The ReSolve Master Class – Episode One

Adam: **00:00:00** All right, we're here. Another wonderful series hopefully that the ReSolve team is going to put together. This one is going to be named the Resolve Master Class and it's hopefully going to resonate with a lot of people that manage money from all types of levels. Episode One will be about defining who it is that we're speaking to, and we've outlined some of those personalities. Mike why don't you walk us through who it is that should be interested in what we're about.

Mike: **00:00:31** I think that if we can think about those who have assets that have long term purposes that are to meet long term obligations, when we think about those categories, we go from the high net worth individual, a family office, a pension fund, an endowment, and these are various types of personal organizations if you will, organizational structures that wealth operates underneath. Then I think beyond that, you have the paradigm of okay, so that gives you a little bit of what the source of the wealth is. If the source of the wealth is a pension fund, obviously, it's the collective obligation for retirement for the pensioners, that is being managed by a CIO who reports to a Board. Taking the other extreme of a high net worth individual that maybe hasn't set up a family office yet, they've come into some sort of wealth from some area.

So a slightly different source of wealth, could be the sale of a business, could be the private shares that they passed on, could be accumulation of a retirement account, and they're solely in charge of that, and they truly are the CIO of that accumulated asset. So they may think about delegating that to somebody, and how might they think about to whom that is they should delegate, and the concepts of how that person should approach that from the perspective of a registered investment advisor. They have a pool of clients that they're offering that CIO umbrella and how they should think about their wealth. So there's the source of the wealth, the structure under which that wealth operates, and then lastly, the personalities of the individuals, Boards, CIOs that are actually managing that.

Adam: **00:02:11** I think it's important here to say that what this isn't, it's not a Master Class on day trading, or monthly trading, or yearly trading. Every personality that you describe, should be thinking about this problem from the perspective of managing money over the next three to five to 10 decades rather than two to three to five years. This is absolutely crucial as a steward of money thinking very, very long term.

Mike: **00:02:41** I certainly agree with that. When you think about the way your mindset may change, when you're thinking about wealth, and the managing of wealth over one, three or five years, which is common in a lot of questionnaires that might be asked. That timeframe is almost irrelevant, and then indexing to some index, the S&P 500, for example. What's the meaning of that within the concept of a 30 to 50 to 100 year obligation? It really is, okay, so the S&P went down 25% and I did a great job and only went down 20. Is that actually something that is appropriate or you should be rewarded for, in the context of true long term wealth planning and management? Sometimes the values with which those asset owners evolves as wealth grows, is incredibly important. Those that have less than 5 million, call it the mass affluent, they're concerned a lot with retirement, they are concerned with their health and maybe the cost of health care.

When you start to get above five and above 10 million and then 50 and 100 million, you know that you've got enough to continue to have your lifestyle. You know that you can buy whatever medical insurance that you need. So oftentimes, it's multi-generational, their heirs that they're thinking about. If we think of the pensions and endowments, and family offices, they are structured to allow the family wealth to live beyond the individual that owns the wealth. So now, we have excess assets that we know we have a very high degree of certainty, are longer lived than the people managing.

Adam: **00:04:35** I think it's important also to acknowledge that especially for investors who have wealth because they have exited a business, for example, that first of all their experience will inform how they want to think about that wealth going forward. When you get up into the 5, 10, especially 50, 100, 100 plus million dollar range, there are other objectives besides just wealth preservation that many investors want to express. You've climbed right to the very peak of Maslow's "Hierarchy of Needs", you're now seeking self actualization, maybe you've built a set of skills and edges during your working life and you want to be able to manifest that to express very clearly your own value set. So maybe that means a portion of your wealth, even though the wealth has a purpose, which is to extend into multiple generations to sustain probably a broader value set, one of those values may be to continue to own and support the operation of concentrated businesses and that can be accommodated as part of a broader plan, but it needs to be a sleeve of the plan and probably not the total plan, if the objective truly is long term preservation and responsible growth of wealth for 10 to 50 to 100 years in the future.

Rodrigo: **00:06:04** We know how quickly the turnover is of people who are wealthy in a certain year. You look at the top 100, they end up losing their wealth very quickly by making overconfident decisions about the liquidity and money that they have. That's supposed to be that generational type of money. Everybody I think will say, no I'm a long term CIO, I'm a long term fiduciary, I don't think anybody is trying to just manage the next month. The problem is that we all want to live a better long term life but what we're doing is we're letting life happen to us on a daily basis. And we want to do the complete opposite. We want to plan out our lives. Personally, from the perspective of the Long Now Foundation that I don't know if you guys have...

Adam: **00:06:48** Card carrying member.

Rodrigo: **00:06:49** You're a card carrying member, so maybe you can speak to how thinking about it from the Long Now Foundation philosophy changes the way you interact with the world. In the same way, I think thinking about your portfolio from this long term perspective that we're going to take a few episodes to describe, might influence how you make decisions on a day to day basis.

Adam: **00:07:11** This idea speaks more to the individual who has accumulated a very substantial nest egg, far beyond what they need to support even a generous lifestyle for the duration of their own life and to that sleeve of the portfolio that is directed towards self actualization type goals, global sustainability, long term passions to create a better society, a better environment, a better community to express your own values and bring your own experience and edges to bear in pursuit of those broader objectives.

Mike: **00:07:51** I think that's been widely defined now as social impact investing.

Adam: **00:07:55** Abused largely. But you're right, absolutely. That's designed to espouse that general objective.

Mike: **00:08:01** So, as an asset owner, you are a CIO, or as someone who advises other large pools of asset owners who have gone beyond a single generation focus in asset management space, that should change quite dramatically in our opinion, the way you might look at things and the responsibility that you have in stewarding that wealth. And so we've talked about social impact as being a sleeve, some sort of self-actualization, and that can take many different forms. Not for us to judge, each person is going to have their own definition of those things. But we now have wealth that lives beyond three to five years, we're talking about 30, 50 and 100 years. And when we think about the changes in regimes that have occurred over the last 100 years, and we think about the depression in 1929, the transition of global leadership from the British Empire to the US Empire in the way we think about finance and previous generations of that. Remember China has pretty much run the world from the perspective of a central economic power for every century except for the last one, one and a half. So, these massive tectonic plates are going to shift. And when you're thinking about your portfolio from a 100 year timeframe, that should have some fairly substantial impact on your thinking.

Let me give you an example. We live in the Cayman Islands and when you come to visit the Cayman Islands, or when you come to live in the Caribbean and you're going to do a stop off, you're going to live here for three to five years and maybe you're going to move back to the mainland. What house might you buy? How would you think about that home ownership and the potential impacts of hurricanes? That's a very real threat here, they do happen. But if you were here for three to five years or so, I'm going to buy a home and I hope that I get lucky. I hope that I don't encounter a storm because it's quite highly possible that I wouldn't encounter any kind of major storms. So, I'm just going to hope, again, three to five-year timeframe from an investment perspective. I'm going to hope that I'm going to get in the right stuff and be able to get out of the right stuff. And so the mindset changes slightly. Now alter that, I'm going to buy a house here in Cayman, I am going to live here for the foreseeable next 25 to 30 years or however long I live. I'm going to pass that home on to my children, I hope they might consider one day coming here to live, and my grandkids might consider coming here to live. Now Ivan is a very famous storm that occurred here in the early 2000s, and it was a once in 100 year storm. If my mindset is that I'm buying a home here to live for myself and my family for the next 100 years, what kind of home am I going to think about buying? Where am I going to think about buying it? Am I going to buy the sunset house right on the shoreline? Very potentially vulnerable to a storm surge, to potential large waves during a storm, wind damage? Or am I going to think about looking at the hurricane chart of the island and seeing where are the low risk zones. Because as I live here for 100 years, as I invest for 100 years, I am virtually guaranteed of experiencing a one in 100 year storm.

Rodrigo: **00:11:44** The question is, what is the equivalent of that in a long term multi decade portfolio? The vast majority of professionals in our industry have only been investing for what? 10 to 30 years, right? We have seen one type of regime, one type. Interest rates went from 20+% to zero. That's all we've lived through. So, it requires that 100 year perspective to be able to put together the right pieces of a portfolio to say, listen, rates went from 20 to zero, there has been an incredible amount of growth in developed nations, that movement from Europe to the United States, and so on and so forth. You can actually analyze beforehand things that you didn't live through, and then create a foundation, a house that can live through these storms, these inflationary storms, deflationary storms, the high growth, low growth storms. This is where the commonality in all these personalities, all these CIOs, all these stewards of wealth should have, which is prepare your house for all of these storms. And there's ways to do that, we're going to discuss in these episodes.

Mike: **00:12:47** The key is preparation. I'm building a home, I'm going to be in Cayman Islands for 100 years, I am going to use a lot of fill, that home is going to sit 30 feet above sea level because there's a storm surge that comes along with things, with hurricanes, much like the storm that came in the 70s, stagflation, massive inflation and the inability for the equity market to grow, growth assets to grow beyond the inflation. That has happened, that will likely happen again. It was a100 year storm. Well, we have assets now that are longer lived than us in the context of all of these

CIOs who are stewarding all this wealth. Those assets are lived longer than them and their management teams. And thus, we are virtually guaranteed to see some of the similar situations that have occurred over the last 100 years. Should we be so bold as to say, well, we'll just navigate around them and we'll know the future, we'll be able to predict it? Well, first...

Rodrigo: **00:13:55** What you're hoping is that you get lucky.

Mike: **00:13:57** Right, for 100 years.

Rodrigo: **00:13:58** You can do something for two, three years, and the chances that there's going to be a massive credit crisis that only happens once every 70 years is, I'm just going to do X. That's the trader's point of view, that is the person that is letting their portfolio happen to them. What we're trying to get at and the audience we're trying to reach, which I think is anybody who's doing well, is this idea that no, you need to think way beyond and try not to get lucky. You want to eliminate as much luck, you want to eliminate any uncompensated risk that you can to start with, and then build on top of that.

Adam: **00:14:30** One of the big challenges for investors who are just starting to think about the stewardship of a large windfall, say from the exit of a concentrated equity holding in a business as an example, is that they think that the preservation and responsible sustainable growth of wealth happens through the same process as the generation of material wealth. I think we're going to spend some time explaining the major difference there, the large pools of wealth are created through concentrated enterprises that a person expands his own effort and control over for decades at a time. And at the end, with perseverance and a large tailwind of good fortune, now you've got a great large pool of money. But the skill set and thinking that goes into the preservation and responsible stewardship of that for the next 30, 50, 100 years requires a completely different major shift in thinking. I think that's what we're all hinting at here. That is what we're going to focus on over the next few episodes.

Mike: **00:15:45** Yep, I think that nails it, we have assets that are long lived, which virtually guarantees that they're going to see regimes that are outside of our recent experience, and how do we prepare for that? Once we're prepared, and we have maximum preparation, and we built that structure, how might we start to think about making some additions to that, adding some prediction to that tilting? And what's the bar that you need to overcome in order to have confidence that those predictions will actually add value to the portfolio, which is something that I don't think is well understood. It's actually a high bar to start to slant things away from or take bets that are left necessarily forgetting about inflation, for example, saying I'm not going to own inflationary assets because we haven't had any significant inflation since 1982.

Rodrigo:	**00:16:37**	Which brings us to the next episode, which will be how difficult it is to forecast anything. And I think it sets the table for creating a balanced portfolio to creating a globally diversified portfolio, then a balanced portfolio, then tilts. And I think this is a great launchpad.
Mike:	**00:16:54**	Avoiding narrative, taming your own bias, all things that we want to talk more deeply about in the context of the true stewardship of long term assets with long term obligations.
Rodrigo:	**00:17:06**	Let's get to it.