

- Rodrigo:** 00:00:03 All right, we're live. Mike, you want to run with that disclaimer first?
- Mike:** 00:00:09 Yes, the information you're going to hear here on this ReSolve Riffs happy hour is for entertainment purposes. If you'd like really good investment advice, maybe it's here, maybe it's not, but you should consult a financial professional in any event on anything you might want to consider. Just want to put that out there before we start today. Did you want to introduce Bobby?
- Rodrigo:** 00:00:34 Sure. Bobby is...what's you like? Are you president? What's the actual official title of RCM?
- Bobby:** 00:00:43 I am the managing partner and the founder.
- Mike:** 00:00:46 The magic words to him.
- Bobby:** 00:00:49 Yes. Which means the buck stops with me, unfortunately.
- Mike:** 00:00:54 I like it.

Backgrounder

- Rodrigo:** 00:00:56 Bobby, we've all shared a bunch of fantastic stories and I'd like to share with us today as well from a bit of your past life. But with you guys, we've had a great relationship from the get go. You guys run a bunch of different businesses that we can get to but for us, it's been working with you as an introducing broker as well as looking at some of the technology for fast execution for markets, but marketing on the future side. You guys have been in the future space. You've seen it all. So I'd love for everybody to get a little bit of a background on what you do now, but also how you got there, which is an interesting and fun story as well. It's a very unorthodox beginning.
- Bobby:** 00:01:43 Yeah, I started off in '98, on the floor of the CME and that was just about when the NASDAQ was becoming a little bit more trendy to trade. I start off clerking for a guy named Joe Santoro, who was this 50 year old Italian guy that was a complete lunatic and one of the greatest guys in the world. I remember, the first or the second week I was working on the floor, and I was arbing the signals and I still do that when I talk a lot and I'm quoting Deutsche Bank and UBS and there's a minute and a half, two minutes left from the close and this guy from Deutsche who says, sell 50, I turn around to give it to my broker to Joe and he's having a massive heart attack on the floor. I'm start screaming oh my god, what do I do? Help me. And the guy...do you guys swear on this or anything?
- Mike:** 00:02:44 Yeah. We purposely swear to keep it make sure that kids don't watch.

- Bobby:** 00:02:49 Okay, perfect. So, the guy from Deutsche goes fuck you, you you're out and passes it to this other guy. And only until the bell rang the paramedics got there and he survived. But that was like a big introduction for me to the floor and I was just like, man, this place is insane. I love it.
- Rodrigo:** 00:03:09 What year was this was this Bobby?
- Bobby:** 00:03:10 It was '98. About six months later, because I was pretty aggressive they put me on a badge, and I want to bind the seat. And I became a broker in the NASDAQ and ultimately, we wound up controlling, my brother and I bought the group over six months after that, which was relatively small. And that's when NASDAQ really blew up and we did about 80% of all the institutional flow in the NASDAQ and then side by side I was trading SPOO's and because the NASDAQ overlooked the SPOO pit so I had clerks, my brother and I had clerks working in the SPOO's and we would just be flashing in orders nonstop throughout the day. Then we started a proper and we were trading what really one of the first guys us and Setswana. I'm sure you guys know who they are in Timber Hill, which is Thomas Peterffey's old company. We were the first three groups to really do the arb between the futures the E Mini, which was completely inefficient. It was trading \$15 wide, laggard to the pit, which was crazy, the greatest of times.
- Rodrigo:** 00:04:16 The good old days.
- Bobby:** 00:04:18 Yeah, the best old days. And then we are trading options at the CBOE and then had market makers at the Amex trading against the petty cash baskets. So, with spreads that big, it was really a phenomenal time. Then from there, I started and, on the back in 70 guys did well, kind of sold out. Did a short stint in Hollywood for five years, which I'm sure we can go into and then made some pretty bad movies, and then wound up starting up my equity option firm, grew that to about 120 guys, we regulated out in 2010 and that's when I started RCM. So that's a long winded version of my background both on the futures, the equity option side on the brokerage as well as the prop side.
- Mike:** 00:05:06 That's fantastic. That's a huge arc. But what are the similarities that you see in this business versus the movie business?

Hollywood

- Bobby:** 00:05:13 Oh God, the lunacy. Back in the days when Goldman used to come in and they were paying you a couple million a year, whatever it was to your group, they'd say great, we're gonna whack you for 20,000 wine, we want the sweets. We want this, it was

crazy back then. Well, that's how the movie businesses is. It's just nonstop and back in Chicago, at least in the 90s and early 2000s, traders ran in the city. Everybody was just clamoring on the traders. You go out to these clubs, these bars and the girls would be all over them and Hollywood it's no different. The minute you get your first article up in the Hollywood Reporter, next you're having conversations. Not Harvey Weinstein conversations.

Mike: 00:06:04

You want to be clear.

Bobby: 00:06:07

I mean, I wasn't Harvey Weinstein by any stretch but it was a great time, it was a lot of fun. I lived on the beach in Malibu and I was still trading first thing in the morning and my office was at Warner Brothers in the old Frank Sinatra suites so it was like surreal to me. One of the greatest stories I remember was very early on one of my first movies. When I lost a lot of money trading in a day, I'd go to the movies by myself and that was my escape for two hours. Rodrigo I think I probably told you this. Then push comes to shove, I'm doing a Bruce Willis movie and the movie falls apart last minute and Bruce Willis got into a fight with his producing partner who was our producing partner, and getting the deposition done and during one of the meetings, he just sat there and mouthed to me and he goes...and I'm like, this is the greatest thing in my life. John McClane just told me to go fuck myself. You think you're trying to do me, I think this is awesome.

Mike: 00:07:05

I'm writing this in my diary. Dear diary.

Bobby: 00:07:10

But it's been a lot of fun. I've had the opportunity to work with some tremendous people not only RCM but before that, the household names and you don't realize they're household names when you're dealing with them as a young guy but it's been a lot of fun.

Rodrigo: 00:07:25

Fantastic.

Bobby: 00:07:27

It's pretty spectacular.

Rodrigo: 00:07:28

When did you get back to Chicago? What year was you got back to Chicago started RCM again?

RCM

Bobby: 00:07:34

Started RCM in 10, really came back in 2009 when the CBOE who was our SRO or regulator came in and changed these rules around as far as order placements and stuff like that. And it was targeted against us, Setswana, Goldman and Citadel and Peak6 and Wolverine. And ultimately, we couldn't survive it. We didn't have the technology and essentially what it was when you're trading equity options you have

a prop firm, you have a master account, then each trader is a sub account, or each group is a sub account. Ultimately, they came out and said because of our professional status we had a beneficial opportunity over anybody else and therefore when we're trading ... type strategies, when you place orders out the book a year out or a year and a half out, or as soon as they come back online you need to be in there because it's based on pro-rata and whatever and they wound up saying, you lose your place in the order book, we're charging extra 20 cents or 25 cents a contract. And it just made it everybody else had an advantage over us and for us, it would have cost us. We're trading 6 million options a month. It would have gotten expensive really quick. So after a couple months, we just said we had our fun. You had a great run. Get out.

- Bobby:** 00:08:53 Nice. I do hear that feedback as well Adam, I think I don't sure everyone jiggle their cables. I mean cable on your mic. It's good? It's subsiding.
- Rodrigo:** 00:09:07 We'll come back we'll stop and figure it out but-
- Mike:** 00:09:09 You're popping a little bit there to. A little close.
- Mike:** 00:09:13 All good. Have the changes in the business that have caused those leaps for you been more regulatorily based so there was there was a gap in the market, you're filling it you're providing service to the market, then the regulations change a little bit and you got to reposition, is that how that journey is? Sounds to me like it is but maybe-
- Bobby:** 00:09:35 Yeah. Certainly on the brokerage side and the trading side regulation had the biggest impact on all the businesses I've had in this industry as it pertains to certain types of trades. It just gets tighter and you're taking more risk to make less money and so ultimately decide to move on and go to a different trade. So that's from a pure P&L and prop trading side that was the biggest reason why we decided to shift there. But on the brokerage side, and certainly with RCM, that's how RCM was really created was the fact that after '08, the banks no longer can provide certain services. And coming out of our institutional background from a trading perspective, we felt like we could go create that almost like prime broker type model in the futures space with some of the bank relationships we had and that's essentially how we started. Kind of out of necessity for what we were trying to accomplish also.
- Mike:** 00:10:29 That's really neat. Anything that stands out to you in that journey or that arc? Because I do want to paint a bit of a picture there because I do want us to talk about China and I want to talk about the shift in China and the growth in China and where you might think that we are in that arc versus what your career has been and maybe even what was your fellow's name, fat Tony, it's not his name but your mentor even

thinking about the stories back from his arc and his career, and then the positioning that to get-

Bobby: **00:11:04** Did you watch that Netflix episode, the mafia episode where fat Tony was all about fat Tony in New York Tony's-

Mike: **00:11:09** No.

Bobby: **00:11:10** I literally just watched it the other night and that's what it was all about. For me, the biggest thing that has decided where I go in the industry is where the opportunity is. I think one thing that has always been certain is that everything's going to change and either you can be stagnant and ultimately become archaic or you can be more dynamic and do a SWOT analysis of your competitors, and say how can I be out in front to be able to provide more service either to ourselves as a trader, or to our clients as traders. I think that's what we've done including the way we've adapted and acquired different firms over the last, I would say seven years whether it be the Attain's of the world, two different groups on the Xi, to our technology unit, our CMX, which is our algo unit, which has been a huge investment for us and ultimately China as well. If you look at where the opportunity is over the next couple of years, where is it going to be? You got to look at different markets where it's not saturated, and you're going to still get those spreads like I saw back in the day and I still think there's certain levels of inefficiency that exist there that don't really exist anywhere else right now.

Mike: **00:12:33** It's funny you mentioned that the...I'm sorry. I was actually going to pass it off to you, Adam, because I know you probably have these facts a little bit better than me because you're talking about the E-minis and how they were so inefficient at the beginning and I think we were watching a webinar on the fact I think the E-Mini is the most traded future on the planet now. I was going to pass that over you, Adam to maybe talk about that. Maybe your recollection of that part of the presentation was a little bit better or more salient? I've just checked the transition in that vehicle and-

Adam: **00:13:06** Yeah. It is amazing to think that. So what year was that when they launched the E-mini and it was trading 15 points wide?

Bobby: **00:13:14** I think they launched it in '97. I don't remember exactly when maybe '96, '97 but it really became kind of nuts back in '98 during the tech boom and all the way through 2002. One of the biggest reasons why the margins were that wide was because the product wasn't fungible at the time. So if you bought five in the pit, it was against 25. Let's say your long five short 25 SPOO's or minis, you saw them, lined it right. And then even when it became an, all of a sudden as soon as it became fungible the spreads went down a little bit but it was still pretty wild for a while. That's remember

when Greenspan used to sneeze when we used to move 300 handles in a minute and if you weren't on the right side you had problems and I think right now like I trade NASDAQ and SPOO's here and they're not successful anymore. I need to start using our own algos. But even with the way I trade now, like we're trading in quarter ticks I think or quarter handles. Back then we're trading 5-10 handle increments. So the market would be 70-75, 70-80. And if you just after hit the bid hit the offer, you made 10 grand, just like that. That happens all the time, but in hundred lots. It was a lot of fun.

- Adam:** 00:14:46 And now contrast that.
- Bobby:** 00:14:50 I always say if you were a bad trader, you did okay because momentum was your friend. If you're a good trading you crushed it.
- Adam:** 00:14:58 Yeah. And I guess where Mike was going was, we just watched a presentation on the rise of the carry trade and they're zeroing in on ES as the primary vehicle to source liquidity. I'm not exactly sure I got the numbers right, but something like 15% of all total dollar volume of financial transactions, like liquid financial transactions in securities markets globally, take place through the ES. Like it's just astonishing the growth in this single instrument because every risk manager in the world hedged their risk using ES.
- Bobby:** 00:15:38 Whether you trade in equities or whatever else, and certainly before equities was trading after hours, when we had our equity option positions on, we always just used to normalize everything that's SPOO's. So we come up with whatever our formulaic model was and say, okay, we have this delta exposure, whatever else and let's say there was a biotech stock earnings coming out, we were petrified because those things were at 90 bucks a pop and so we would hedge against this synthetic basket against the SPOO's or the futures. And I think that wasn't unique to us. Everyone does that. And it's still to this day does it?
- Adam:** 00:16:14 Yeah. Now every pension endowment, bank risk desk, every institution in the world is hedging their systemic risk using ES futures.
- Rodrigo:** 00:16:27 It continues to be just based on that US market.
- Mike:** 00:16:33 The thing is the source of liquidity, right? What is going to be able to trade in that period of time of duress, it becomes the default.
- Bobby:** 00:16:44 Certainly as we see, because we deal with a lot of big commercials overseas and whatnot especially if they're publicly traded or whatnot. People want to start... they want to be trading almost exclusively exchange traded products versus OTC because investors, boards, whoever, they want the transparency, and they also know they

want the liquidity. And you get that and that's why I think a lot of those products whether it be VIX, whether it be crude, whether it be certainly SPOO's, NASDAQ, Russell, whatever it is, the volumes have just gone up too dramatically.

Rodrigo: 00:17:20 Yeah. You mean you minimize counterparty risk, right? You're doing with the exchanges. I think the argument is, you understand that the way in efficiencies back then for the SPOO's, we've seen more and more efficiency in the most traded market on the planet. This varies depending on which global equity market you're trying to trade in the futures exchange. But what we're seeing after speaking with you guys for a couple years on China, they're doing a large push to try to legitimise their futures market. And how they're trying to get that market legitimized is by asking players all over the world to come and partner up with other firms locally in China to be able to just simply trade. Simply create some liquidity and then possibly if you can make some money. So how are you seeing everything you've learned in the past translate into this kind of frontier marketing in China?

China

Bobby: 00:18:19 Yeah, that's a great question. The way we look at it is they're about 20,30 years behind us in so many ways, in technology as it pertains to trading for sure.

Rodrigo: 00:18:32 You guys are kind of building a lot of new technology. You're like at the frontier of this and really helping them learn how to trade these things, get the technology up to speed and all.

Bobby: 00:18:41 We're trying, it's not just to benefit us, it's the benefit everybody because as more stuff becomes more liquid and they start bringing out more contracts then more opportunity exists for everybody. But yeah, we have been at the forefront of trying to educate them whether it be on certain technologies on western thought processes to understanding outside due diligence, setting up structures in Hong Kong. I do think where we've seen technology become more in play in the Citadels and the Jumps of the world take advantage from a high frequency perspective and then CTAs come into play, and the future side or hedge funds have their moment. That is still relatively young there and you're seeing quant groups do well over there, whether it be on the futures side or doing some sort of arb or long/short. The quants are actually educated in the US and most of them, most Chinese used to stay in the US. Now they realise well, there's a hell of a lot more opportunity to go trade and make money there.

The biggest challenges you have there if you have success, is you piss off the wrong person and next the regulators are there or they just shut you down one day or if you get big enough, the government just says, "You know what, we are 70% of your assets because they're through government SOE's, and now you work for us." And

guess what, they're with your first class ticket, you're now flying coach, you know, you're now getting paid a couple hundred thousand dollars a year versus 30 million USD a year.

Rodrigo: 00:20:20 Yeah, I remember when Russia...a trader I was talking to said the same thing about Russia 20 years ago, he's like, if you want to get screwed over, go and build a successful business in Russia, because the moment you're successful, the government will come in and take it all away from you and possibly put you in jail.

Bobby: 00:20:37 Every time I go to China and I come out, and I get through the four stages of customs, I thank God I make it to the other side. Until that plane is up in the air, you just don't know because if you're having any bit of success and let's say we're working with one fund over there and we choose to take one of our CTA clients over there to that one fund to go live and we decided to pass on this fund, that fund was going to get pissed. And they start making calls to the CSRC, which is obviously our version of the SEC, FINRA, CFTC, and there's no due process. You're shut down right now and then you have trouble getting money out of the system, and it just becomes chaotic.

So we've had to deal with those issues. I can tell you it's scary when you're over there. But it's very tough to work in that type of environment that is so different and not westernized to the level that we're all used to, and we take for granted because there's so much. The regulation actually works in our favour a lot here because there is that transparency, but try getting a fund admin the work over there, two years ago, they didn't understand what a fund admin was. If you're trying to do due diligence, like us and LGT, we're just working together on this one strategy over there. Well, how do you actually figure out what their return profile is? Because they're not actually reporting it and they have 70 different SMAs, which are called funds. How do you know that? How do you know they're giving this programme versus that? You just don't know.

Rodrigo: 00:22:26 My brother works in Lima, Peru. He works for a private equity firm and they have a private equity fund all private assets. He calls me the other week and he says, "Listen, I'm trying to figure out a way to get, we have to put our NAVs online now at the end of each month, and you have a software that we could use and we upload?

So I call them up and I'm like, alright, well, look, all you need to do is make sure you can use this software, all you need to do is make sure your administrator uploads an app on an FTP site where they can pull, and he is like administrator? What's that? And I'm like well, whoever calculates your NAV and he's like, Oh, we do that.

Mike: 00:23:04 We make that.

Rodrigo: 00:23:07 I'm like no, do you guys literally like type in what you think it's-?

- Adam:** 00:23:12 That's not far off the private market like America.
- Rodrigo:** 00:23:16 What are the regulator's think about that? I'm like I don't know it. But how do you value it? It's like we assume that certain metrics we put them in and then people will believe us. I'm like, okay, well, then whatever you're plugging in then just plug it into this software.
- Bobby:** 00:23:33 It's already there because I remember when I first started this phase with RCM, we brought on Paul ... and some of those guys and who have done phenomenal things with us. After looking at some of these larger CTAs, I actually had a couple hundred million on the manager. I said, well, how do we validate your returns? Who does your numbers? And they said, well, we do. We made a policy at RCM about, probably eight years ago, to not work with funds that were not using third party auditors and fund admin because you just can't validate and it was the Madoff issue. I think it still definitely exists over in China, I can tell you that.
- Rodrigo:** 00:24:16 But clearly the thing is to be there for...I mean, when we were discussing China, one of the key things was who's got the most experience 10 years from now, when it is a viable business, and people do want to do a lot of business in China? You're going to want to go with the most experienced firms, the people that have been there from the beginning, the pioneers. The decision and kind of think about China is one of, do we want to eat the shit for the next five years in order to be at the top of the heap in the next 10 to 15 years? Which is an interesting question. Is it worth it?
- Bobby:** 00:24:49 You're right. The way we looked at it from our perspective is that we went around to some of our competitors, not so much in the futures business, but like BTIG, Cowan groups like that. Why you not going and it's just too expensive, too hard, too much time. And that's when we said we're going and I think-
- Rodrigo:** 00:25:09 You could do prop better.
- Bobby:** 00:25:11 That's right. And I think that's when we hired this guy, when we trained him in the US for a year or something back to Shanghai. But we knew it was going to be a slog, and when we bring on traders to go to introduce them over there. Remember, we have the entity, we set up all the compliance, illegal, fully licensed and built our technology into all the API's of the exchanges, real pain in the ass and doing everything in Mandarin coincidentally. I was just saying the benefit you're going to have is that when big funds whether it be the Blackstone's of the world, whoever else or the ... that go out there, they're going to be in the same boat as you are. If your returns are good, you're going to be able to go access cash, because you're going to need a two three year track record in order to do that. My screen just went dark. Let me just try that.

- Mike:** 00:26:16 We can hear you and see you. So you're okay in that.
- Bobby:** 00:26:18 ... microphone. I think anybody that goes over there now spends the time if they can handle the burn and the time, then I think it will pay off if your returns are there. So portfolio diversification that's not even in their vocabulary. Chasing returns is what they do. So you really have to be in the mindset that you're putting in good return profiles for the next three, four years and then as money, as the rules and regulations open up where they do allow Western ambassadors into, let's say, PFM's is that trade futures versus just securities, whatever else, and there's a good way where you don't have renminbi exposure, then you'll probably be able to raise some outside money from the US and or Europe. And that's what we're seeing now. And that's the structure literally, I had a call with last night with an investment bank that has a Hong Kong wholly owned entity and also very big in China, one of the top three. We're talking about doing this swap product. And that's how we're going to take a couple strategies from the US bring them over to the mainland China, and... the Chinese products versus swap and try to go raise however much money we can raise for the product.
- Adam:** 00:27:41 There's two sides of this, right? There's the outside investors, the investors outside China that are interested in how do we trade Chinese markets because it's a new frontier. I guess the expectation is the markets are not nearly as efficient, the opportunity is potentially much larger and then you've got the Chinese investors who are trying to access external managers or divert their capital out of China and access. And then you've got managers who are in North America who are being interviewed by Chinese investors to trade Chinese markets. We had a few of those meetings like a year or two ago, Rodrigo, we were in Chicago and we were talking to some investors that had come over from China and we're looking to learn about how some North American managers might apply their approach to trade Chinese markets. That was a jarring experience for us because the people that were interviewing us were themselves traders in China. And somehow the expectation was that you're going to generate hundreds of percent a year-
- Rodrigo:** 00:28:49 That's a thousand bucks. I don't remember his name, but he's like, look, I made like 300% last year. But I don't expect you to do that, I'd be happy with I don't know 50-60%
- Adam:** 00:29:04 That's right. Exactly.
- Rodrigo:** 00:29:06 That's where we're at right now.
- Bobby:** 00:29:09 That's no joke. And it got to the point where I saw some return profiles and I was meeting people in Beijing, Hong Jo all over the damn place. And I'm looking at these return profiles, and I'm like, this can't be real. Finally, I look at Bradbard and I said,

screw trying to get our managers funded over there. I need to figure out how I invest in these strategies because they're like, I'm done in the year, I'm retired, I'm going to Cayman in to be with you guys. It's unbelievable, but they do incredibly well and all of a sudden they're gone and the quant firms that were doing incredibly well decided that if we're making this much money let's take our fund private, give everybody the money back. Essentially what we do is a family office and that's how they, all of a sudden this one guy who was 27, who went to University of Texas, MBA make 300 million bucks.

- Mike:** 00:30:11 Is that a function of...So you got the second largest economy in the world, probably one of the largest commodity consuming markets and thus. You have the producer and the speculator helping bridge the gap to get some sort of return. Is that a function of the arb being that big or is it just like a long-levered trade that is backed by the government or is the Chinese government involved in these markets to an extent like-
- Bobby:** 00:30:42 They're involved and all the people that control the big commercials it's all tied to the party, and you have to know that going into it. But one thing that's very unique about the Chinese market is that it's about 95% driven by retail investors. And so with that comes a lot of inefficiency, if that were to start to go down, I believe a lot of these strategies that are crushing it would not be a success, still very successful by a Western perspective, but not nearly as successful as what they were. So that's what I would say as far as why there's that much of a discrepancy as far as the return profiles, because it really is herd mentality over there.
- Rodrigo:** 00:31:32 Yeah, once the market runs, it runs for a long time. I was just talking about how trend works. This narrative that trend is whatever's working will be there, and will make money on that trend is not true. For trend to work there's generally long term periods of chopiness and then one massive trend that happens every three years that everybody catches and you get this massive boom. In the Chinese market if you look carefully at the ... when they trend, they go hyperbolic for a long time, and then they go down and break for a long time. And if you have that type of reality, and you're a trader that can be nimble enough, and has the assets because, I remember the amount of leverage that we're using, the amount of ups and downs that they had in their portfolio was massive. They're taking massive volatility but if they believe that that trend was going to continue the way it had, or the length of trend was going to continue the way they have, you're going to make tons of money.
- Bobby:** 00:32:31 A lot of the products out there were long only for a long time. So you were able to trade and hedge.
- Mike:** 00:32:41 So we're introducing buyers to compete with the professionals who need the resources to actually build the bridges and buildings and bake the bread.

- Bobby:** 00:32:50 It's unreal, right?
- Mike:** 00:32:51 It's a bit unreal.
- Bobby:** 00:32:52 Yeah. Now they're allowing these groups to trade more and more and hedge against some of the indices, and that really didn't exist a year ago, a year and a half ago, a matter of fact, I was over there during two of my visits, they changed the rule in real time. And where you can trade, you can hedge against 10 contracts now 50 contracts and in one of the indices, and We Chat was blowing up and everybody, the brokers were on the traders faster than the traders knew because brokers were like we're going to make that much more money. It's unbelievable how that went. I was like, holy cow, this is insanity. But it's just the way it is. So, a lot of these products were long only, now they're getting a little bit more creative with them. But we'll see what happens. As it opens up, and they bring out more products and there's more liquidity in them, I think there's going to be a phenomenal trade.
- Mike:** 00:33:51 What do you think of the involvement of people like Bridgewater and that sort of thing? Are they anything special or just-?
- Bobby:** 00:33:59 When I went out there the first time there wasn't a bank there that we had ever heard of. It just didn't exist. A year and a half later, they're all working to get their way in there in all the major firms. There were 22 licenses that were provided. I think Bridgewater had one of them, BlackRock, couple of big guys. On our side, there was a ..., and then one other one and ultimately, it didn't succeed because they thought the name enough was going to be big enough where they would get massive inflows of a AUM and at the end of the day, they just didn't get them because the returns weren't there and not only that, the brokers if you think about it...think of the RJO's of the world. All those independent FCMs. They've got 100 of those things over there and they're relatively big. And then all of a sudden you have a Goldman or JP Morgan come on board, and you're trying to go after their business. Well, you can't legally invest, Goldman can't take US money and invest it in two Chinese managers, it's just against the law. Where do these managers actually raise money, they raise them just like the introducing broker model here. All those FCMs are really introducing brokers. And so they want you to clear the business, great, I'm go introduce you to all these investors. And that's how it works. At the end of the day, nobody went with these guys because they were trying to clear the US counterparts and they made that big mistake. So they weren't able to raise money and their profiles were not great.
- Rodrigo:** 00:35:34 It's like everything. When it comes to the frontier markets it's all about relationships. Like you have to roll up your sleeves, get down and dirty, get to know the people, I mean what you guys have a local you were the first ones to have-

- Mike:** 00:35:51 Got to work on like karaoke there.
- Rodrigo:** 00:35:52 We're the first to have an office there too. Like you opened up an office there for ...
- Bobby:** 00:35:59 Yeah. And so when we first went out there and I remember I was out there by myself and they're like, yeah, you're going to come out here. You're going to do the dog and pony show, and then we're never going to see you again because you realise this is a shit show and it's way too hard. I said, well, what's going to make you believe that we're going to stay? And they said, "Well, you have to hire Chinese nationals and open an office." So I said, Okay, we'll do that. Now, we carved out the budget and we did it. And so that gave us some credibility and that's where a lot of firms fail. You have to understand their culture and what's important to them and then you have to learn you can't go and this is where Mat and I have gotten into arguments because when Mat first came over, Mat Bradbark from our office who actually runs the China operation, he was like, well in America this way, and they're like, who gives a shit? You're in China. Like welcome, now eat the disgusting food and we're going to have these little shiny ...
- Rodrigo:** 00:36:54 Adam loves that food. Throw him a burger instead.
- Bobby:** 00:36:57 You might like Chinese food. I don't know if you've ever had this food. The first night they took me this great place and I wish I should go get a little vodka there. You take these little shots, and it's like rubbing alcohol and you don't know what to expect. I'm thank God I bought Prilosec with me because that would have been in a lot of pain. I said to Wayne, hey, make sure you order something for me because everything's in a Lazy Susan and they do this and it's a real toasting culture. And you just get wrecked. He goes don't worry, we got you chicken. I go where is it? He goes here. I said, no, that's raw skin and there's a feather in that.
- Mike:** 00:37:44 I think I see a beak and a claw or-
- Bobby:** 00:37:48 Luckily, I was staying at the Four Seasons and I was ordering up as soon as I got home, and you hit breakfast hard. Maybe you're screwed but actually, you get used to the food and it's actually really good. The people in China, they want to do business with the west. It is an unbelievable opportunity and they're really great people. Like, everybody tells you to be careful, they're gonna steal your IP, they're gonna do this. If you're working with firms that are truly regulated, that manage a substantial amount of money, and they're on something called a whitelist, which allows them to take on government funds, they don't want to screw up their reputation either. You got to understand the questions that you'd have to ask. Just like if you're going through a CTA and you're doing the DDQ, they don't exactly have that there, that doesn't really exist. So you got to figure out the right question to ask

and if you do business with the right people, you have a great time with them and work with them and you can expect good outcomes.

- Mike:** **00:38:46** I suppose in our business the one thing that this whole domain of investing is used to is the theft of IP. It is constantly changing amorphous as you mentioned earlier, Bobby about going to where the opportunity is, seeing what they are seeing, what the edge is, and then filling that, or arbing the act of arbitrage is just simply to facilitate a more smooth and efficient market. So the pursuit of IP in our business is an ongoing process forever and it is the game. You don't get to TM your investment algorithm and then no one else can do that anymore. That's not the way it works. So, it is a slightly different playing field than most, so that's pretty cool.
- Rodrigo:** **00:39:43** I heard that on the toasting culture thing. I remember when we were in Chicago with...I don't know who was with us from the entourage in China. But every two minutes we were cheering for something. It was constantly drinking for hours on end. Or you just kept ordering more food to make sure that we were on the even keel. They can drink heavily for a long period of time in ways that we can't.
- Bobby:** **00:40:11** It's terrible. I'm a boozier and you really have to keep up and it's like you go to these places there's no I'll get a Ketel – soda/lemon. It's only this rubbing alcohol, and it can be brutal.
- Mike:** **00:40:31** You only go blind after five or six drinks. Everyone jiggle their cable again that feedback is coming.
- Rodrigo:** **00:40:36** Are you sure it's not you Mike? I'm worried...
- Mike:** **00:40:37** I have plugged/unplugged...
- Bobby:** **00:40:41** Me, I wouldn't know how to fix it some of those things but. You guys have to make your way over there at some point because it's first off like Shanghai and some of these cities, Beijing is terrible. It's way too big. But some of the cities are just amazing over there. They truly are amazing cities and the technology that they use outside of clearing and DMA access and they're like that. On the futures side or the security side, it's phenomenal. You don't use cash. Like for me to renminbi being there was people like, what are you doing? It doesn't make any sense. It's really sophisticated. It's very smart.
- Mike:** **00:41:22** How do you compare and contrast the breadth/depth of products that are offered there? Do they prioritise more financial commodities? Do they prioritise more the metals? ... soybeans? Is there a bunch of agricultural stuff that's not relevant in the economy here versus there?

- Bobby:** 00:41:46 Yeah. There's some really esoteric products there that we never would even think about. I actually pulled it up because I knew you guys will bring this up and I don't know because I'm not dealing with that everyday like Mat is, but there's polyurethane, stuff like chloride, obviously rapeseed more. It's just some really crazy stuff, rebar, PTA which is a type of acid, it's bizarre. I think it's mainly based on what the economy is doing and more cities in mainland China and then other parts of Asia. I think the big thing is the commodity side they want to get really...remember what they're trying to do in crude oil is make that the underlying product that everyone's going to use as a benchmark over the next five years or so. And I think they have a real opportunity or change everything to Renmimbi based versus USD.
- Mike:** 00:42:49 That was my next question, is how much of it is for Renmimbi versus USD or that Asian of a converted to any Asian basket of currencies that they wanted to?
- Bobby:** 00:42:58 It's all Renmimbi based.
- Mike:** 00:43:00 All the commodity denominators Renminbi from forecast.
- Bobby:** 00:43:04 Everything's Renmimbi based, even like when Australia and Singapore, Hong Kong, whenever they're trading those products always settles in Renminbi, unless you are able to get it. It's never going to say, we haven't seen anything settle in USD. I just don't think that's going to happen. And they're not going to allow it to happen because they're trying to compete with us but I think maybe as more financial products or the fixed income products come off you'll have an opportunity as QP or RQP comes into play, which is essentially the quota system which allows you to invest into Chinese products from offshore and likewise, probably near future. I think that will change if you're in Hong Kong or based out of London, if you're doing certain types of swaps with international banks, they'll let you do USD denominated settlement.
- Mike:** 00:43:56 Go ahead, Adam.

Chinese Investment in Non-Chinese Markets

- Adam:** 00:43:58 No, if you had something else along that track you can go on. I was going to flip the script and say, just going the other way? What is the interest in Chinese institutions or Chinese commercials or maybe even Chinese retail for investing in non-Chinese market strategies, products. Is any of the capital flowing the other direction?
- Bobby:** 00:44:27 So, everything wants to flow the other direction, they definitely want to do more business and invest in the US but they also realise...remember the major family office is in the investors well, five years ago, they wanted all their money out, the opportunities in mainland China right now. They're keeping their money there

because they believe that's going to be the biggest appreciation of their wealth. And obviously, you can put 50 grand or something like that overseas a year but if these guys want to get money out, they do it through import export business and stuff like that. But yeah, they want to invest in the in the US and European markets. A lot of them do but the people that we originally talked to, they're like we're no longer interested, we have more opportunity we make more money here. So as far as the major commercials, we're dealing with a massive pork buyer out in China right now and poultry buyer that typically buys from Brazil. We're trying to bring them to buy from a major producer here in the US that's a household name and we're trying to do it because we make a spread on it and whatnot, and it's huge. It's absolutely massive. Way above anything we should be working with. I don't know if they should be going to like a major bank instead somehow they're going through RCM, so we'll take it. But now you see these commercials that want to do business with US and they're getting permission from China because of everything that's going on with the trade talks and stuff like that. So we're seeing more of that come in from a commercial perspective buying in the commodity world here in the US.

- Adam:** 00:46:10 So this is an expression of goodwill from the Party to allow some of this agricultural trade, agricultural by Chinese from, I guess primarily American producers. And it's primarily agriculture at the moment.
- Bobby:** 00:46:26 100% because even so, the group that we're talking to six months ago, they wouldn't have been able to do that. Or at least even have the conversation.
- Adam:** 00:46:35 So how did you claw your way to that kind of deal, Bobby?
- Bobby:** 00:46:40 I'll tell you right how that deal came apart. One of our big investors in mainland China said, hey, would you want to talk to this group about hedging pigs? And I'm like, yeah, I've had some swine, I don't know. Listen, I've never traded hogs or anything but apparently there's 20 different cutlets and stuff like and I get on the phone with them with Mat and I'm like, what the hell are these people talking about? And they're very smart, very sophisticated, but they have never been able to hedge or anything like that and they've had some big exposure. So, we brought on...we have an Ag division so we brought them on and we're working the order now and then we partnered up with a group out of London that deals specifically with this to make the deals with the US packers.
- Rodrigo:** 00:47:34 Boots on ground, roll up your sleeves, get to know people and get some business, that's a third world way.
- Bobby:** 00:47:40 That's right.

- Mike:** 00:47:42 I'm actually stunned, not stunned but the global complexity of the supply chain is kind of awe inspiring how that web actually interacts and works as an emergent phenomenon. So many random parts. It's truly amazing.
- Bobby:** 00:47:59 I'll tell you what? I've really just understood the supply chain globally, is with our technology with our CMX, we do a lot of business with major commercials, and you think BP is a massive oil in energy group? They're small compared to some of these private firms and I'll just throw out a bunch of names because then it's generic enough where they may or may not be clients, but you've got like, Total, I don't know if you've ever heard of Total. Traffic Euro, V Tall, Mercuria, Cargill, right? These groups truly run the supply chain. They're the ones that are making up so...there's so much bigger than BP, and they're all privately held and they control every aspect of the supply chain from owning 50 cargo ships, train routes, storage, they've got the physical side. I mean, it's unbelievable how sophisticated and smart these guys are and they crushed it a couple months ago when oil went nuts, so crushed it. I talked to the CIO, CTOs these firms all the time.
- Rodrigo:** 00:49:12 Opportunity of a lifetime.
- Bobby:** 00:49:13 What's that?
- Rodrigo:** 00:49:14 Opportunity of a lifetime for them.
- Bobby:** 00:49:19 They said, we just made more money than maybe I'm going to-
- Mike:** 00:49:23 The Illuminati.
- Bobby:** 00:49:25 It's unbelievable. But that's how they really control the supply chain. And if you look at and I don't want to promote RCM because that's not the purpose of this. But even what we're trying to do in the ag space, is we've decided to get involved with now an elevator and now this and this, to try to control some of the supply chain to bring the cost basis lower for our clients in that space. And once again, I didn't even know that existed really, I just eat cereal. I just eat this. Give me a loaf of bread and I'm a happy guy. But really, it's fascinating how sophisticated every aspect of that really is.
- Adam:** 00:50:04 Yeah, no doubt. We got one of our regulars asking when you're going to produce the biopic of the life of the Swartz brothers.
- Bobby:** 00:50:13 Oh god. It'd be a really a dull movie. Oh, Jason. Okay. That's never gonna happen. I rather do a biopic of the Harvey Weinstein brothers, him and Bob, a little bit more interesting than just me and my brother. We're just a bunch of dumb traders.

- Rodrigo:** 00:50:34 You must have had to deal with Weinstein when you were back in the US.
- Bobby:** 00:50:44 I did a lot of movies with Harvey, I knew him pretty well actually.
- Rodrigo:** 00:50:47 You got some good stories definitely got-
- Bobby:** 00:50:50 I do but that's something I definitely-
- Mike:** 00:50:52 Let's cut that to the green room.

Notes from the Trading Floor

- Rodrigo:** 00:50:56 He told me a story when we were in New York recently on the hedge fund management awards. It was just one time when you were in the in the trading desk, and you thought you were having a heart attack. And just the way they dealt with that, the fact that there was a nurse down the hall that dealt with all the traders that would lose their minds, had to finish the trade? Love to hear that story actually.
- Bobby:** 00:51:21 Now that was on the floor, because people would OD, they'd stroke out it was pretty crazy. So we had a full ER on the floor of the CME and they had on the CBOT as well, and I started having these massive panic attacks and I would go down. I'm like, I'm having a gripper, this is the big one. They would be like Bobby, here's an us magazine, take your Xanax and get back out there. They knew how I was because I was having all these panic attacks, but I'd look over and I'd be like, oh, hey Steve, and he'd be like, I know because he has panic attacks to. I'm like what triggered yours today? It was pretty insane. They had that ER there for a reason and I saw them carry out a lot of people.
- Rodrigo:** 00:52:14 And then the guy next to me, like, can you cover my trades for a second? I might be dying right now.
- Bobby:** 00:52:19 Yeah. I'd be like, hey, what's my position to my clerk and I go like this and get him to my brother and have my brother cover. It was very crazy down there. I mean, it was it was a lot of fun. You want to talk stories? I've got stories that will knock your socks off.
- Rodrigo:** 00:52:41 Okay, well, we got five minutes. Choose one.
- Bobby:** 00:52:47 It was one of those things and once again, this was a lot different time where you'd be out getting drunk and I could have literally... I'll tell you a great story. So a guy came over and we had an odd trade, we kept on coming out, he'd be like 7 at 100 sold, and it became a pissing contest. This was trading my own account and he's goes 6 at 100 sold. If you love them at six you're going to love them at four. ... And

he kept on doing it. Next thing you know, I'm offsetting with SPOO's I've got like 700 futures on bigs, not the Mimi's. He's got the same thing on and we look at each other and he's just like, what are we doing? And he goes six million, I go 700 million, and we're just like, out of that and the next thing the next day we're just having a beer going how stupid were we both of us could have lost 15 million bucks real quick. It was nuts but you would be out at happy hour at four o'clock and people like what are we going to do tonight, I'm like gas up the plane let's go to Vegas. We'll be back in time by the open. When I was living in New York and trading out there. Gas up the chopper. Let's go out, we'll hit AC and be back by the open. You'd go trade the open, fall asleep for three hours and come back and trade the close. Rinse and repeat.

- Adam:** 00:54:04 A sustainable lifestyle.
- Bobby:** 00:54:05 Yeah, right.
- Rodrigo:** 00:54:06 I see that the utility of the nurse's office was more than just for panic attacks.
- Bobby:** 00:54:12 Let me tell you. They were great people, they really helped a lot of us out.
- Mike:** 00:54:20 What do you think your movie career is going to be like in China? When are we going to launch that?
- Bobby:** 00:54:25 That's why we're here man, I'll tell you right now. Hollywood has raised a tremendous amount of money out of China and they've had all these Chinese investors and they've all gotten crushed so I don't think there's a lot of money coming back into Hollywood anytime soon.
- Rodrigo:** 00:54:41 Not the other way around. A lot of Chinese movies coming up.
- Bobby:** 00:54:44 There's a lot of Chinese movies coming up. It's one of the biggest territories in the world and they're not pirating anymore. They're actually trying to make money off the industry.
- Mike:** 00:54:54 I also think that they like the key characters that are in movies are paid for. You get funding if you haven't. So Marvel's launching several Asian type, which is awesome superheroes. I think you get funded for that if it comes to China and you get an actual break, or I don't know exactly how it works.
- Bobby:** 00:55:17 Even here in the US or if you go to Asia, depending on how much you film there, you're going to get a tax incentive. Anywhere from 15 to 40% of your budget. Now, if you're making a \$30 million movie and you're telling me you're going to give me 12 million back to film in your territory, yeah, I'll make it look like Toronto in

Shanghai, after you'll figure it out because it reduces your exposure and your break even's a lot lower. That happens all the time. But if you look at movies now just like business in general, it's becoming more diversified and they're bringing in different actors. I'll compare it to when I first started trading my indicators were the bonds, crude, gold, all domestic products and then by the time I left, it was a global marketplace and you had to really have global indicators as far as what you were looking to trade. It's no different in the movie business. Probably every industry now, is that you have to bring in Chinese actors into your films, you have to bring in someone from like a German actor, you see German actors come in because it's a massive territory, they spend a lot of money over there, stuff like that. And I don't think that's ever going to stop. And I think Africa is going to be a big place that they're going to focus on in the next five to seven years.

- Rodrigo:** 00:56:38 So Bobby, in the last few minutes that we have I've never asked you this, but when you left Chicago, what made you think that you're qualified in any way whatsoever to get into the movie business? What possibly could have gone through your head to say like, yeah, I'm going to do that. What was the leap?
- Mike:** 00:57:06 I think he couldn't handle the party life of the market anymore. So he had to take a break. It was just too intense for him. So he went to Hollywood.
- Bobby:** 00:57:17 That's right. That's it. That's pretty much...No, I think at the time I was 30 or 29 I said, you know what, I love going to the movies. I think I'm going to go out there and Goldman had just done M&A on a deal that I was part of and I wound up doing some consulting for Goldman Sachs out there for the special situations group. And that was like getting an MBA in Hollywood real quick and everybody opens their books and their doors, and I came up with a factor model, just like trading for making movies and I came back to Goldman, I said, and they were going to do this Paramount slate and I said, you're going to get crushed. It's like the wild-west out here. These guys don't know what the hell they're talking about. Everybody's creative, nobody's financially savvy. And I said, okay, I'm going to be able to do this on my own, came back to Goldman after travelling back and forth from New York 20 times and said, you're going to get crushed don't do it. I started my own deal. I raised a couple hundred million pretty quick from Fortress and Grosvenor Capital out of London. And based on my exposure and my factor model, which is still used today in Hollywood.
- Mike:** 00:58:26 Are you the progenitor of the factor model which is the key actor, the place it's shot, being the function of the success of the movie, like there's like three key factors that you got many A/B actors, where are you going to shoot it?
- Bobby:** 00:58:38 Well, yeah. That's all part of it. So that will determine what your budget is. But to me the factor model was you had to have X amount of things in place from a

overseas contract your hedge, and there was about a 72 point factor model that I had to have about 60 of the points covered in order to trigger the movie where I only knew I was taking about 15% exposure on any film. So that's kind of way we did it knowing that even if you hit the cover off the ball, you're not going to make 100 million dollars like a Blair Witch Project, but you'll do very well and you'll make a good return on capital. So when I went out there I started my own deal after I did the consulting and my first movie was a hit. And I scalped it, essentially. The movie called Unknown and it was-

- Mike:** **00:59:34** Yes, it is.
- Bobby:** **00:59:37** By the way, you're right. You're 100% right. I scalped it and I sold it to Harvey Weinstein and that was my first break and Harvey came in WME Endeavour, Ari Emanuel's office and goes Fuck you, I want the title all deal and I just pushed him back and I said, fuck you. I go this ain't my first rodeo. I go, this is a hobby for me. This is not my job. I go, I'll play him. He didn't realize I was working for Goldman, I knew where the bodies were buried and they were just getting bought out by Disney and Goldman was about to fund them. And I was able to hold that up for about a week until he paid me. There was a great restaurant here in Chicago named Kiefer's, since it's closed, a great steakhouse, and the chef comes up to me and they knew me in there, and I was back in from LA for a week or so. And he goes Bobby, I got to tell you, he goes, whenever I'm hung over, and I want to watch some real bad movies. All I do is Google you. Puts me right back to bed. So, you want some extra sauce with your steak?
- Rodrigo:** **01:00:57** Well, that's Bobby, thanks so much for taking the time, man. It's always great to hang out with you.
- Bobby:** **01:01:05** Always fun.
- Rodrigo:** **01:01:06** Hopefully we'll be able to travel back and forth to see each other.
- Bobby:** **01:01:10** Yeah. Maybe I'll take my wife to move out to the Caymans.
- Mike:** **01:01:14** Done.
- Rodrigo:** **01:01:17** All right, brother.
- Bobby:** **01:01:18** All right, guys. Thanks a lot.
- Mike:** **01:01:21** Remember guys just stay on for two seconds as we wrap because it takes a second or two for this to run off of and I remind you because I'm the only one after that has to sit here and-

