out: "An 8-foot-high truck is stuck under a bridge 7 feet 10 inches above the road. What should the driver do?"; "A bottle and a cork cost \$1.10. The bottle costs \$1.00 more than the cork. How much does each cost?"; "You have a 3-ounce glass and a 7-ounce glass and as much water as you need. How can you measure exactly 1 ounce? 2 ounces?"

School with a full-tuition scholarship. Bentley was a private day school that was in the middle of the pack academically and was therefore anxious to enroll some bright kids.

I did not want my own children to experience the insecurity that I felt as a child. Indeed, I would not recommend this experience to anyone. But these experiences gave me many things of great worth. They gave me the determination not to relive my parents' lives. While I certainly felt insecure, I never felt despair because my parents and Mrs. Rosensweig made me believe that I had the potential for high academic achievement. I began to see academic success as my path to a better life. I learned, at this young age, that I would need to rely on myself; I would need to figure out how the world worked and how to make my way in it.

Such childhood experiences, especially the fear I felt at my mother's emotional intensity, later helped align my responses to the thinking of the Stoic philosophers. The Stoic precept of living in "accordance with nature" means approaching life with the greatest measure of rationality one can muster. Emotional responses are inevitable, but one of the highest and most revered human attributes is the ability to regulate those responses. Ultimately, acting on emotion rather than on reasoned analysis is a choice we make and for which we must take responsibility. Of course, I didn't articulate this to myself in anything like this kind of language—but I did take away the lesson of self-reliance and critical thinking, which might be shorthand for the same ideas.

You Are Ten; Time To Think For Yourself

George Gershwin has a lyric in *Porgy and Bess*: “the things that you’re liable / to read in the Bible / they ain’t necessarily so.” The same can be said for the things that your parents tell you. I grew up with a deep-seated instinct to question my parents’ authority. This proved valuable and gave rise to a life-long habit of critical thinking—not just about things I heard at home but about almost any received wisdom.

My mother would talk about selling *The Daily Worker*, a communist newspaper, on the streets of Greenwich Village before she married my dad. I don’t know if she belonged to the Communist Party, but she certainly embraced much of its ideology. She would quote Karl Marx approvingly: “From each according to his ability, to each according to his needs.” I remember thinking this philosophy didn’t sound right. I was able and hardworking and I had earned the grades to prove it. Would it make sense to take some of my grade points and give them to classmates who weren’t as smart or didn’t work as hard? By reading biographies, I had concluded that ability and hard work led to success, so the idea of taking from the successful didn’t make much sense either. I also wondered about the word “needs” in the quote. People’s wants are nearly limitless, so who decides what they “need”?

I rebelled against the theme of class warfare, which my mother brought up at home time and again. She would launch into a monologue about her day in the drugstore, which neither I nor my father was able to interrupt. The same plot seemed

to unfold again and again. Someone came in on a winter day with the intent of purchasing a single item, maybe a travel-size bottle of suntan lotion. My mother would guess that a trip was forthcoming and ask about it; she would then manage to sell the customer dozens of items, from toilet kits, hairbrushes, nail sets, to shampoo, cosmetics, and on and on. She was indeed a very effective salesperson...and the point of the story seemed to be how smart she was and how easily she manipulated what she called the “moneyed” customer. But that’s not how I heard it. The character who interested me was the person who could casually spend in a half hour what my mother earned in a week. That adjective “moneyed” bugged me as well. It sounded to me like “blue-eyed”—it implied that money just happened, unconnected in any way to the actions of the person who had it, and as little subject to their control as the color of their eyes.

Epictetus was a Greek who lived around 75 AD in present-day Turkey. Born into slavery, he ultimately became one of Rome’s most influential Stoic philosophers. He emphasizes the distinction between things within one’s control and things outside it. My mother seemed to believe that one’s financial position was beyond one’s control. What an awful idea with which to burden a kid determined to forge his own way in the world! But the story is a good example of the power of critical thinking to lift the burden of bad ideas. Marcus Aurelius, Emperor of Rome from 161 to 180 AD and a renowned Stoic, makes this point too in *Meditations*: 1.7.3: “I learned to read carefully and not be satisfied with a rough understanding of the whole, and not to agree too quickly with those who have a lot to say about something.”

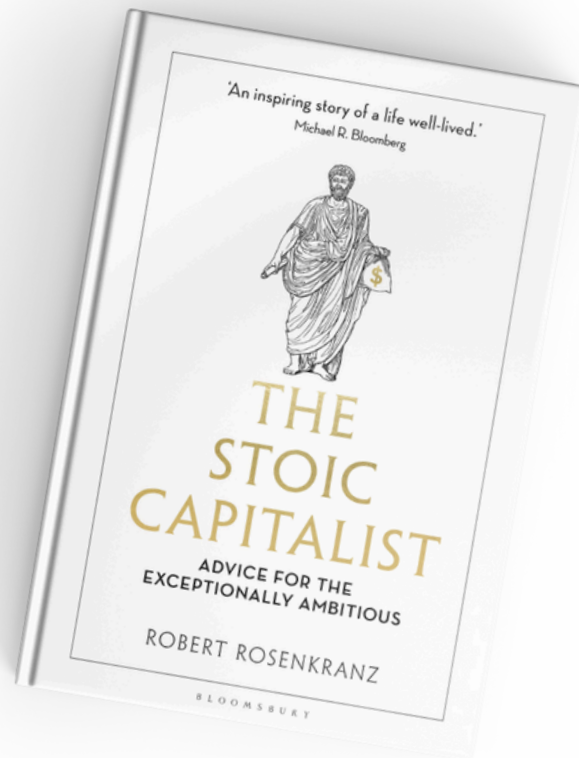
Seneca (circa 4 BC to 65 AD) was an extraordinary figure. Born in Spain, then a remote part of the Roman Empire, he became a prominent legal advocate, *consigliere* to Emperor Nero, and one of the richest men in Rome and a leading Stoic thinker. He wrote extensively on philosophical topics, including

regulating anger and managing time, and his works have survived in nearly complete form. His concept of the well-lived life emphasized a continual quest to improve one's character; in Stoic parlance, to be a "progressor." A progressor stands in contrast to the "unenquiring" individual, who absorbs beliefs through socialization—from parents, friends, and the surrounding culture—taking them at face value and not subjecting them to critical thought. Generally, becoming a progressor requires a "wake up call" in the words of a modern interpreter, David Fideler. I was fortunate indeed that my epiphany came so early in life, in the form of my parents' money problems and their dubious systems of belief.

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