Jason:	**00:01:47**	Welcome everybody to *Pirates of Finance*. Glad to have the booty crew here in the comments. Welcome.
Adam:	**00:01:52**	I can see you must have mentioned it. Did you?
Rodrigo:	**00:01:5**	Pirates of Finance.
Jason:	**00:01:58**	We were joking about like what should we call like the comment section, somebody came up with Booty Crew.
Mike:	**00:02:04**	Love it.
Rodrigo:	**00:02:05**	The Booty Crew. I love it.
Adam:	**00:02:07**	Yeah. Corey's already in the chats looking to set you up Jason --
Mike:	**00:02:12**	Booty for Bounty.
Jason:	**00:02:14**	And by the way, which one of you guys came up with rationalmf.com? That was making me laugh watching the pre-roll. It's like I know you guys love that MF in there.
Adam:	**00:02:23**	I know. Wish we could take credit.
Rodrigo:	**00:02:25**	We love mutual funds.
Jason:	**00:02:27**	Yeah, that's what it stands for.
Mike:	**00:02:28**	Absolutely love mutual funds.
Adam:	**00:02:29**	Who wants to say the deal, the disclaimer, guys? Is that going to be our chief compliance officer can do?
Rodrigo:	**00:02:34**	This has got to be an especially long disclaimer with Buck here.
Mike:	**00:02:37**	Oh, yeah. Sure, sure that we have no idea of who you are and what you want to do with your life. So, please don't take any advice from us at four o'clock on YouTube, Friday. Yeah, this is not advice.
Adam:	**00:02:48**	Not advice. Yeah.
Mike:	**00:02:51**	This is not, I repeat, this is not advice. Not life advice, not investment advice.
Adam:	**00:02:55**	I told you, you've got to add the trigger warning for Buck too, right. Something we talk about might trigger you. So, be ready to mute.

Rodrigo:	**00:03:07**	I think we should definitely lead off with one of Corey's questions. Jason, what advice do you have for Chairman Powell and the way he's handling the economy right now?
Jason:	**00:03:19**	Well, let me -- I'm so glad you asked this, Corey. This was one of my favorite questions. So, if I were running the Fed right now and I was Chairman Powell, here's how I would rectify everything. Obviously, I have no clue what I'm doing. I would never want that job. And what a terrible job to have. It's like, man, I can't imagine having that job. By the way, before we start though. I want to know what you guys are drinking. Mike -- by the way, I got photos of what you guys were doing last night, so I have insider intel. So, Mike if you're drinking like tea there and coffee, I'm very disappointed. I know what you were doing last night.
Mike:	**00:03:48**	Dude, I am drinking tea. Yeah, I'm having a rough go--
Adam:	**00:03:50**	Right. You got insider information, right.
Mike:	**00:03:53**	I'm having a rough go --
Jason:	**00:03:54**	Yeah, I have photographic evidence of where you were last night.
Mike:	**00:03:58**	Yeah, I don't know how you go that.
Jason:	**00:03:59**	I come prepared.
Mike:	**00:04:01**	I don't know how you got that and I'm extremely upset that the covenant has been broken in some way shape or form and there's been leaked information.
Jason:	**00:04:10**	I haven't put it online yet. Let's just say that.
Rodrigo:	**00:04:13**	No, that's good for you brother. I'm drinking water but I'm drinking water because I am making it -- our team made it to the playoffs. Our Gaelic football team made it to the playoffs and I have to play tonight at 06:45 and then again on Sunday. So, you know, I got to keep it healthy. Even last night I was chasing every piece of alcohol with some water.
Adam:	**00:04:34**	Yeah, you were being very mature and responsible last night.
Rodrigo:	**00:04:38**	I ran home afterwards too, balancing--
Jason:	**00:04:41**	Wow. Butler, what are you drinking? Because with your guys' -- doing that background, like it goes in and out like pixilation. But there -- always beer, always beer for this guy.
Adam:	**00:04:49**	Yeah, I like beer. Sometimes it's wine. I'm too lazy to make cocktails. They're too sweet, typically too.

Mike:	**00:04:56**	I'm having a tea but it is with some you know blueberry schnapps in order to try and get recovering. You know, just something smooth …
Adam:	**00:05:02**	Tea with blueberry schnapps.
Mike:	**00:05:04**	Oh, yeah.
Adam:	**00:05:04**	Are there antioxidants from the blueberries in that? Is that the…
Mike:	**00:05:07**	That's what I'm trying to tell myself.
Jason:	**00:05:10**	It's like resveratrol. He only has to eat three tons of blueberries for it to --
Mike:	**00:05:15**	Yeah, exactly. Well, you know, it's concentrated in the schnapps.
Jason:	**00:05:19**	And now I'm even -- I hope my only goal now is to make you guys feel bad about yourself because I actually went champagne today to celebrating being on ReSolve Riffs. And, well, technically not -- technically not champagne because it's from Oregon. So, it has to be sparkling wine, but I hate the phrase sparkling wine. So, it's champagne from Oregon from Gran Moraine. Absolutely delicious sparkling. So, if you guys get out to Oregon, everybody talks about Oregon Pinot, but their white wines, but especially their champagnes, their sparkling, wines are phenomenal. They're right up there with Grower champagnes for a lot less of the price. So, like everywhere we went in Oregon on a tasting trip, I was like, you guys should be just pushing the champagnes. They are world class. It's actually shocking. And I have, actually, a decent story from when we were there. It's great. We're sitting there with the winemaker and he was like, do you guys want to -- after tasting all the different wines. He's like, "Do you guys want to go look at the vineyards or would you like to go mushroom foraging?" I'm like --
Mike:	**00:06:12**	Oh, give me some truffles, baby.
Jason:	**00:06:15**	Mushroom foraging. So, we went up in like, I can't remember if it was in the -- yeah, Cascades or the Coastal Range. We went up with the winemaker and he has all these -- his secret Chanterelle spots. So, we went foraging for Chanterelles that day instead of going to look at the vineyard after tasting champagnes and whites. It was quite the day up in Oregon.
Adam:	**00:06:34**	Oh, wow.
Rodrigo:	**00:06:34**	What were we drinking last night? Because that was fairly --
Mike:	**00:06:36**	We were in South Africa and we did a -- we started with a white that was a non-oaked Chardonnay from South Africa. And then we hit the sort of, you know, Bordeaux style-ish, you know, Cab-Franc blends from so -- I'm going to South Africa next week. So, that's why we hit the South African…

Adam:	**00:07:01**	In the spirit of that trip. Yeah.
Jason:	**00:07:03**	Mike, how did it feel to be back in Toronto?
Mike:	**00:07:07**	Actually, Toronto was quite bustling and hustling. They've done a great job at disguising the downtown. So, there's a lot of underground stores, a lot of stores that are closed, but they've done a great job of making the facade look like it blends in, like it's just more hallway. I will tell you the interesting thing, you can see how a city runs and who's there by the Starbucks, probably three out of four locations of Starbucks had closed. But I'd say four to five Tim Horton's were still open. So, the blue collar that was running the city and had to get in there, was still there. The white collar has gone away for awhile
Adam:	**00:07:49**	That's good insight.
Jason:	**00:07:50**	And just because Hoffstein is in the comments, and he's back in Massachusetts, and he even tweeted today that his six nearest coffee shops are Dunkin. So, I mean, he has no idea Tim Horton's is by far superior to Dunkin. You got to get Timbits every time. How do you not go Timbits?
Mike:	**00:08:05**	Yeah. As a Canadian, I would lose my citizenship if I didn't.
Adam:	**00:08:09**	Does anyone on this -- does anyone listening actually know what Timbits are? I mean, come on, don't you guys call them doughnut holes?
Jason:	**00:08:16**	Yeah. But there's nothing like after a grueling hockey game to just a box of Timbits and just crush those things. That's the best. By the way, shout out -- Jim Carroll, I see in the comments, dude. No, Jim. I didn't get to Knudsen Vineyards. But Jim, also known as the nicest man in FinTwit Carroll, it's great to see him in the comments. By the way, I'm just taking this over. By the way -- so, inside baseball here, but how do you guys comment on this? I can't figure out how to comment on StreamYard. How do you guys comment here? Because I know you --
Rodrigo:	**00:08:48**	I just do it over the phone. I'm like double logged in.
Jason:	**00:08:51**	Okay. Because yeah, you can't comment on this when you're on it right?
Rodrigo:	**00:08:53**	Unless you are signed in as --
Jason:	**00:08:57**	Like an admin or something?
Mike:	**00:08:59**	Administrator. I thought we actually used to be able to but whatever. Jason, so I'm a big fan of Oregon, but also Washington. But I haven't delved in the whites in those regions or the sparklings. Has Washington got the same sort of really

		good white side of the winemaking or is it a little bit less like, Oregon just owns that a bit?
Jason:	**00:09:27**	Yeah, I'm going to disappoint you as like I'm probably mainly just meant Washington reds. I haven't tasted many Washington whites. But like I said the Oregon whites, they're making champagne from, are incredible. As Amanda taught me, under every great champagne is a great still wine and this is why you want to drink your champagne in a white wine glass because you want to be able to get your schnoz in there. So, that's what I think a lot of people are missing is, you know, a great champagne is really just a great still wine with a little bit of bubbles to it.
Mike:	**00:09:55**	A little fizz.
Adam:	**00:09:56**	Fuck it, the wisdom being shared on this podcast. We need a competent host.
Jason:	**00:10:01**	Exactly. Are we supposed to like talk about anything? Or is this going to be like Corey and I's show where we just talk out of our asses for an hour?
Rodrigo:	**00:10:08**	Well, I'm glad that you took over because I am really -- I'm brain dead from last night. There was some liquidity last night, hey. By the time we were playing poker and drinking some South African wine, I had to leave a little early. But how liquid did the poker night get? It seemed like there was a lot of action.
Mike:	**00:10:28**	Well, yeah, we brought more than a bottle each. And there was nothing left and a bottle of cognac got opened. So, I think everyone did great. There was a couple …
Adam:	**00:10:43**	It was a high variance play.
Mike:	**00:10:45**	Everybody else was done. We play until one person has all the money.
Rodrigo:	**00:10:49**	When I was leaving, that's right. Like liquidity was raining on fools. Liquidity was raining on some fools, some poorly made decisions. It reminds me of something in the last couple years.
Jason:	**00:11:03**	That's why we love variance, isn't it?
Mike:	**00:11:05**	Yeah.
Jason:	**00:11:07**	Are you guys -- I mean, I just want to know not did you cry when Corey left the island, but like how much did you cry when Corey left the island?
Mike:	**00:11:14**	Oh, yeah. There was a big funeral procession.
Adam:	**00:11:16**	I'm still crying. What do you mean? It's not past tense.

Mike:	**00:11:18**	Yeah. There was a procession. We all started to leave the island as well. Travel picked up. We all left.
Rodrigo:	**00:11:25**	Yeah, it's been -- yeah, we've missed them. We missed the pickle ball tournaments that Lauren used to put together.
Mike:	**00:11:34**	Those are still going on, bro.
Rodrigo:	**00:11:35**	I know. But you know, it's not the same without them. Are you going? Are you participating?
Mike:	**00:11:40**	I have not, no. I've been away. I've been doing shit and whatever. I haven't had a chance to.
Adam:	**00:11:46**	Jason's already done this for an hour. So, what did you guys talk about today by the way? I'm curious.
Jason:	**00:11:54**	As you were texting me earlier, yeah, we never know what we're going to talk about. And now there's like, it's only become almost like inside jokes. So, like, Jack will now ask us questions that he knows we hate just to upset us to see if he can get me to go on a rant. I don't even know what we talked about. What happened? I passed out. No, I tend to black out during that stuff. You know, with lives, it's different. Like, your energy is very attuned to it. So, it's like, I can't necessarily remember -- I think I sent you the thumbnail was crazy. It was something like *are commodities the new SPAX*? So, Jack was just messing with us.
Adam:	**00:12:25**	Shall we touch on that theme at all? How did you connect the dots?
Jason:	**00:12:29**	Well, like Jack was saying, it's just like, basically, both are going down. And he's using the two week horizon on commodities. So, I think this is actually a good spot for like, is this a pullback or part of a longer bull market? Or did we roll over the top? I mean, none of us obviously know until hindsight. And then the whole thing is, like, he referenced the commodity complex, which you know, all of us hate that. Like, it's very distinct, different markets. And then what are you actually using to trade commodities? Are you just buy and hold commodities? Are you using trend following? So, we kind of like touched on all those things. But I saw Rodrigo, wasn't it yours -- like, you had a tweet where you were like -- the tweet was like, you're defending yourself against the oncoming horde. So, I guess it's incumbent on you to defend trend following right now. And maybe we can talk about like, the different markets a little bit too is like, that's the whole thing. You have such a diversity of markets, you have a lot of different trades on right now.

Contrasting the Narrative with the Reality

Rodrigo: **00:13:18**

Yeah, that's what's been interesting to watch, right? Like you have in contrasting the narrative with the reality, right? The narrative has been recently, anyway in the last six months that we're in an inflationary regime. And as you speak with advisors and allocators, they're like, "Oh, I'm fine. I don't need kind of CTA, I don't need active. I've hedged really well with energy ETFs, or a long-only commodity index, whatever. That commodity index ends up being overweight. And I'm doing just fine, right?" And so in the beginning of the year, that inflation narrative floated all the commodity votes pretty much. But what we've been seeing in the last few months is divergence, right? Dispersion between that space.

A couple of months ago, we started going short copper, short platinum, short palladium, when energies were still the dominant commodity, and recently, pretty much everything has, at least for our systems that started to roll short with the exception of energies, right? And so what is inflation right now? Like when you explain, commodities are going to help me in inflation, well, what does that mean? Because energy is still up. Everything else rolling over? Right? Copper, the PhD in Economics has been telling us that there's possibly some sort of signaling in the last four to six months.

And so it's just this what I tweeted today was the view that in the beginning, a lot of people realized that they needed to start thinking about inflation risks. In the last few months, maybe weeks, a lot of advisors have started to sell their sovereign bonds because they've been decimated, and allocated towards commodities to benefit from that hedge that they've seen in the last few months, right before that whole thing seems to have been correcting and sovereign bonds have gone up, right? Like this is always the lagging indicator, always a step behind the narrative, right? So, what is it?

Adam: **00:15:08**

And in the background, of course, you've got 99% of people who are just only looking at equities. And there's still this incredible faith and confidence in the *buy the dip* crowd. You know, it's remarkable. I mean, obviously, there's some structural flows. And speaking of structural flows, I've been seeing some numbers sort of around that there's a little over $100 billion in rebalancing flows coming out of bonds and into equities, toward the end of this month, over the next week or so. So, we can certainly credit those flows for some of the moves that we're seeing in equities and bonds here.

But you know, it's just amazing how in the short term, we can build narratives, like strategic narratives around what we're observing in market behaviors and tie it to something fundamental or economic. But in reality, it is completely dominated by just flows, by like structural flows by target date funds, or balanced funds, etc., that just are forced to rebalance on certain schedules. And obviously, end of the month, end of the quarter, there's a confluence of these overlapping schedules. So, you're going to get even larger moves. Right?

Rodrigo: **00:16:22** What are you saying? Do you have something against my copper having a PhD in economics?

Adam: **00:16:27** No, no, no, I like that. Copper is not on a rebalancing docket, right. No, but I was going somewhere that with that though, because I think there's a hope still among equity investors that the Fed can sort of navigate, slowing the economy enough to cap energy prices, to manage food and energy inflation, and sort of core inflation, without killing growth. And so you're going to have -- the equity investors still seem to believe that there can be a bid or some sort of -- we can resume the upward trend in growth stocks or in cap weighted equity indices. I think the reality is, if the Fed is going to take their foot off the gas here, then, yeah, equities might do okay for a while, but inflation estimates are going to start rising again. And then investors are going to start looking out further and be like, okay, so now, we're going to let inflation run hot for a while, which is just going to mean that we're going to have to raise rates more down the road, right.

So, this is very reflexive system going on. If they actually manage the slow growth enough to moderate energy and food prices, then the economic damage that will -- is required for that, given supply constraints in those sectors, is so large that there's no way that equities skate by without a material depreciation, right. So, if you're going to be bullish equities, you should be seriously bullish energy. If you're going to be bearish energy, you need to be even more bearish equities. Like there's no …

Mike: **00:18:16** This is sort of the exact opposite cycle from the cycle we've had over the last decade, which is one of *bad news is good news and good news is good news.*

Adam: **00:18:30** Right, that was the last decade.

Mike: **00:18:31** That's the last decade. We are in the *bizarro world* of that. There is no escaping it as well. And now we're transitioning through whatever you want to call it, the transition and beliefs, right, the Overton window or the way people are viewing things. And we're at the beginning of that cycle, we're not in the middle. We're still living in the hope of the last cycle, using the tools and the beliefs and habits of the previous cycle. And this is what's wonderful about systematic approaches is, that it's not how that works. You observe and you adjust and you refuse the narrative. But we are -- it is incredibly important, I think, when you have a regime change of this nature that you just observe what's going on and believe what you're seeing.

All news is now bad news. If we get increase in demand and we have the opportunity for growth to come back, that is what Titans is choked by, the lack of supply of the underlying commodities that we require. And thus, that's not what they're going to allow to happen. And so now if we get global growth, you're going to get more action that's negative from the Fed. You're going to get more rate increases. And so we're now caught in this feedback loop. That is precisely the opposite of the last decade. And it's tough to swallow I guess. People have to recondition their clients and investors to a new group of assets. Over to you guys.

Jason: **00:20:07** No, do you think that part of that is like they just like went through that capitulation because the academic ledger, our buddy Meb Faber always harps on that's like, usually around a negative 20% drawdown S&P is where people start to hit the panic button, at least historically. And so far, we've only seen it on like intraday or on an intra-month basis where we got like negative 23% plus on the S&P drawdown. And so like reality doesn't -- like hope, turns to fear once we start getting past negative 20%. Or you just think that's an arbitrary number, and it might need to be much deeper?

Mike: **00:20:35** No, I think it's actually the right number. But it is the secular trend and then we have the cyclical moves around that secular trend. And if we think back to 2000, it was minus seven, minus 12, minus seven. But there were huge rallies along the way. You went down 20, 22, 25, then you rallied 50. I don't know if you guys recall or remember, but back in 2000 some of the timing models that people had, they were simple, whatever, they got out of the market. But then when we had that spike back pre-one 2-2001, they got back in and then they got crushed. So, all those simple timing models are going to suffer the vagaries of being whipsawed. You do get whipsawed in these simple timing models for equities. Right? Everyone knows that.

And now we're in a position where this volatility moving back and forth is going to create some of those whipsaws. And so because the secular shift is now more down, and yes, you're going to have target date funds rebalancing, and they're going to put a cyclical spin on this. But the major trend, the major muscle movement here is in the opposite direction. And so it's going to take time, I think, Jason, for that to be realized, and the rallies that people want to do rebalancing when it rallies, it won't rally far enough, or they're going to believe, look, I was right to hold, and then they're going to get punched in the face again.

Jason: **00:22:02** Yeah. Well, it's incredibly painful. If you actually look at the granularity, like you're saying, between 2000 and 2002, I believe there's six or seven, like *dead cat bounce* rallies that were plus 20%. So, can you imagine trading through -- like, you're just going to get your face ripped off.

Adam:	**00:22:16**	I think people are not used to those types of bear markets, right, those long kind of multi-phased bear markets, like we had from 2000-2003. You know, they're used to these waterfall crashes. And anyone who's kind of trading trend/ equity type strategies. I think a lot of people have kind of calibrated models to those types of crashes and this type of market, which is kind of this multi-phased, long drawn out type of phenomenon, is just extremely disruptive for those types of models that are tuned to those waterfall crashes.
Rodrigo:	**00:22:58**	And there's also going to be something that's very different in this cycle is the difference within even the S&P 500 sectors. Right? The last 10 years has been *liquidity on - liquidity off*. There's been very little variance between the different sectors, different securities. There's been massive differences between bonds and equities, right? Because you got sovereign bonds offsetting the losses of equity. So, there's an intuition of what the market feels like. There's like a 10-year past-intuition, which is buy the dip, everything goes down, you buy whatever you can, it all goes up together. In these types of markets, where there is more differentiation, it's slow sector rotation, right? So, energy ETF is up 40% year to date. That's a stock energy ETF, right? So, there's going to be in the 70s, for example, the equities you wanted to be in where the equity markets that had the ability to flow through the increasing in prices and the sector that has the ability to do that the best is the whole commodity spectrum, the whole commodity sector. That creates opportunities for even sector rotation strategies, right? If we're trying to time the S&P, like, I don't know, there's a few providers out there just trying to time that one equity line, that's a problem. But if you're actually looking at dispersion and opportunities that used to work in the 2000 to 2010 period and certainly worked in the 70s, I think you're going to find it and you're going to see a lot more value. But we have to like, like Mike said, people need to rewire themselves. And that's the last 10 years. The addition of inflation as another dynamic, people need to rewire themselves for the last 40 years. And by people I mean, individuals, foundations, corporations and pension plans, right? What CIO today, or what percentage of CIOs today, have their lived experiences in the 70s versus being in 1981 to now?
Jason:	**00:24:57**	Zero.
Mike:	**00:24:58**	I remember the 70s.
Jason:	**00:25:00**	Yeah. Mike was born in 81. I'm not buying it, Mike.
Rodrigo:	**00:25:03**	You were in your diapers.

Mike:	**00:25:05**	No, no. I remember lining up in the car, being in the back of the car waiting for gasoline. I remember --
Jason:	**00:25:11**	But you weren't trading, to Rod's point.
Mike:	**00:25:13**	No, no, I wasn't trading. But you were aware, everywhere. I was in farming, we had a mortgage. Listen, the way you squeeze the credit cycle to its death and cause people to think about if they're going to go to dinner and a movie or pay off their mortgage, because it's 18% on your mortgage. That's how you squeeze leverage out of the system. You change your -- the behavior was so different. There was so much less debt in the system, and there was so much less overall aggregate debt, and everyone was focused on paying their debt. If you chose to consume, there was a serious cost to that consumption, because you had to -- you could pay off your mortgage, you could pay off any debt that you had. So, it was -- My wife and I grew up in a place where you went out as a family, maybe once a month. And you went out as a family to a dinner and a movie once a quarter. And you look at the consumer society we have today and the habits we got into which was, why would I ever pay off my mortgage? It's just rent. Housing always goes up, my payments always go down. Again, this is different in a 40s like experience, in the 70s like experience, this is all very different. And we try to make analogies of even 2000, 2001, 2002. Its worse probably 73, 74, 75. And now we haven't even considered the aspect, we're talking nominal. I want to talk *real*. I want to talk about real returns.
Rodrigo:	**00:26:48**	That's a good point. This is a specific -- I had a conversation with an advisor today. And he said, look I think, you know, I love what you guys are doing. This is good offset, whatever, I think the best asset right now is cash. So, we're raising cash and finding opportunities. And I said to him, listen, that's a strategy that has worked over the last roughly 40 years, because there's no downside to getting into cash when equities are going down. But there's a massive downside when you have inflation at 8%. All of a sudden, this idea that *cash is trash* has to come into the -- And he was having a hard time with it. He's like I don't understand. I have opportunities to buy at a lower price. And my answer was, well, you had opportunities to buy at an even higher price in transition to things like commodities or CTAs that are making you money. Right? That's your cash …
Jason:	**00:27:45**	Right. But if they don't do that, but if their mindset can't even wrap around that they're kind of right. Like, let's just say we knew perfectly that like 8% is eating away their cash position, but then the S&P is down 30%. Like what are they better off in, right? Having the opportunity to rebalance that cash back into that at the low NAV point. Like you're saying, in a perfect world, you would have held commodities that would give you hopefully a convex cash position in relation,

and you would have been able to buy at a better NAV point. But like, that's not how people operate.

And I'm curious, like, how you guys think about this is like the whole thing, *history doesn't repeat, it rhymes*. I mean, we use these historical analogues like Mike's bringing up like 73, 74, or even 1940s. The problem is like, it's never going to be the same as that. And I get worried that we really try to tag into these historical analogues, because it makes it feel that we understand this market. But like you were saying, Mike, even when you guys are going out maybe once a month as a family, but you also didn't have internet. So, it's like, how did …

Mike: **00:28:39** Jason, I want to just say you're absolutely right.

Jason: **00:28:46** Timestamp that.

Mike: **00:28:47** Yeah, 100%. The challenge is, so we teach or we share as human beings with story and analog. I think your caveat is incredibly important. It's probably not a caveat, it's probably the main line, right. It's, listen, this is different. This isn't the 70s. But there's some characteristics that have some structural impacts to asset prices that are similar to that. And those things you should be paying more attention to because this ain't the 2000s and the 2010s. It ain't that.

So, the problem is people are super identified and comfortable with and have an overconfidence driven by a recency bias of the experience they've had lately. And they think that's what's going to continue and they plan from the achieve level. And when you have a regime shift of some kind, it's all we can say is it's different. Here's some other times that were different. Please look at these because you need to sort of internalize that it's not going to be like it was. And so what else can we do? We're just trying to do the best we can. We can bring up Japan, we can bring up emerging markets. Go ahead.

Jason: **00:29:55** So, you're saying that *we should prepare not predict and we should be adaptive?*

Rodrigo: **00:29:59** Those words do sound familiar. I mean, look, what I want to push back, Jason, I know you like to go Turtles on us. Nothing ends up working and there's nothing that rhymes. But the reality is that there is, look, let's go back to … right. We are human beings that have built narratives and those narratives are human, end up adding up to being somewhat predictable human interactions, right, that cause and effect relationships of what we care about. Right? So, what does inflation cause human beings to do, and how they're predictably likely to act, and what asset classes are likely to make money in that environment. So, there's a few inflation/growth dynamics, liquidity dynamics, right, sentiment dynamics that we can understand are likely to be a certain thing, in any one of these regimes. Right?

So, inflation causes people to spend less money on gasoline, drive less, and what are the knock-on effects of that? If you examine that, then you know, okay, I should allocate -- I should have exposure to all these asset classes, things that will react to these things, bonds, equities, commodities, maybe some active management and long/ short, multi-asset. My issue is, that. and so this is where I get, you understand that dynamic, you have the tools in place and then we can talk a little bit about the *Cockroach Portfolio* and preparation versus prediction. But what bothers me is even if you examine just a little bit how those dynamics affect asset classes, that most investors today still don't have the asset classes in place, just in case those dynamics happen. Right? In case there is a liquidity shock, in case there is an inflation regime. We still are in this world of only believing that the dynamic that works is high growth-low growth. That's it.

Adam: **00:32:00** Yeah, I think it's not that we, and it's not just us, obviously, everybody who's sort of talks about the importance of understanding economic regimes makes similar points. The points are not, we're entering the 70s, we're entering the 40s and so you need to use the same playbook. The point is to sort of jar investors out of their trance, right, their sort of -- the lived experience leading to overconfidence in a certain type of approach, because this approach has worked well over the past five or 10 years. And just sort of just illustrate to point to examples of where the approach that they think is gospel is the only way to think about investing long-term has some major blind spots. And here are some examples of where those blind spots cause damage. But acknowledging that the current environment is not going to look like the 70s is not going to look like the 40s.

It's going to be its own environment. But it's going to be an environment that challenges the consensus view of what the appropriate kind of strategic allocation is. So, let's first start with we acknowledge that that let's say sort of typical global 60/40 goes through multi-decade periods where it underperforms cash and underperforms or delivers negative real returns. Multi-decade periods where it delivers negative real returns and acknowledging that, what are some of the tactics that we can add to our portfolios in order to give ourselves a better chance of being successful, regardless of what economic environment that we face and market environment that we face in the future, right?

Fringes

Jason: **00:33:57** Let me ask in a different way, kind of. By the way, Rod, I appreciate the Turtles all the way down. I know I'm annoying as shit. And if you want to be -- you should have seen … Adam and I's breakfast at Tilley's talking about free will. I mean, you want to talk about cringy eye rolls for three hours, like nobody would want to listen to that. Yeah, but like Mike Hartmann in the comment, said I'm still in my pajamas. And Corey is making fun of me on the last show. I literally wore my best pajama shirt and brought champagne today, just you know, out of pure respect for the ReSolve crew. So, this is where we're starting out, but I had to -- an interesting, different way. Exactly, exactly. Is what if, okay, you guys, you're talking about people need to be jarred, they need to be woken up.

Let me ask you a different way, and this might be a little bit too inside baseball. It's like you go out here with your megaphone and you do ReSolve Riffs, you do all the other content. You guys do a great job. But you're really looking to find your like-minded cohort, that believes what you believe, and that they need to prepare, not predict, and they need to be adaptive. And so all the other things that like not, for lack of a better word, complaining about that people need to be jarred, they're thinking in old mentality, they need to adjust. All of those things are actually beneficial for you and your strategies. Those are where the returns come from. So, do you really want the whole world to wake up and do what you do? Or are you trying to look for that less than maybe single digit percentage that believes what you believe? So, you're just always constantly trying to talk to your core esoteric audience, and you actually make money off of the people doing the opposite of that?

Rodrigo: **00:35:22** Let me tell you something. I tried that for 10 years. I'm ready to try a new strategy.

Adam: **00:35:28** Well, hold on, hold on, hold on, hold on, because there's two there's two points there, right.

Mike: **00:35:33** I love the start, though, let me tell you something.

Jason: **00:35:35** Yeah. Old Man River over here. He's got, you know …

Adam: **00:35:41** I think obviously, global diversification, whatever you want to sort of call that right, risk parity, or balance. I think this is a strategy that everybody can adopt, and everybody wins. You know, this is *farmer fable* stuff. So, I think that sort of basic, you can have an approximate kind of global risk parity approach that everybody adopts. And it ends up being macro efficient, right? The constitution of the global market cap weighted portfolio will change, as people sort of adopt this view. But eventually, if everybody decides that they want to take a global diversified kind of risk parity approach, the global market portfolio in aggregate will resemble a global risk parity portfolio. It's macro efficient. So, everybody can benefit from this approach at the same time.

And because what we're advocating on the sort of core strategic side is relatively stable through time. I don't think it has any -- there's no reason to expect it to have any impact on the structural edges that we arbitrage using the kind of active approaches that we utilize, either, right? I mean, yeah, sure, if everybody kumbaya's, and they say they're never going to trade, and they're only going to hold the global market portfolio, and the global market portfolio begins to resemble a global risk parity portfolio, then who are we trading against? So, that's fine. But that's not really the expectation, right?

Mike: **00:37:20** But we don't write, you don't have to trade against anybody, Adam. In a place where everyone decides that risk parity or risk is the way to allocate, everyone has their arms wrapped around this risk weighted portfolio. And people are only coming and going, they're getting the best -- they're getting the best combinations of betas. And so I think this discussion is one of, what is the beta side of the portfolio, and how that happens. And what's the adoption rate there? And what's the alpha side of the portfolio and the alpha side of this portfolio is subject to constant adaptation, it is subject to the Red Queen effect of Alice in Wonderland. You must run faster than everybody else to maintain the edge just to stand still. Right? So, this is a little bit of two conversations.

At the same time, Jason, I think that we have suffered the slings and arrows as Rod has said over the last 10 years of lack of dispersion, central bank control. The fact that trend suffered a dead decade. Listen, it's great to have that dispersion back. It's great to see these things change. And we truly want to do good. We wanted to do the good in the previous 10 years. We have hauled and I knew you have as well, the albatross of diversity, the albatross of diversifying across different types of strategies, different *thinkings*, having things like tail protections in portfolios. We've had that albatross, and it hasn't helped all that much against the pervasive benchmark. So, now that we see those opportunities expanding, yeah, we want to holler from the rooftops to try and bring money in for our selfish purposes. But it's also to help those achieve their financial goals through the next decade. And, again, we come back to, yeah, well, it's not the same. I can tell you or I think we should have at least the same degree of confidence that the next decade won't be like the 2010s either.

But what we know as a recency bias behavioral vulnerability is, people will think it's going to be much more like 2010s than any other decade. And so that's the vulnerability that we're trying to illuminate and educate on in order to bring people over to what we think is the proper way to do this. And that should have some outsized benefits going from a pendulum swinging one side to the other. But when we get to 1981, two, yeah, you might have to think about things a little differently.

Rodrigo: **00:39:46** Yeah. Well, let me just finish that thought up. There is an element of, like the Elon Musk, I will build electric cars so that others build electric cars and society benefits, right? We're not, like if we just wanted to make money and do our own thing, we would have done it independently, silently. But we are, for one reason or another, really passionate about education. And for me, at least, it really is years and years of frustration of trying to get people prepared. Knowing the social disruption that comes with retirees seeing their wealth get cut in half, while taking money out every month, right? Like, that's a devastating reality to a nation. And there is a little bit of if we build it, everybody else that's around us doing the similar things to you guys, we all do this together, we all benefit. And society benefits as a whole.

ReSolve on its own won't be able to get as many people to do the right thing for themselves as much as having, you know, the Mutiny guys and the Corey's and so on, actually rally the troops and get the word out there, get the bigger microphone, up to a certain point, right? There will be a point where if everybody's doing it, then we're going to have to start cutting you off, you're no longer invited to the podcast, ReSolve is so much better than Mutiny, and so on and so forth. But we're at least two decades.

Jason: **00:41:16** Before that, it's like I understand what you guys were saying, especially Adam was saying about -- and by that thought of a question I thought on my walk this morning for Adam. I'll get to it a little bit later. But I'm not worried about the aggregate size, like what if everybody's doing risk parity, or something like that. I was actually going in a slightly different direction that Rod you and Mike are touching on a little bit is the idea of like the obstacle in the way. Like whatever we're complaining about is actually about the opportunity set. And I think about like Starbucks, right? Like, everybody likes to shit on Starbucks. Without Starbucks, we wouldn't have all this third wave coffee around the fringes. And my point is like the cool, interesting shit is always at the fringes.

So, when you're at the fringes, to complain about the general populace, it's kind of like anathema. Like, you wouldn't have a job unless there was that bifurcation between what you do and what other people do. I think it was great when long time ago Ben Hunt was like on your podcast, and everyone knows I'm not a Ben Hunt fan. But he did talk about the idea with what you guys do, versus another firm that may have like a charismatic leader, that global macro crystal ball predictor. You won't be able to raise as much AUM because you're building an artisanal pragmatic product. And it's only for a certain amount of people around the fringes.

And so that's what I'm more getting at is this inside baseball idea of like we're never really going to have fringe products, but you need to find your audience for that fringe product. And I'm not sure it's necessarily helpful to complain about the other side, because that other side is what gives us an advantage. It gives us something to look different from. And that's what I mean, like about the obstacle is kind of the way in that sense, is like, that's what I'm saying is more from that marketing perspective, is knowing that we're different, is where you're different because the herd is going in one way, and you're trying to go in a different way. But that will always be at the fringes of society. And then the people that really like to look for the fringes of society, you end up probably building a stronger, more esoteric group. That is because they do feel different from everybody else around them.

Mike: **00:43:03** So, Jason, could I ask you a question on that just to -- do you constantly live in the fringe? Or like John Bogle when indexing was the fringe in 1970 and 80, and he propagated this idea, but it then became the herd? Is that the goal? Do you want to sort of have the fringe that becomes the herd? Or do you want to just sort of stay perpetually in the fringe? What's the outcome there? I mean --

Jason: **00:43:31** Well, I think as we know, this business is filled with an enormous amount of money. So, even the tiddlywinks or bread crumbs are more than enough for all of us to live off of on the fringes. And I think Bogle, the difference I think with that example of Bogle is he didn't necessarily have an opinion, right? Like he just created a product or a strategy. Like, we always talking about, like, everybody will talk about different options strategies, but you're putting on a structure, you're not actually trading a strategy. So, Bogle more created a structure, he didn't necessarily create a strategy. And that's why it gained a lot of popularity. But think about it … I mean, it's a momentum strategy in that -- Yeah.

Mike: **00:44:07** Help me understand that premise a little bit, because the structure I do get, because he did have a unique structure. But that structure was based on using a market cap weighted weighting scheme for the portfolio, which has a momentum component, we agree. But that was pretty unique back then. I mean, that was a fringe idea, and a fringe structure that became mainstream. No?

Jason: **00:44:29** I agree with you. But it was like the constraints and the choices they made were not necessarily a strategy. It's like just figuring out what would work to create those index funds. But part of it too, is that as we talked about history doesn't repeat, it rhymes. It's like, those are totally different times. Right? We're in a much more advanced structure for where people can allocate their assets. So, yeah, I hope you guys are -- I hope you guys become Vanguard, but I'm just saying it doesn't, in my mind, it doesn't -- help any of us to think about it that way. Like I'll say it another way is like I always talk about too like long-vol managers, right, is like, you're never ever going to be a hero. You need to have much more like intrinsic motivation than extrinsic, in the sense that like when the good times are rolling, you're just bleeding out and everybody hates you. Right? Then the sell-off happens, let's say you have a convex return, everybody treats you like an ATM and nobody says thank you.

So, now you're just losing AUM, because you did your job, right? So, you're like, okay, great. I get no pats on the back either. So, great, you come home to your spouse or significant other, and you're like, look what I did today. And they don't give a shit either. Because your spouse or significant other that's going to be in a relationship with a long-volatility person already knows you're a weirdo. And they're like, great, you did your job. So, you literally like, there's no applause, there's no ticker tape parade, like you better learn to take a craftsman's perspective, of like this is an artisanal product. And I take joy in what I do on a minute by minute basis, because there is no parade here.

Rodrigo: **00:45:52** We just lost like 30% of long-vol managers in our chat.

Adam: **00:45:56** I don't think there's -- I don't think there's a dichotomy here, mate. I don't think so. I think there's a core that everybody can adopt and everybody benefits from, and there's an explorer that is zero sum, and that we don't -- I'm delighted that very, very few people adopt our approach to harvesting active edges. But I am also all for everybody taking a much broader view of diversification and building a more comprehensive, resilient, diversified core for their portfolio, right? So, instead of a core explorer framework, the core is good for everyone. And the explorer is the fringe, right? Like, it's absurd. Bogle was too successful. He convinced everybody that this bullshit 60/40 portfolio is the only thing that everyone needs to own forever.

And he also was extremely home biased; he almost never advocated for global diversification. Right? He was extremely US centric. So, Bogle was exposed, was too successful. He persuaded people of this view, which ex-post happened to be right. There was hundreds of Bogle's back in the 70s, who had a very strong view about the optimal long-term portfolio. They all had made a lot of sense. Harry Brown was out in the 80s, as we both discussed, had a very compelling story and a really good portfolio. And we're not singing Harry Brown's praises the way that we sing Vanguard's praises because just ex-post, Bogle happened to be right. Right? Buffett was born in the US, so he looks like a genius. If he was born in Japan, we would never know Warren Buffett. He could have outperformed the Nikkei by 8% a year and still have been down for 30 years. Right? So, there's a lot of approaches to the market. Some of them have -- they gained adoption, and they end up being correct ex-post. It doesn't mean they were ever the smartest approach. It just means that that happened to be the way that the world evolved.

Jason: **00:48:12** But in the narrow constraints that I defined this, so that way I can try to win the argument because I'm using the constraints I'm defining is like you guys, the defense is you is that you guys started this conversation of like, how do we wake up people from their somnambulance? And like Rodrigo saying is like, I don't want to do that job anymore. And my point is like, you can't convert anybody. And you guys know this. So, it's like, who cares what everybody else does. You're just trying to find the people that agree with you. So, like, what are we talking about here?

Rodrigo:	**00:48:38**	Well, okay, hold on a second. No. I think there's -- this is not a binary decision here. Right. We've talked about this before, I think Mike's talked about in the past, Adam's talked about in different podcasts, this idea that yes, indeed, people don't make thoughtful introspection observations about the market and then make a smart plan that they execute on. Its crisis, necessity, change, right. And during that crisis, Adam's used this analogy before that, when he had moments of growth was when he was an empty vessel ready to receive. Right? And you search, something terrible happened. A crisis happened in his …
Jason:	**00:49:15**	Sorry. Was he open for growth or he was at such a trough of life that anything would pulled them out of that trough? So, you're overlaying what happened with just peaks and troughs? Right.
Rodrigo:	**00:49:27**	Again, with the Turtles. This is a smart man. He only found a better improvement, a much better approach through thoughtful introspection at that point. But there is a transition moment, right. And there's moments where nobody's in transition, or very few people are in transition, because everything that they've been fed for 40 years has been working, right. And so, the idea of education is you're always trying to catch as many people in the transition. That empty vessel willing to change, that horse was going to the water to drink in order to maximize getting them to take the red pill, that seems to be most congruent with their long-term goals, right? Not get caught up in NFT's but rather get caught up in, we don't know a lot about the future, let's be diversified in growth, right? Right now, today, we are going through a major structural transition in markets that is creating an opportunity for more vessels being emptied and more people looking for information. And we together, need to have the biggest microphone to get these people not to blow themselves up in the next hot thing, right? And so I think there's an opportunity here to not just find your people, but rather aim that microphone at a lost group of individuals that are looking for guidance. And we're in a great spot right now to do that. And we're seeing that.
Adam:	**00:50:47**	Nobody goes to God on prom night. Right? The last 10 years have been a series of prom nights. So, now we've got some reality, kicking in. These are normal markets, the last 10 years are the outlier. So, get used to normal markets again. And just that realization alone, I think can have an enormous impact on people's thinking about their future and how they should approach this long-term wealth problem.
Rodrigo:	**00:51:22**	Nomadic Samuel was, sorry, last thing, right, like, he went from being a very different person four months ago. And then starting to pull on a string getting all the way to risk parity and cockroach and all this stuff. Like, he really would like, filled his vessel with something fairly unique. That was not my person six months ago, right. Half of the advisors I'm talking to today were not my people

six months ago. Their personalities weren't the technically oriented men that we have, that we tend to attract in a lot of these, our internal discussions. These are people that are all walks of life that are now realizing that we have something in common, we need to survive this, we need to thrive. How do I do that? Now we have an opportunity.

Jason: **00:52:08** Even using Nomadic Samuel, and by the way, shout out to Sam is like, that's exactly what I'm saying is like we're all just yelling to the wind. And then we're just trying to find our tribe. And this relates by the way, I was smiling too, Rod, because we both had recent additions on Nomadic Samuels podcast. And he texted me the other day that my read time's longer than yours. And I was like, yes, my only life goal is to bury Rodrigo.

Rodrigo: **00:52:30** Did you beat me? He didn't share that with me. I'm really upset. I thought it would last at least a year.

Mike: **00:52:37** That's funny. I have a few thoughts on some of these topics. One is, okay, so uncommon results are going to come -- are not going to come from sort of common approaches. So, if you would like to sit with the herd and you're comfortable with the herd, then that's -- the herd's zeitgeist is going to change and your mindset is going to change, but it's going to change within the herd. And you're going to be very comfortable because you're both profiting and suffering from all of your brethren and we know the behavioral bias that comes with that. I come back to when you're educating people, yes, we're on this microphone talking about things. And today and today's tribe and today's receptive audience that might join our tribe changes. And so I look at it as -- we talk about this all the time. It's like a conveyor belt. There's a whole bunch of people that are moving through time, they're growing older, their preferences are changing. And here we are as well, speaking and talking to that group.

And as Rodrigo was mentioning, there's these different levels of receptivity to certain things that we're offering. And so yes, I think you're right, Jason. We are on that track, we are doing those things. And the receptivity of the tribe as a whole is going to ebb and flow. What I want to come back to, philosophically being different, is really hard and painful. So, your long-vol manager, right? That person has a certain personality that can't function unless life is like that. That for them is their nirvana. And they're trying to find others in their tribe that are similar in that vein, so my fear is, for me anyway, because one of my superpowers, is irreverence. I can stand by my fucking self with an opinion that is totally different than everybody else's, and be slung, whipped, and I will refuse to change my mind. So, it's good at some points …

Adam: **00:54:41** Endorse.

Mike:	**00:54:42**	-- and it's not good at other points. Let me just finish because the final point is, so for people who are at the fringe and become more in the middle or receive adoption through whatever means that's changing the zeitgeist; can you change? Can you become the one who sits on the fringe to someone sitting in the middle? Or will you get there and say, I got to start a new business that's more on the fringe again because I'm uncomfortable that everyone's doing what I'm doing?
Rodrigo:	**00:55:11**	Well, this is -- see, I have thought about this, right? Are we zealots? Are we just as zealot as the NFT guys or the gold bugs, right? Aren't we all that? And my answer to that is no. We are the centrists, okay. That's the reality here. We are the --
Jason:	**00:55:32**	But you're a zealot centrist, though.
Rodrigo:	**00:55:35**	But see, no, right there is an answer here. There is a better approach that we have thoughtful empirical financial evidence to show that this is, for the goals that the vast majority of the population requires, this is a better approach, categorically better. Because ensembles, diversification, the explicit recognition of our ignorance, understanding human motivations that will allow for that diversification, when you move away from that, is when you start becoming more and more a zealot. So, Mike, to your point, when everybody does what we're doing, will I want to go and do something very different just because, not me. I have, like, remember where I came from, why I decided to go in this space and be diversified and be terrified of an equity line that wasn't kind of slow, low volatility and upward sloping. It was because of what had happened to my family and their wealth over and over again, right? So, there is a, I think there is a truth. I think I am not a zealot. I think I am, and what we are offering is the middle line here.
Mike:	**00:56:40**	Says every zealot.
Jason:	**00:56:43**	I was about to say the lady doth protest too much.
Rodrigo:	**00:56:44**	I don't want the whole population doing this. I'm not -- that's not my personality. I'm not going to be like, screw these guys. Now I'm going to go and do, I don't know, long-volatility investing because I want to feel the pain of exclusion. For Christ's sake, guys.
Mike:	**00:56:56**	What do you mean pain of exclusion?
Jason:	**00:56:58**	Yeah. This ties into the question in the comments about like, yeah, Jordan said, why don't I like Ben Hunt, and I just want to clarify that real quick. And this relates to what we're saying, like, I don't dislike Ben Hunt. There's always option C. I can't stand people -- like or dislike. I'm like, I'm ambivalent to Ben Hunt in

the sense that like, that's just not my particular brand and narrative, right? Narratives about narratives. And a meta narrative is like, it's not my fight club. I just don't care. And so like, but at the end of the day, like you're saying, we all have narratives, right? And to have a narrative, you're essentially a zealot. And you're saying that you even started using words like we have evidence, we have proof, like all these things.

Where here's my question for you is like, almost the opposite sense. Like, you're talking about things like we're here almost like way Silicon Valley does. It's like, we're here to save the world or improve the world. Like, are you really because there's a lot of like elitism and … to like, waiting for the come up instead of the 60/40 crowd, because you're going to step in and crush their dreams. So, I worry about that, or more importantly, to make a specific point on it, I know how you guys construct a portfolio. So, like, let's address like, what if you're wrong? Like if we're all saying there's this fourth turning and all this stuff's going on, and we're about to experience the 70s or 40s style inflation, like what if you're wrong?

Rodrigo: 00:58:02 Okay. Well, what if we are wrong about inflation, you tell me what happens to the way we constructed the portfolio?

Jason: 00:58:08 No, that's what I'm letting you -- there was a softball.

Rodrigo: 00:58:11 Oh, you're teeing me up. Here's what I want to do. I was ready to go. Adam, are … been frozen for about half an hour, because I do want …

Adam: 00:58:22 Am I actually frozen? Or am I just being still?

Jason: 00:58:24 You've been frozen on and off the whole time.

Rodrigo: 00:58:27 But we can hear you. I actually … to answer Jason's question is yes, if we're wrong, the point is that, something else within the portfolio will benefit from; if there's low inflation, then we're going to have the opportunity to make money in bonds or make money in certain equities and be able to go long and short all the futures contracts that we trade. But with that said, right, so that's what I mean, by being the centrist, being the middle line, not taking solitary in any single asset class, in any direction. But to address the question of isn't everybody a zealot in their own realm of expertise. I remember you wrote Adam, a piece with Michael …

Adam: 00:59:06 I responded to him, yeah.

Rodrigo: 00:59:07 You responded to a debate that you were having, about empirical finances BS. The only thing you can do is buy and hold or something like that, because it's all *fugazi* , right? Turtles, Turtles, Turtles. So, tell me if you recall, tell me a little bit about what your response to that was; to that view, that there's nothing that we can do?

Adam: **00:59:31** Well, I think -- yeah, I mean, you either adopt a completely nihilist perspective and say that I have no control, I have no free will -- I mean, Jason and I can, and all of us, God, Jesus, all of us can, jam on that for a very long time.

Jason: **00:59:50** Can we make nihilism great again? How did nihilism become a pejorative?

Adam: **00:59:57** So, we need that, MNGA, yeah, MNGA. MNGA, make nihilism great again. But I think we sort of have to act as if we have free will, we have decisions to make, right? Like not deciding on a portfolio allocation is an allocation, right, because your money sits in the bank, or your money sits under the mattress. So, we all are required to act. That was my point. So, if you're going to act, then act in a way that is consistent with both some sort of comprehensive framework for how markets should operate, and how they should operate in response to the underlying economies, or economic variables. And when the theory or some sort of generalizable framework doesn't give you enough information to make a good decision, then you have to sort of lean on the data. And yeah, if you lean too heavily on the data, then you've got sample bias, right?

We talk all the time about how many people use historical US equity returns and bond returns for the Monte Carlo models, for retirement planning, etc. And how that is like, that's the lamppost problem. Because that data is available so readily and it has such a long history, everybody uses it, right? But it's kind of like the drunk looking for their keys and a guy stumbles by the drunk by the lamppost, and it's dark. And the guy's like, what's going on? The drunk's like, "I lost my keys." And he, the passerby, says, "Well, did you lose them here by the lamp?" And the drunk says, "No, but this is where the light is." Right? It's exactly the same thing for US stock and bond historical returns. So, you're using these long term data for your simulations and to draw conclusions.

But you're not realizing that this is one sample. And that if you were to use a much broader global sample, that there are countries in the world that have -- where their stock markets and bond markets have been completely wiped out. That the global sample has very different distribution properties than the US sample, right? But once you sort of recognize, I need to use data to help me make this, to guide this decision, of course, you need to like, use as much data as possible, be as thoughtful as possible about the biases embedded in that data. But eventually, you need to be guided by the data. Because what else are you going to use? You're going to throw darts?

Jason: **01:02:42** I'm getting so excited. I'm getting so excited. Yes, please. So, all right, let's just start talking about this … when you're talking about data is like, let's take the last 100 years and more importantly, the last 140 years since the advent of the

		industrial revolution. We went from one billion people in the workforce to roughly 5 billion people in the workforce. Are we likely to see that over the next few centuries? Absolutely not. So, everybody goes, I want a long dataset. So, they show you 100 years of returns. And we pick apart that data and we try to create a portfolio around that data when that is literally one data point. And so hold on, let me finish. Let me finish. It's no data in there.
		So, two reasons. I think this is the difference is maybe the -- we all violently agree, let's be honest. But like this slight nuance is like, to me, it's like, I want to build the world's least shitty portfolio. I don't need data to do that. If I hold all the world's asset classes, and I rebalance frequently, I'm going to hopefully do less shitty than everybody else over the long term. And yes, even rebalancing, a choice, and maybe there's data to that to shout out to Corey with rebalancing luck.
Rodrigo:	**01:03:41**	Just be careful. I thought you were going to say rebalancing premium. Let's not trigger rebalancing premium, please.
Jason:	**01:03:44**	But part of that like, and to be very -- to put a specific point on it, this was that the question I was thinking about for Adam on my walk this morning. There's nothing I hate more than somebody that comes on stage at like one of these financial conferences, and all they talk about is CPI. The basket's a piece of shit, like there's no way to trust CPI. And then the next thing they start talking about is real rates. And I'm like, wait, what did you subtract from? You subtract from the CPI. Right, right. And then so as, you know, is like, in this conversation, we're talking inflation is like 70s, is like 40s. And people will back test CPI for 100 years. But as you know, the basket for CPI has changed dramatically every decade of what we use for inputs. So, if that's your --
Adam:	**01:04:24**	Not just to the basket, but to the calculation methodology.
Jason:	**01:04:27**	Right. If that's your data set for inflation, like, what are we talking about?
Adam:	**01:04:32**	Yeah, no, I agree. And so I again, right, of course, we all violently agree, right? But just to sort of reinforce, the idea behind our, the global risk parity core philosophy is let's not rely on historical data. Let's lean into a framework for portfolio resiliency.
Jason:	**01:04:56**	Better than relying on historical correlations, though?
Adam:	**01:05:00**	No, not if you're dynamically adjusting.
Jason:	**01:05:04**	The dynamic adjusting is using a back, a reverse-looking measure for adjusting your correlation. So, that is using a data set and like that is using data to figure out how you're going to adjust correlation. So, it is a choice.

Adam: **01:05:18** No, but it's contemporaneous, though, right? I mean, yeah, for sure, you've got to sort of make some assumptions about the fact that the correlation of the covariance structure is going to be persisted for some time. That the recent past or the long term average past or whatever, look back, you're going to use for portfolio construction is representative. But there's also steps that you can take that any sensible quant will take to say, well, we don't want to just take the exact raw sample covariance, right? We want to shrink that or make adjustments or whatever to it, to acknowledge the fact that the sample is not the population, that there's potential liquidity events or other types of situations waiting in the wings, that could cause correlations to move in a very different way than what is revealed from the historical sample.

Absolutely, the idea here is, look, the empirical observed reality is not the territory, right? It's the map. But since we don't have any other guide to rely on, and we have decisions to make, this is the least bad decision. It's the decision that has the least amount of bias. There's no way to eliminate bias. But this is the decision that eliminates the most bias. We're still making assumptions, but it's the least number.

Rodrigo: **01:06:57** As my father used to say, *operations research* was his master's degree. And he said, operations research is a statistical approach that allows you to answer questions poorly that would otherwise be answered even worse. Right? That's what this is all about. And I do reject the fact that it's all based on data, and that we hope that correlations continue. There's, again, going back to human motivations. And if we go back to redacted or absurd, and let's assume that every single asset class just becomes the same thing and they move up and down together. What would have to happen for every single asset class that goes from moving up and down together in the identical way to stop moving up and down together? What motivations in different sectors in different economies would then force an asset class to deviate and why? Why is gold different than stocks? Why are stocks different than sovereign bonds and so on? So, there is an underlying first principles. I know you love that word, Jason, *first principles reality.*

What is first principles? Is first principles, really real? Yes, actually. But we have to anchor to some sort of lived experience reality, understanding how human beings work, and then based on that, you can create a model, right, that is poorly answered, but better than most. And I also, I was listening to Ricky Gervais be interviewed by Stephen Colbert, and one of his questions was, how do you know that the Bible isn't real or that God isn't real? And he's like, let's just do this, okay. This is why I lean on science. I lean on science, because if we were to erase the memories of every human being on the planet, and we had -- we're all going to do it. We're all humans, we're going to rewrite those books, right? We're going to rewrite the Quran, we're going to rewrite the Bible, those books will be different, vastly different than the ones that we have written thus far. But the observed reality of our existence via science, the materials reality, how the world works, we'll come to the exact same answers, right?

And so drawing the parallelism to zealotry in the world of finance, we see a lot of people make a lot of money making predictions about the second coming of the NFTs, or the second coming of gold. Right? That's zealotry. That's a story, that's a narrative based on very little observable evidence, versus what we're trying to accomplish with this using scientific method, first principle thinking, creating a framework by which, if our memories got erased, and we came back at it again, the zealot narrative of any asset class will be different, but the scientific method that we've taken to come up with our conclusions of portfolio construction will likely all converge again, right? That's the difference. That's why you can lean on science.

Adam: **01:09:46** You just dog whistled Jason on three different topics.

Jason: **01:09:50** Yeah. So, it's like -- but yeah, if you say first principles for a third time I am going to -- my head's going to explode. But I want to point out some specific. I mean, you guys know your Kuhn and Popper that like, there's only two types of scientific theories. One's that have been disproven and ones yet to be disproven. And I know Mike and I are 20 years older than both of you guys. But we've all seen a lot of shit happen that we didn't expect to happen, right? Everything we thought was a foundational first principle bedrock of investing has gone the opposite way than we thought it went.

But also like, I'm just curious, like, I wanted to get back to my question for Adam is like, I'm curious, like, when you guys run, like you guys have done these great charts for 100 years, that quite frankly I love, that show what are real returns. But I'm curious to like how you settle it in your mind of figuring out what that inflation rate as that inflation basket changes for the last 100 years, and how appropriate is that to figure out real returns? I'm not saying there's anything wrong with it. I'm just saying like, I'm wondering, how you start thinking through that when you guys are building charts like that?

Adam: **01:10:47** No, I mean, I think look, really, the reality is everything is illustrative. Right? Like, yes, of course, we don't have …

Jason: **01:10:55** Intuition pumps. Yeah.

Adam: **01:10:57** Yeah, yeah. Yeah. Yeah. Like, we're not making any sort of precise claims about exactly what the real returns have been, or exactly what inflation looked like, or even what asset prices look like. There's been revisionist history in asset prices too. So, there's -- the point of charts and papers and statements like that are again to sort of jar people out of their -- the reverie, that they get hypnotized by the shit in the Wall Street Journal, and Barron's and CNBC, etc. And just to sort of point out, you're living in a dream state, right, or like, you're living in a dream state that differs from reality by more than the dream state that I'm pitching, right? Like, they're all filtered through our perceptual faculties. And they're -- none of it, it's all map. There's no territory, but the map that I've got is a more -- is closer to reality than the map that you're operating on.

And I don't want to say that there's a hill over there and you need to go take it, but there are hills. There's no hills on your map. There's hills on my map, right? And so some -- you should be prepared to take hills from time to time. Right. That's basically the -- it's almost like meta zealotry. Right? It's not zealotry about any particular view about how markets should operate, and more a meta zealotry on*, I don't have strong views on how markets operate, so I want to spread my bets to the greatest extent possible.*

Jason: **01:12:57** Yeah, it's like a *via negativa zealotry*. And I think -- I've talked to all you guys individually about this. But what I'm bringing up, like more specifically is like, because I struggle with this all the time. So, I'm really, at the end of day, I'm talking about the voices inside my own head. But it's like when -- you only have like an hour to talk to a potential client, right? You're going to simplify all of the things we all talk about, that we thought about when constructing portfolios, the way we look at back-tests, all of those things. And the hard part I find in my own mind is like you said, if -- I keep using this example, if you do 100-year back test, and you're overlaying real returns, because you're using CPI, and you go to put that out, I know in the back of your head, in all your guys' heads, there's like, well, that's not exactly right. You know, there's a caveat and nuance there.

But if we started talking about caveats and nuance, we start pulling on those threads, we're going to be here for three days trying to talk to clients. And to me, it's a conundrum that I'm trying to illuminate just my own stressors about like trying to simplify, so you get your point across to that potential client versus accuracy of what you know, is even falsifiable about the information you're currently saying. So, you have this like dichotomy inside your own mind where the voices are yelling at each other, while you're just trying to simplify and get your point across. But then you know that it's not quite that simple.

Adam: **01:14:06** Yeah, but there's dissonance everywhere. And I mean, the reality is, most clients don't -- they're not interested. They don't want to dig into the details. Some do. They're our clients, right? Like, our clients tend to be those people that like to read research, watch videos, read white papers, etc, right, but most people just don't. And then like at a more abstract level, I think most people have a really hard time grasping concepts like, what we've lived is one history, one timeline, out of a multitude of potential timelines. History could have gone very, very differently based on a very small number of what might seem like extremely minor changes to dynamics along the way, right? And so we shouldn't think that we can learn more from history, the history that actually manifested, than we actually can, right? Because there's just so much randomness in all of these outcomes, right?

But most people are uncomfortable with that. They haven't spent a lot of time thinking about it, and sort of trying to inject conversations with that level of sort of historical humility or understanding of the stochastic nature of life of the universe, is usually counterproductive to people making decisions, right? And the more we have -- the more we try to go down those rabbit holes, the less likely people are to make decisions that are in their best interest.

Rodrigo: **01:15:50** That's right. I mean, with Adam, it's like, the amount of caveats. You know, he makes a statement, and he's like, well, let me, unless -- just let me back up for a second because I can see a few scenarios by which this doesn't happen. And so half an hour goes by, and you still haven't gotten the answer from him, right? So, over the last 10 years, we've coached Adam to stop being so precise and more be broadly correct, right? Especially when you're communicating for the first time with somebody that requires your help. I mean, this is where the fiduciary discussion comes in, right? If you're an advisor, and clients are coming to you, and this is the behavioral side, where you have to talk about Mike's S*kis and Bikes*, right?

That analogy is broadly correct. But it also misses many of the points that we want to get to, right? But it's enough, it's enough to get them to be -- to say yes. And you as a fiduciary have the responsibility to do the right things that require the minutia and the deep understanding. But you've made them move in the right direction. And if they're interested, they'll go to the next level and the next level, and that's what one hopes over time, right?

Jason: **01:16:52** Wait, wait. Did Mike come up with *Skis and Bikes*?

Rodrigo: **01:16:54** Mike did, I think.

Jason: **01:16:55** I'm just learning this right now, Mike. Rodrigo's always taken credit for that, in my mind, whenever I bring that up …

Rodrigo: **01:17:02** You have given me credit and I've said nothing about it.

Jason: **01:17:05** He didn't refute it. *Skis and Bikes* is one of my favorite papers of all time, because it says exactly what we're talking about very simply. Like, what if you're wrong, right? And that's the beauty of skis and bikes is proper diversification.

Rodrigo: **01:17:18** But note that that also comes from a first principles perspective, right? Like if you say to a person from an intuitive perspective, do you want to ski company

		or do you want a bike company? They'll say, well, both obviously. Why, obviously? Because there's fundamental reasons why you want to have cash flows both in the summer and the winter, right? It's just a beautiful, super simple …
Adam:	**01:17:43**	There's Rodrigo diminishing Mike's wisdom and insight there. Anybody could come up with this trivial metaphor that so perfectly captures the value of diversification and rebalancing. Yeah.
Jason:	**01:17:59**	I've got a couple other questions for you guys. One is I wanted to bring up because we're -- actually …
Rodrigo:	**01:18:02**	Who's interviewing who here?
Mike:	**01:18:04**	I do like the questions, but I do want to make sure we get a chance to talk about some of the stuff that you're doing too, Jason.
Jason:	**01:18:11**	Who gives a shit about what I do. I've alienated any potential customer with this call anyway, with this shit. But I want to go -- because this agnosticism, I think we all have a deep love for maybe like commodity-trend following because of the Gnosticism of like that kind of strategy. And I was just like kind of pulling up positions today. It's been interesting, like you guys are seeing, we're still like a lot of long-energy, but I don't know about you guys, like how many different bunches of look-backs you run. But it's interesting to see that, to me, like the shorter timeframes are starting to take profits on that long-energy position. I mean, they're short bonds everywhere. You know, metals are flat, grains are mixed, because that's the beauty of all this diversification. But what I'm wondering and what I thought was curious, and this is what's great about trend following is like, your rational mind sometimes can't comprehend a lot of the positions. It's like, I'm seeing things like long FTSE and Hang Seng, which I have no idea why that's just curious, right? But then there's things like long Brazilian real and long Mexican peso. So you go, oh, maybe that's a commodity play. But at the same time, we've seen short CAD and no position on the Aussie dollar. So, it's like what the fuck? But that's kind of the joy of watching a trend following program.
Rodrigo:	**01:19:19**	Well, it doesn't require …
Adam:	**01:19:20**	I mean, dream of those types of dynamics in your trend following portfolio rightly. The worst times in trend following is when all of your positions are on the same side of the trampoline, right? You've got your energies on, you've got your coppers on, your long-vol commodity currencies, your short bonds yours,

your short long duration equities, right? Those are terrifying periods because if any sort of corrective action, you're going to be severely punished. But the great thing about, and I do think that a lot of kind of pure trend strategies are still a little bit heavily concentrated on the inflation trade at the moment.

Certainly, I mean, our largest position, I think, is short -copper, and has been for a couple of weeks. Yeah, maybe three or four weeks, which is definitely a difference from and, by the way, when I say our large -- that's like, for our active sleeves, right, not for the core sleeves. So, I love it when you've got a situation where you've got one commodity currency your long, one commodity currency your short. You got a couple of long-energies, a couple of short-energies. Or you're long energies or you're short metals, that like this type of balance, I think, is where you can more easily sleep at night as an active manager, because again, you've got sort of diversity of bets.

But I want to come back to what you said. You keep saying commodity-trend. What the fuck is commodity-trend? Okay, that's not a thing. Okay, these diversified trend following, there's no -- what is, right? You need to trade all of the commodities, equity indices, bond indices, my fucking dog whistle, right. So, there's no such thing as commodity-trend. It's just like diversified global trend following?

Jason: 01:21:17

Yeah. I think -- well, I just use it because of CTA, and then because of …, but also, like you said, like, yeah, we try to find managers that trade at least 40% commodities, but as you know, that can be across the board. But like, I've always argued, you actually, like you said, you want rates, you want FX, you want the indices, you want bonds, because like all of those things, like the short bond position right now is crushing it and everybody didn't think they can make money on short bonds. So, yeah, I'm in complete agreement with you. But like the worst part is like, what you're hinting at is like, what is ETA? Is it trend following? Is the commodity-trend following? Is it managed futures? Is it crisis alpha? They have a terrible naming convention, terrible about marketing that general product, and that's kind of always the problem.

Rodrigo: 01:21:59

And also the fact that you talk about futures and everybody's like, yeah, that trend factor. Why? It's such a weird universe to have been given. You say, managed futures, CTA, whatever you wanted, it's always trend. And I tweeted today, it's like the equivalent of saying, oh, you invest in the S&P 500, or your value manager, right? You invested in those stocks and that pool of stocks, you must be value. No, there's growth managers, there's quality, there's a wide variety of styles. And the same applies in the futures space. And we got to find -- I either want to take back managed futures, and remind people that everybody's definitely, when they talk about the dispersion and CTA trend, it's because they're not all trend.

Like we barely have, like we have a trend, a large portion of trend, seasonality, we have you know carry, mean reversion, relative value, right, vol. Like it's a lot -- these are different styles. And why do we pigeonhole every managed futures manager to being a trend manager, when what you actually want is continue to expand that diversification away from a single trend manager, which for 10 years has been, like a lot of pain, right? Not necessarily losing a lot of money, but it's been like, low single digits. Right? So –

Jason: **01:23:18** Yeah, but come on, if you return stack that 2% *kegger.*

Rodrigo: **01:23:21** I know that's why I had to stop myself.

Jason: **01:23:23** There's always a caveat.

Rodrigo: **01:23:25** … that 2%. What about return stacking eight, though, right? Because you diversified away from trend. Just you know, people need to wake up to the fact that there's many different ways to skin the managed futures cat, and I'm taking managed futures back. Ask me what type of managed futures manager I am, rather than, "Oh, yeah, how's trend on this decade?" That's what I'm after these days.

Jason: **01:23:46** Well, this is great for you guys that all you guys put on your tinfoil hats or your salad bowls and figure out like, what -- how would you change the marketing of that entire industry and we can all go after that together. But like, I think it's the convention is that the majority are trend followers. And so that's why it always gets labeled that way. But like you said, futures is just an asset class. It's not a strategy, and it's not even just an asset class. There's millions of instruments underneath there. And I think, Adam, what's your quote that there's at least 17 uncorrelated return streams in futures, is that right?

Adam: **01:24:15** Yeah. I mean, it depends on -- yeah. Yeah, certainly over the very long term, on average, there's kind of 13-14 …

Mike: **01:24:21** Well, to be fair, futures is just a construction of a certain vehicle that represents an underlying. Like, it's sort of like the ETF, if we're going to put it -- go backwards a little bit. It's just an instrument.

Adam: **01:24:34** Yeah, it's a structure, it's not a …

Mike: **01:24:36** It's a structure. It's not really anything. It can represent many things, rates.

Jason: **01:24:41** And this -- I was asking about *time tranching* because I'm curious, like, I've had arguments on Twitter about a lot of trend followers will argue that they're almost like a long gamma position, or I hate when people break everything down to options, like they're replicating a straddle. It's like maybe in the 1970s when they'd add to positions, but the way maybe you can do it now is by time tranching. If you have short term, medium term, long term look backs, and you're slowly adding to that position, maybe that's a way of getting more of that long gamma convexity out of that position as you're adding to it over time as the different traunching of look-backs kick in. I'm just curious of what your guys' take on that is?

Adam: 01:25:14 Yeah. I mean, I don't think that -- I think for you to really get -- expect positive gamma from trend strategies, then you have to simultaneously expect that whenever you enter a position, the vol of that position is expanding. So, you know, which is demonstrably true in some instruments at certain times. But we certainly can't make that as a generalizable statement. So, I mean, I think it's -- the returns are the best…

Mike: 01:25:48 The return has to be right too though, because at the turn, trend following sucks.

Adam: 01:25:55 For sure, for sure.

Mike: 01:25:57 And the effect of the return is related to that -- the expansion of return going the wrong way on you.

Jason: 01:26:04 Well, that's exactly what that ridiculous thumbnail we had for our show today was like, *are commodities the new stocks,* because like you're saying, like, they're what's interesting is like, the deeper you are in that trade, the more profits you have on paper, it almost becomes a left tail or left skewed trade, which is the irony is like you put on the trade, it's right skewed, and hopefully comebacks, and it has a little bit of a gamma component to it. But the more profits you make, the more that becomes a left skew trade. But that's the rub of trading trend following you know. So, it's always an interesting dichotomy to me, is like, it's just -- nothing's ever -- once again, there's nuance, right? Nuance or Turtles all the way down, Rod? Turtles all the way down.

Rodrigo: 01:26:42 Yeah. So, let's shift a little bit because I want to get -- I've actually been meaning to ask you about volatility and volatility managers, specifically this year, because -- let's talk about the narrative. The narrative has been, we had a big vol event in March 2020. Everybody wanted tail, just like after 08, everybody wanted Nassim Taleb's *Black Swan protection protocol,* right? And in their minds, individuals thought, bear market plus tail equals solving all my problems. And it hasn't been that way this year. I mean, obviously, why the *Cockroach portfolio* also included trend. I think you came to terms with that that's needed specifically for these type of markets. But why isn't volatility done well, in what may seem to most an ideal time for them, long vol?

Jason: 01:27:32 No, that's a great question.

Rodrigo: 01:27:34 Maybe you can tell me about all the vols.

Jason: **01:27:35** Yeah. No, I'll talk about like different strategies and everything and how the outlook has been so far this year. But like, I also want to address kind of Mike said earlier that that was great when he was like, let's and I appreciate you like let's talk about what you guys do and *Cockroach* and everything. But like it revolves around everything we're saying is like, you either like people, buy from people, right? And all the nonsense I'm speaking on here, it either jives with you or not. So, then you'll find out, like what I do for a living. But otherwise, like if you don't like, you know the cut of my jib, or the way I represent myself, like people buy from people. So, if you understand the craziness of my brain, then you might understand the craziness of our portfolio construction. And so that's why it's like there's a first principle idea to that.

But see, I deal with volatility this year, and people are like, why isn't volatility paying off, when we're in such a drawdown in the S&P. And the way I've always thought about it, and I know we've all talked about this a lot, is like whether there's uncorrelated return streams from managed futures or futures, like Adam's saying 13 uncorrelated streams, or like way when Ray Dalio's talking about, you want to look for like 16 different uncorrelated return streams. At the end of the day, there's really just three correlations, right? It's either correlated, uncorrelated or negatively correlated, and that's the whole point. It's like everything's correlated with equity beta, your equity, your bonds, your VC, your PE in a liquidity cascade or a … event, those correlations go to one, right.

The commodity-trend strategies, by the very nature of the way they trade, is an uncorrelated strategy. And then you can structure negatively correlated strategies with tail risk, put solutions or long-volatility. And so the point of why we always thought about long-volatility is like for you to go to an environment from, like a risk on environment where like 60/40 is doing great, to an environment where like commodity-trend's doing great, you're usually going to have a violent liquidity event. And so that's what you really need, like tail risk protection for that, or long-volatility. It's for those really sharp sell offs when everything's crashing. Correlations go to one. Everybody's throwing out the baby with the bathwater, because everyone's going to cash. We find out who's swimming naked, is those at times you want that convex cash position.

And then you can rebalance and reload back to whether it's 60/40 is going to rebound or the commodity-trend's really going to take off. So, it's really, that's the true crisis alpha and those, those endogenous liquidity events. And then it usually takes a little bit longer for like trend following to really take off like it's done for the last 12 months. So, it's those different pieces and parts of the portfolio. So, what's happened this year, is if you're long volatility and the implied volatility or the expectation of volatility is at a certain level, but the market just drips lower and lower every day below that expectations of 30 day forward variance, then you're not going to see a pickup in volatility. So, if you're trading long volatility, you're already paying a high price. And the market is not jumping past that implied price.

And so therefore, it's very hard or a headwind to long volatility because it's the price you pay. Like everybody wants to look at VIX, but VIX index is non-tradable, it doesn't really matter at all. It's the price you pay for those options. And so if the price you pay is skewed higher, you need the market to exceed that expectation for you to make money. It's everything in life, right, you need it to exceed the income bit like expectation. And so that's why a lot of long volatility strategies have had a rough go or a headwind this year. But certain volatility strategies actually have done well. Like, dispersion trading has been very well this year. And once again, this is not investment advice, and that could change tomorrow.

But I'm just saying historically from the beginning of 2022, dispersion trading is doing well. Gamma scalping is doing well because we've had a lot of intraday volatility that's not really showing up the close to close volatility. And then the third one that seems to be doing well is much kind of really super long-dated, like seven to 10 year LEAPS that you can only get in OTC contracts, or ISDA contracts across cross-asset volatility. So, not just equity vol. If you're over and rates vol or FX vol, and you have these longer term trades, those have done fairly well this year. So, as much as like equity vol has this really high kind of headwind or to it where it's very difficult to really make money in equity vol, if you're using cross-asset vol that tends to do well.

But then also, if you're kind of really trading that on an intraday basis with gamma scalping that has done well as well. So, that's the difficulty. And then talking about dispersion, just so everyone knows, dispersion is like short index vol, long single name vol. That has done well this year, but dispersion can turn on a dime on you, and you can get your face ripped off.

Adam: **01:31:50** So, part of your philosophy with the Mutiny Fund is really leaning into this fact that we have no idea exactly how risk is going to manifest. And so we want to have hedges against a variety of different ways that risk might manifest both different speeds, different magnitudes, and also manifesting in different areas of the market. Right? So, I mean, I think, again, just sort of illustrating how we are sort of really thinking alike in terms of trying to be humble about having too active a view about the types of things, either the opportunities that we're going after, or the risks that we're trying to hedge, right? Like and more of a, I don't know what's coming, I want to be prepared for as many things as I can imagine, without acknowledging that there are things that could happen that I cannot or do not imagine, right? And so I'm going to mix a bunch of stuff.

But correct me if I'm wrong, you've also got like some short-term trend type strategies in that fund, the long side, some option stuff and so those have probably been paying off nicely, while the option stuff has kind of been whistling past the graveyard a bit. Yeah?

Jason: 01:33:15

Yeah. So, like you've said perfectly, we do believe in diversifying your diversifier. So, even though I was saying, was like dispersion has done well, or gamma scalping, and especially gamma scalping and like long-dated cross-asset vol has done really well in 2022. But they were terrible in Q4 of 2021. Those were like the actual drawdown. So, it's like it's diversifying those diversifiers, because the sell off has so many path dependencies. And what you're saying that was great is like, not only do we use long volatility tail solutions, we also use intraday trend following, which is exceedingly hard. Most people think it can't be done. But they trade on those market indices. So, they can take that delta one position.

So, right now, why volatility has a headwind is because you're paying off for that implied volatility. But if you're directionally shorting those market indices with those delta one futures instruments, then you don't have to pay up for that implied volatility. But you have to time your directional trade right. So, yeah, that's another way that we think about balancing that portfolio is like, you have different ways of playing this. You can use volatility relative value. You can use long volatility, which is just opportunistically trading the tails. You can use classical tail risk solutions, like rolling puts, or put spreads, if you want to diversify that way. Or you can use this intraday trend falling where you're just shorting those market industries around the world and not just -- the US markets, as a lot of literature starting to come out in the last decade or especially since March of 2020, is the overnight has been where all the action is. So, if people are just trading those US indexes, like they might not be able to capture that move.

So, we look for managers that want to trade Europe and Asia. So, you almost have that like, they're trading those markets individually, or they can capture that relay race when we go fully all risk off. So, like those, and so it's that diversifying your diversifiers because once again, I'm pretty agnostic about everything in life. And so we don't really know what's going to happen, especially if it's a unique path to path dependency. And let's say it only happens every seven, 10, 12 years, you better make sure you capture the meat of that move. And so that's what I can't take idiosyncratic risk with that. I don't have a hero trade that I think it's going to pay off and this specific path dependency is going to happen. You know, it's that diversifying your diversifiers to make sure you have the best chance at capturing that move.

Adam: 01:35:16

Yeah, and *Cockroach* takes the same philosophy and just sort of expands on it. Right? So, you've got that kind of tail hedge element to it, but then you've got other sleeves or facets to the portfolio that are designed to do better in a variety of other types of environments. So, I would love for you to sort of -- anything sort of stand out, either as lessons learned from running this in live trading and/or what has impacted the Cockroach Strategy notably over the past 12 months or so?

Rodrigo: **01:35:57** Because it's been crawling along nicely.

Jason: **01:36:00** Nice work. Nice work there. Yeah, so just to reiterate that the idea of *Cockroach* is like I almost said earlier, is like it's a total portfolio solution. It's like, if we hold the world's asset classes and rebalance, hopefully, it will be okay. So, it's global stocks, global bonds, or long volatility ensembles that we just talked about. We also run an ensemble of trend following. I'm trying to pick my words carefully because I don't want to get Adam mad about commodity trend following etc. And then we also hold as like fiat hedges, we hold gold and a little bit of cryptocurrency.

So, have things surprised me, or what have I learned over -- especially the last year? By the way, we only launched *Cockroach* in September of '21. But it was just like, the exactly things I was saying about it, it's like, if you have a long protracted slow drawdown like we've seen, or what happened in 2008, those are the times you need trend following more than you need long volatility, right? You need long volatility March 2020, but you need trend following in like 2022, or in 2008. So, this is like putting that portfolio together that's worth thinking about.

I might be wrong about this, so you guys might have pushback. I know -- actually Rodrigo is one of the first people I actually ran this by is like, in a risk on environment over long periods of time, there's only literally two asset classes. It's like equity and debt, right? Whether it's stocks, bonds, we can say PE or all these leveraged versions of like equity and debt is how we make money over long cycles. And then when those don't make money, they tend to crash pretty quickly. And so therefore, we think about maybe long volatility offsets that equity risk, and then your trend following offsets that debt or credit risk with treasuries, corporate bonds, whatever you want to call it. And that's a way of looking is like you really wanting to just ride that stock/bond portfolio for most risk on cycles.

But then you have those hedges for risk off, so then you repurchase that lower NAV points through rebalancing. I may be oversimplifying or overly stretching a metaphor, but I'm curious, like, if you guys have any, like pushback to that, or like, a way to think about it is like you have linear instruments with stocks and bonds. And then you have convex instruments with long volatility and trend following. And those kinds of, they offset and unique ways where you think they would just zero each other out. But no, if you take linear instruments, and you overlay those with convex instruments, and they can jump out from behind the

		curtain and help you when you need them most; that's kind of the way we think about it.
Adam:	**01:38:15**	Yeah, I think there's merit to that.
Mike:	**01:38:19**	I've actually never thought of framing it in that regard. That makes sense to me.
Jason:	**01:38:24**	If Mike's never thought about it. I'm onto something.
Mike:	**01:38:26**	Yeah, totally.
Adam:	**01:38:29**	That's true. But yeah, you've got sort of growth, inflation. And then you've got this kind of crisis dimension, which requires -- in crisis vol expands, right. And so you want a sleeve the portfolio where vol expands commensurately with the vol that's expanding in your sort of stock and bond exposures. But it at least has the potential to be expanding in a direction that offsets the vol expansion in your core exposures. Right?
Mike:	**01:39:06**	So -- I like the framing of how it sort of jumps out from behind the curtain in a couple of ways, right? One is that, generally, investors can't handle those strategies. So, they need to be behind the curtain. They need to be cloaked.
Adam:	**01:39:18**	Right. Right.
Jason:	**02:39:19**	Exactly. They can't take that.
Mike:	**01:39:22**	Correct. And that's the sort of magic of that sort of description and narrative that I really like. Yes, we need to keep them behind the curtain. They come out … they'll jump on stage and they'll do their two second act, and then they'll be back behind the curtain again, because we can't literally take the line out of risk as you said. So, that's a great way to think about it.
Jason:	**01:39:45**	And then our active part of it, so to speak, is that like monthly rebalancing. And that's a -- I wish we could rebalance maybe differently in tranches, and everything or even quarterly depending on the asset class. But like, it's a function of just how we all run our businesses. Like you have monthly inflows and outflows you rebalance on a monthly basis. So, this is like I'm saying holding all the world's asset classes and rebalancing monthly. And Rod, you didn't get the last one. So, once again, I'm teeing you up here. So, we were on our quarterly call recently, and one of the things I brought up that I think I heard audible groans was like, I'm so happy when we're rebalancing, we're buying bonds here. Like, do I think bonds are coming -- I don't care, but like, eventually they are going to, and the whole point of a properly diversified portfolio is you are going to hate one of the asset classes as much as people hate bonds right now, as much as people hate crypto this month. It's like that is the entire point of a

properly diversified portfolio. Part of it should make you want to throw up on yourself.

Rodrigo: **01:40:36** Well, look, you saw in a risk parity framework, right, where you had -- you have to rebalance back into your commodity positions. I don't think people have seen the commodity equity line from 2011 to 2020. But it went as low as 75% and had that period in 2013-2014, with a 50% drawdown month after month after month, and if you're doing a monthly rebalancing, and you were happy about buying commodities at this level, and then you said to yourself again, and again and again, it's just not true. Like it's not necessarily true. And this is it going back again to what they're used to, right. They've seen a dip, of course, it's going to go back. Mean reversion exists all the time. And mean reversion exists until it doesn't for a long period of time, right?

The key is in not caring and having everything else be offset, and you're going to harvest enough mean reversion over time to have a diversification/rebalancing premium. So, it all goes back to this level of humility, right? Attacking the investment equation from a place of, I don't know, and so let's be mechanical, let's be diversified.

Mike: **01:41:47** Isn't it also a function of liquidity transport, right? You're taking liquidity from one market, where it's robust and moving into another market that might be less robust?

Jason: **01:41:58** Yeah, was it -- maybe Myron Scholes, he talked about omega, right? Like, people talk about alpha and beta and you know, the Chicago school doesn't believe in that. So, they said, omega would be risk transfer services that's what you get paid for, is liquidity is another way of saying inventory and liquidity is a risk transfer service. So, omega is actually the only way to actually have derived alpha. But I'm curious how you guys think about this is like, with balancing, you know, I always think about a scale-trading the equity curve. Like, I think about way back in the day, when I first found about trend following decades ago, I was like, why wouldn't you scale into their equity curve, right? If you believe in the strategy, believe in the manager, and when they're in drawdown, why wouldn't you be scaling into that equity curve, and scaling out at new highs? And like, that's going to smooth out your equity curve.

So, it's like scale-trading the actual equity curve of the strategy. So, when you have this broad diversification across asset classes, and you're rebalancing, your scale -trading those asset classes. But as Rod just referenced is, the implicit assumption is mean reversion. Right? And this is what I'm really curious about. It's like, everybody says, well and mean reversion can happen over long stretches of time across asset classes. But sometimes asset classes trend, and that's when you don't want to be rebalancing. But I'm not so certain about that. And what I mean by that is like, by rebalancing, even if it is in trend, it's not as beneficial as a mean reversion environment. But when it's in trend, you're still monetizing the trend, and you're taking from your winners and giving your losers.

So, even though it's trending, it's not perfect for rebalancing, you'd prefer mean reversion. But I'm curious about like, to me, it's like, micro monetizing the trend, though, when things are trending though too. So, like, you're actually gaining profits, where if you just let those trends go, and you weren't rebalancing like we're saying, like, now you may be in a left skew kind of trade.

Mike: **01:43:41** Is that sort of like value-averaging? You know, it sounds to me a little bit like the concept of the value-averaging concept, remember the book?

Adam: **01:43:51** Yeah, the retirement, the retirement scheme, *The Retirement Accumulation Strategy*. Yeah. I do wonder whether the rebalancing, let's call it the diversification premium, so Corey doesn't come through the screen at us …

Rodrigo: **01:44:07** He's gone now, he's bored, he's out.

Adam: **01:44:09** Or you know, omega whatever. I don't know that the assumption is mean reversion so much as the assumption is you have two uncorrelated assets and over time -- I mean, I know Shannon Zeeman, you could theoretically have two variables that are sufficiently uncorrelated or negatively correlated with sufficient volatility to be able to generate a positive omega, even if both of the variables have a negative expectancy. But in real life, the high enough variance will overcome the probability that you're going to generate positive growth onto ultra-high variance markets.

And so like I think the reality is in investing, you've got markets that are either expected to just be kind of random *Brownian Motion* with zero drift. Or so like, let's say commodities in real terms, or you're going to own a large variety of instruments that all have positive drift and you're rebalancing between them in order to maintain an optimal, diversified portfolio. In other words, you're diversifying to the greatest extent possible to minimize variance drag. And so you need to diversify, you need to rebalance in order to preserve optimal diversification.

Rodrigo: **01:45:47** Define why variance drag is a bad thing, just quickly, just in case.

Adam: **01:45:51** Well, it's the idea of like, just to keep it simple. If you got a market that goes up by 50%, and then down by 50%, you're not at zero. Right? You're at some number below zero. And it's because the compounding effect of gains is different than losses, right? So, if you've got an asset that moves from A to B, in a straight line up with no variance, Jesus, I don't know how you describe this in a way that …

Mike: **01:46:26** Well, yeah, the simple thing is if you go up 50%, you're at $150, you go down 50% from there, you're at 75.

Rodrigo: **01:46:34** But the other thing is just like if you just want to -- the mathematical entity is your arithmetic return minus half your variance, right. So, that's what you're actually going to have in your pocket as a compound rate of return. So, the more your variance, the lower your actual geometric return versus the arithmetic return. So, the more variance, variance bad, diversification good. Diversification, minimize variance.

Adam: **01:47:00** We want to capture the maximum amount of drift while minimizing total portfolio variance.

Jason: **01:47:08** There's two pieces or caveats that I find so fascinating. One is, if you cannot know *a priori*, how certain asset class return drivers, are they going to be mean reverting or trending? If you can't know that for certain, I still want to rebalance, right? Like that's I'm saying because if they're mean reverting, you're going to take even better advantage of it. Or if they're trending, like I said, you're still monetizing the trend until they mean revert. But then the piece though that, the real caveat with what Rodrigo said about volatility bad, what's really interesting, volatility bad in single asset class, but if you can get your correlations, right, like volatility great in multiple asset class, because then it reduces portfolio vol. And I think that is really hard for people to wrap their heads around.

Yeah, I think they're uncorrelated, or negatively correlated, or it's constructed properly, and that your priors are correct. It's really interesting to think that you actually want to pair highly volatile asset classes to reduce portfolio vol. And so like people would say, like, I want to reduce bonds duration down to maybe like two years, five years or 10 years. And it's like, no, if you constructed that classic risk parity or permanent portfolio, you actually want the 30-year, like TLT, you want the ultra-bond, because you actually want that volatility to really offset the rest of the portfolio.

Adam: **01:48:22** Well, no. But I mean, the idea here is that you want to own the two-year with enough leverage that it gives you the same volatility as the 30-year. And then you're going to maximize diversification across all the different markets. And you don't really care what the ambient vol of the underlying is because you could scale the vol to target, whatever you want. But the idea is you need to scale vol in an optimal way so that you're maximizing your ability to harvest drift, with the minimum amount of variance.

Rodrigo: **01:48:59** The language I like to use is that you're trying to maximize the asset class's true personality, right? If like the two-year goes up when equities go down in a benign inflation environment, but it only goes up one unit when equities are going down four units, then it's got a personality. It goes up when equities go down in benign inflation environment, how do we equalize the impact of that personality? And that's -- if you have the ability to scale those asset classes, the same level of risk, now you're allowing that balance to really provide that, a lot of volatility equal volatility, create a portfolio with the minimum volatility drag, you know what I mean? And that concept is complicated.

Having every day you know, we have products that are at 15 to 20, vol 10 to 15 vol, eight vol and trying to explain why would I ever use that 15 to 20 vol, it seems so scary, the drawdowns are so large, is because you will actually allow -- an allocation into that big one will allow that allocation to maximize our personality. Otherwise you're muting and it's just a nice line item to look at. Right? So, look at that one line item, it's not so volatile. It didn't lose as much or made some money. You actually want to have your diversifier to be like, oh my God, that one's up 30. That's what you want. That's good volatility, right?

Adam: 01:50:25 That's the line item risk.

Jason: 01:50:28 So, bringing it back to like, pragmatism or practicality is like, here's what I want to know from you guys. How do I fractionalize your guys' houses that you own in Grand Cayman? I want a fractional exposure to that. But I also want a fractional exposure to Toronto real estate. And you know, as your end of the world trade here, being on an island explodes and Toronto real estate collapses. How can I be rebalancing between the two in a fractionalized setting? Who's willing to make me an offer?

Rodrigo: 01:50:51 Don't we have to get Corey on here to help us create the proper real estate NFT for this to work, the fractionalized liquidity across multiple real estate markets?

Jason: 01:51:01 I mean, everybody knows that Corey has gone full crypto, full NFT, like he doesn't even trade trans-markets anymore.

Rodrigo: 01:51:07 I know. That's all his audience is following. It's all crypto. It's kind of crazy. I don't know.

Jason: 01:51:12 He's irresponsibly long. I mean, this guy is like he's off his rocker.

Mike: 01:51:16 Oh, no.

Adam: 01:51:17 Yeah, we're going to see nothing but rebalancing premium and crypto NFT in his profile.

Jason: 01:51:24 I would like to point out that …

Rodrigo: 01:51:26 All he's putting out is like, bored ape monkey videos every day. Then he put another one on this morning. Jesus Christ, honestly.

Jason:	**01:51:33**	A really dumb idea and Corey's probably going to kill me for this. By the way, is there a regulatory burden against me drinking champagne while we're on a live show here? Won't it be interesting, I always thought it's like what if you could use bored apes as a utility token that were tied to like all of our funds and it was like a race and everybody could bet on like who's going to win the race like via our bored apes that are the utility securitized tokens for individual like strategies, wouldn't that be like an interesting way to use like a bored ape? I know Mike likes it. Come on, Mike.
Mike:	**01:52:04**	I'm like yeah, you're stretching my gray matter.
Adam:	**01:52:10**	Yeah, that's a …
Mike:	**01:52:14**	I love it. I love it. I love it when it's different. It appeals to my fringe-ness for sure. I'm in, let's do it. Show me where I'm betting, what can I bet on? What does he look like?
Jason:	**01:52:26**	Exactly. The problem is the three of you are never going to agree on which bored ape to buy.
Mike:	**01:52:32**	Oh, absolutely not. Well, we get to run our own portfolios there, right?
Jason:	**01:52:36**	It's your own portfolio under the bored ape but the actual, like, the features of the bored ape, you guys would never agree.
Mike:	**01:52:42**	Oh, oh, yeah. Maybe it would be an amalgamation that none of us liked at the end. Be perfect.
Adam:	**01:52:48**	That's true. I think we should close this conversation by saying how proud I am that Corey has embraced the rebalancing premium as being a legitimate phenomenon. And how pleased …
Jason:	**01:53:04**	Number one source of alpha.
Adam:	**01:53:07**	How he's going to put that in his profile on Twitter. And we should shut this down before his YouTube feed catches up to our conversations, so he doesn't get a chance to respond.
Mike:	**01:53:20**	I also want to say that in order to understand recursion, you must first understand recursion.
Adam:	**01:53:27**	No truer words.
Mike:	**01:53:30**	I wanted to wrap some of that earlier conversation in …
Adam:	**01:53:33**	Thanks for coming, Emil.

Mike:	**01:53:34**	Yeah, Emil, I loved your comment that Russia has done such a poor job of promoting nihilism. It's wrecked it for all of us.
Jason:	**01:53:41**	Yeah, I'm surprised Emil …
Adam:	**01:53:43**	I like that comment. That's good.
Jason:	**0:53:45**	I'm surprised Emil's on here. Like he's way too smart and equanimous for all of us. Like, I'm surprised he stayed on for this long. That was shocking to me. Like everybody, like go like -- I mean, the amount of content they produce at such a high quality is just mind boggling to me. Like, I want to give you guys a shout out. That's why I literally did wear my best pajama shirt and have champagne today because like you guys do this every Friday. And I know how hard that is. Like I truly know. I know how hard it is -- to produce content is such a difficult thing. It's so much harder than people realize. And you guys consistently do it week in and week out. Now granted, Emil and Jeff are doing it at a much higher level than all of us, but like to come on live every week, like it's much harder than people realize. And here's what I want to say. And I've really been thinking about this too much lately, is I always wonder why nobody else in our industry really does this, right? It's a form of Blue Ocean in the sense that I think our entire industry is afraid to do this. They're afraid to have a drink and come on and talk live for two hours because you can expose yourself. And everybody in our industry is so buttoned up and they want to say they're the wizard behind the curtain. And they have perfect crystal balls or perfect … into what's going to happen in the future and they don't want to look fallible. And so by us being on for two hours at a time, week after week after week, you're exposing yourself to the audience. And either they're going to like you or not, but to me, that's the entire point. But I honestly like no bullshit, like, applaud your guys' courage to be able to do this week in and week out because you're showing people exactly who you are. And our industry is all about not showing people who you are, because they're so afraid of getting exposed.
Rodrigo:	**01:55:15**	Right back at you, brother.
Adam:	**01:55:18**	Yeah, absolutely. … expose too because Mike likes to expose.
Jason:	**01:55:23**	Expose himself. It's Friday. I mean, I wish I could be on Mike's boat this weekend, man. I'm super jelly.
Mike:	**01:55:33**	We're going tomorrow.
Adam:	**01:55:34**	He's off to Africa.

Mike:	**01:55:37**	We are going out tomorrow, though.
Adam:	**01:55:41**	Oh, yeah, yeah. Okay. That's good. All right, folks.
Rodrigo:	**01:55:42**	All right, gents.
Mike:	**01:55:43**	Gentlemen, thank you so much.
Adam:	**01:55:44**	Jason, thank you for hosting this, Jason. Thanks for hosting this Riffs today.
Jason:	**01:55:51**	You guys are hung over, I had to carry it a little bit. Like, I'm happy to …
Adam:	**01:55:54**	You put us on your shoulders and carried us the whole way. It was great. And this is -- just for everyone's benefit, this is the last Riffs that we're going to host that's in the schedule until September. Got a whole list of new and returning guests for September. Really looking forward to getting some people on that have been by far our most engaged-with guests. And so we look forward to everyone …
Rodrigo:	**01:56:24**	I think Chris Schindler's our first one in September coming back.
Mike:	**01:56:28**	Yeah, kicking it off with Chris Schindler. Starting with the best of the best. Ending with the best of the best. Fantastic.
Adam:	**01:56:33**	Exactly. All right. So, we left on a high note with Jason.
Rodrigo:	**01:56:38**	Appreciate you, man.
Adam:	**01:56:39**	Yep. Have a great summer, folks. Thanks for chipping in.
Rodrigo:	**01:56:41**	All right, guys. Have a great summer. We'll talk soon.