Rodrigo Gordilo...:	00:00:06	Welcome to Gestalt University, hosted by the team of ReSolve Asset Management, where evidence inspires confidence. This podcast will dig deep to uncover investment truths and life hacks you won't find in the mainstream media, covering topics that appeal to left-brain robots, right-brain poets, and everyone in between, all with the goal of helping you reach excellence. Welcome to the journey.
Speaker 2:	00:00:28	Mike Philbrick, Adam Butler, Rodrigo Gordillo, and Jason Russell are principals of ReSolve Asset Management. Due to industry regulations, they will not discuss any of ReSolve's funds on this podcast. All opinions expressed by the principals are solely their own opinion and do not express the opinion of ReSolve Asset Management. This podcast is for information purposes only and should not be relied upon as a basis for investment decisions. For more information, visit investresolve.com.
Rodrigo Gordillo...:	00:00:55	Hello everyone and welcome to another podcast episode with the ReSolve crew. And today we're doing a special episode. This is being recorded post COVID-19 crash and a little bit of the recovery. This is April 17th. And the reason that we decided to record this one is because we're getting a lot of questions as to where do we go from here, right? Where's the market going to go from here? What's the economy going to do? And more particularly, how should we think about portfolio construction and strategy construction moving forward? And this is a very important topic. Everybody wants to know whether they can profit in an outsize way given the market dynamics.
Rodrigo Gordillo...:	00:01:30	And there's a lot of narratives out there right now that are pulling in every direction. And we've had those discussions internally and some of them are very convincing and they often change day to day. Ultimately the question is, can we really garner any sort of directionality based on these macro narratives?
Rodrigo Gordillo...:	00:01:50	And for this discussion we brought in the brain trust of ReSolve. We got Mike Philbrick, Adam Butler. We've also brought in Richard Laterman, who is in a past life before he became a full-on quant, was a portfolio manager in Brazil that dealt with a lot of these macro-narratives to make investment decisions. And anyway, what we're going to do is we're going to discuss the narratives. We're also going to try to create a framework by which one could filter those narratives and then also think about portfolio construction and bet sizing in order to see if we can help people navigate the markets moving forward in the coming months and years. So without further ado, I will let you enjoy the podcast and always, if you have any questions, please

do connect with us on Twitter or through our website and using email. Enjoy the episode.

Rodrigo Gordillo...: 00:02:39

All right, so we're here with the brain trust and what we're going to talk about is what is on everybody's mind, right? We've been bombarded with questions from clients, colleagues, friends of, "Where are we going to go from here? Where are we going to go from here when it comes to the markets? Where are we going to go from here when it comes to the economy?" And like everybody else, we've had a bunch of these conversations internally. So we thought we'd create a podcast where we're going to run through the narratives that are coming up, whether it's going to be inflation or deflation or growth or whatever narrative is out there. We're probably going to cover it in this podcast and then we're going to try to create the classic ReSolve framework around how we can move forward from here. We're going to discuss balance. We're going to discuss that sizing. We're going to discuss factors and see if those tools allow us to provide some guidance to our listeners to move things forward. And with this podcast we're going to have an additional slide deck that we'll post up on the show notes so that you guys can follow along whenever we want to discuss that particular chart.

Rodrigo Gordillo...: 00:03:38

So with that said, gentlemen, here we are one of the most interesting parts of our career, especially when it comes to what's going on in the markets. And there's a bunch of narratives going on right now. I think the predominant narrative that we're hearing because we're surrounded by pessimists is that of a, we haven't seen the lows yet of the markets and we're going to continue to see a deflationary scenario. So love to hear from you, Mike. I think you're the one that's been most vocal about the possibility of continued deflation here. Why don't you tell us about the narrative you're hearing on the deflation side and the continued shock to the economy, global chains, and all that fun stuff.

Mike Philbrick: 00:04:16

Really it's a function of shocks, modeled risk versus uncertainty, and understanding the difference of those. And then how does that translate into potential asset price movements in your portfolio and how you could balance those off and how you might want to take advantage of certain factors that you could achieve some sort of excess return on. But if we think about the current situation, we have several dynamics at work that are quite what I would call uncertain or unknown. We have unknown unknowns as well. So we have a virus. That virus has a policy response. There's uncertainty in how the virus will respond. There's uncertainty to the policy responses. There's uncertainty, maybe there's less uncertainty in policy responses because maybe those will be everything that anyone could possibly do. There's the resulting geopolitical uncertainty that comes from the lack of certainty we see in the virus and the potential policy responses and the feedback loops that they create.

Mike Philbrick: 00:05:10

And so those are creating, we think about aggregate demand and aggregate supply, and the shocks that are being created. They cause a contraction in GDP, which is obviously being fought head-on and with double barrels from all of the central banks and governments around the world, both monetarily and fiscally. And so there are some things that you can have a framework and understand, i.e. we know aggregate demand has had a shock and it's decreasing and we know that that supply chains have been disrupted. We also know that there has been a massive stimulus response. How that soup gets cooked together and what it results in is a very, very difficult thing to try and sort of calculate, if you will.

Adam Butler: 00:05:54

I think that's a really good sort of starting point, because I think everybody feels, I mean we have this conversation at our house actually because my daughter has a stock market competition that she's involved in. It just happens to be this year and this time, which is an extra layer of interesting conversations at home, but it'd be very easy in this environment to invest based on first-order effects. We know there's a larger demand shock than we've seen in the past. Certainly in the past decade, probably in the past eight decades since the great depression. We've obviously got layoffs, unemployment, at depression levels at the moment. We've got everybody at home. The aggregate demand is going to be down somewhere between 5% and 10% in the quarter, maybe more. And so it was just the sort of first-order effects we're going to invest on the basis of supply and demand and the impact on earnings and revenue and that sort of thing. It would be pretty easy to, I think, forecast where equity market prices were going. I mean, we are highly confident that they'd be going lower.

Adam Butler: 00:07:01

What complicates matters is that there are threshold levels for inflation and for asset prices that the government has in its great wisdom decided that it won't tolerate. And so they've stepped in. You've got the ECB and the Fed and other central banks stepping in with the equivalent of sort of whatever it takes policies, and have deviated from both precedent and legal precedent in terms of the types of assets that they can buy in order to shore up asset prices.

Adam Butler: 00:07:36

And we just have no idea as investors how far they're willing to go. The last couple of weeks they've stepped in and bought corporate bonds, they changed it now to buy high yield bonds. They're going be buying leverage loans. And how long is it before they actually step in and buy equities? And so how do you navigate the first-order effects against the second-order effects? Then you've also got all the complexity about how long we're locked up and how long the demand shocks are going to last and all that kind of stuff, which complicates things further. But it's those two opposing dynamics at the moment. I think that investors are struggling with.

Mike Philbrick: 00:08:09

I would add one other thing. Again, this is really complex. The liquidity shock from March 9th to sort of March 21st, 24th. The fact that you had just selling of all asset classes, those structural relationships that you relied on between the various sectors and regimes that we all talk about and those inflation and growth dynamics actually broke down. Bonds were selling off as equities were selling off. I think the tenure went to 30 basis points and then all the way back to 125 basis points.

Mike Philbrick: 00:08:40

So it's tough to model, and it's tough to model what the fiscal intervention is going to be. Some people are, I think, maybe the market is over confident that all the central banks will do whatever it takes. The second derivative thinking on that is, okay, well if they have to do whatever takes it down the road in the next fiscal or monetary intervention, what does that mean about what happened? So, I don't know that you could be confident or not confident. You have to observe and you have to adapt and you have a framework of understanding, and a framework I think in which you can interpret the markets and then react to them. And that's what we do. We think very deeply about that. And maybe I'll throw that back to the group.

Rodrigo Gordillo...: 00:09:21

Sure. I mean we're still talking about the different narratives that are emerging. These two dynamics that we were discussing was stimulus that has been unprecedented going to be enough to continue this growth, and this is just a technical correction like it wasn't 1987? And then everybody's going to go back to work in the next couple of months. The capacity is going to get pretty tight again and we're going to get a V recovery. Maybe it's a year of recovery because we have this lull of being in isolation.

Rodrigo Gordillo...: 00:09:47

But there's the other dynamic that is a tough one to really figure out. And that's the inflation dynamic. We've clearly seen a deflationary period here. And the question is, is this stimulus enough to get us out of deflation? But the other question is, is it too much? Where once we go back to full capacity, gold has been out of the narrative forever, but now it's a big part of the discussion because it's like 2008. Do you remember back then, you remember how everybody, especially Canada, everybody in Canada was like, "Are you kidding me? Gold's going to go through the roof. The amount of money being printed. The system is corrupt. Yields and bonds are never going to go below two."

Mike Philbrick:	00:10:29	I think they were right until 2012 yeah.
Adam Butler:	00:10:32	Yeah, fair enough.
Mike Philbrick:	00:10:33	Right. It did go up a lot.
Rodrigo Gordillo...:	00:10:35	It went up a lot, but you had all these preferreds that reset every five years for the yield knowing that it was going to be so much higher, but in fact it was lower. So all these preferreds ended up getting cut in half. There's a lot of strong beliefs out there right now, but also on the inflationary side. Like you said, timing is interesting. When did it happen? When were they right, when were they wrong? And as we've had these discussions in the office it's been very difficult to get a clear view as to where it's likely to go. And-
Adam Butler:	00:11:02	Well, has anybody been able to articulate a credible inflationary trajectory? Or the inputs or the dynamics that would create an inflationary scenario?
Rodrigo Gordillo...:	00:11:13	Richard is probably one of the guys that has read the most up on this stuff and has some views, right?
Mike Philbrick:	00:11:20	Before we jump into the narratives, I just want to set the stage for the narratives and understand that there's narrative. Then there's a common acceptance of the narrative. So once the narrative is broadly accepted, it's no longer informative and you don't know when it's probably accepted. So when is the narrative actually reflective of the current asset prices? And you need... The narrative that you believe if you're going to garner some excess return has to be ahead of the current narrative but not too far ahead. It has to be the exact right amount ahead.
Rodrigo Gordillo...:	00:11:51	But there is no narrative is I think the conclusion that we're getting to. And it also depends on what bias we're feeding. So, Richard has an inflationary bias as being at South American Brazilian. I certainly do. And a Canadian, my God, the triple whammy. So yeah, walk us through the inflation narrative that you've been hearing.

Richard: [00:12:10]

Yeah, I think to Mike's point is the idea that inflation has been dead for the last 30 years. That has been the overarching narrative. Inflation is dead and so the market has become completely numb to this risk, and people aren't really understanding how this can come about. So there's no question that in the first moment, this first stage of this crisis there's definitely a deflationary. There's no doubt about that. There's a demand shock. Everybody is in some form of house arrest. No one can really move. Demand has gone down precipitously. What's going to happen next is the real question. And I think the US dollar is one of the big drivers here because if we expect the Fed, which has already committed to four trillion and the treasury another two and a half trillion almost, if that continues and we don't know how deep they'll go with a stimulus, at what point does this become inflationary?

Richard: [00:13:09]

And we've become numb to this because in 2008 there was a lot of money printing and no inflation came about. And so we've now discounted that as that's never going to happen. We've done it in the past, we can do it again. Now that's why we've had this resurgence of these ideas, helicopter money, Modern Monetary Theory. This is all based on this idea that we can print our way out of any problem. And so this is the narrative that has occupied the zeitgeist and, "Forget inflation, it's never going to happen. I think the risk is that we've all discounted that as never going to happen and that's when things tend to go awry. It's when you said this is impossible and that's become a blind spot to markets.

Mike Philbrick: [00:13:54]

Well, let me help with that narrative a little bit in that you have the supply shock, and the global supply chain, and the nationalization of the production of all kinds of things now that's being discussed. So if you reverse globalization, and to some degree the labor markets of the world have equalized, but if you reverse that, you do set the stage for higher prices for products.

Rodrigo Gordillo...: [00:14:15]

You set the stage for higher prices for products, right? But what's also sets the stage here, so we talk about this continued on the inflation front, is you have everybody nationalizing product for national security reasons. Everything is going to go up in terms of price or a wide variety of products are going to go up. We're also going to see, I think there's a large probability of the big winners, these big conglomerates that used to, that were on one way trajectory, getting bigger and bigger, gobbling up more and more of those medium sized companies and having more and more monopolistic rents. This has just supersized that, right?

Rodrigo Gordillo...:	00:14:50	What's happened now is that the government's opened up the coffers to give help to everybody, and those that are closest to the government are the ones that are going to get the biggest handouts. And those biggest handouts are going to create income growth as well. There's going to be, I think if we get out of this, this is a bit of my bias, there's going to be a lot of incomes going up along with some of the price inflation. There's going to be inflationary-
Adam Butler:	00:15:16	Why are incomes going up?
Rodrigo Gordillo...:	00:15:18	Because you're going to have a lot of hirings coming from... You're going to have a stronger monopolistic, whether it's Amazon, Apple, all these big players and restaurant chains, developers, they're going to have excess money to spend and they're going to hire more and more of these.
Adam Butler:	00:15:33	Is there any precedent for that? I don't think there's ever been a precedent of oligopolistic tendencies leading to higher employment demand. You monopolize, you can raise prices and that gets distributed to executives and shareholders, but it doesn't trickle down to more labor.
Rodrigo Gordillo...:	00:15:50	Well, you're growing that business. You're adding layers to it. It's not a single business. It's not hydro.
Adam Butler:	00:15:55	But the incentive is to grow revenues, grow the top line by raising prices. It's not necessarily by growing the bottom line by growing revenues, by increasing demand, and growing the bottom line through innovation. I can definitely see a path to inflation through M and A where the larger players gobble up the smaller players. We get more oligopolistic sectors and therefore they now have better pricing power and they can raise prices. So that's an interesting position.
Adam Butler:	00:16:28	I do think that the import question is overstated because the weight of imported goods in the average Western consumption basket is relatively small. If you think about where we spend our money, it's on food, it's on transportation, it's on rent, it's on healthcare.
Richard:	00:16:49	Well, let me bring that back to the US dollar because this idea that we can print our way out of the problem. And the Fed is printing at a much higher rate than the ECB and the BOJ. And at one point we've got to question, when does the market catch up to that and zero into the credit worthiness of the US dollar? So-

Rodrigo Gordillo...:	00:17:09	Okay, what's your option? Is it Bitcoin? Like this is-
Richard:	00:17:12	It's gold.
Rodrigo Gordillo...:	00:17:13	This is the beggar thy neighbor policy, right?
Richard:	00:17:15	That is why gold has become-
Rodrigo Gordillo...:	00:17:16	Yeah, yeah, sure. Okay. So I can get behind gold doing better than the US dollar, but if we're talking about currencies, it's the US dollar first and everything else. Like who would buy the Brazilian Real? Who would prefer-
Richard:	00:17:28	Absolutely. That's why they've sold off. But the US dollar is now experiencing what some might call a blow-off top or a melt up phase. It's become very strong. But in '08 and '09 after the money printing really began full steam, you saw the dollar weaken against most of these currencies. And then you saw commodities, commodity prices rise. And that has to do with the fact that practically every commodity on the planet is quoted in US dollars. So a weaker US dollar begets stronger commodity prices. And that is how the inflationary side of things can also creep in. Because as Adam rightly pointed out, food is a big chunk of our consumption of goods. And the US dollar becoming weaker by default because again, we're also coming into a moment in time, there's going to be less growth to go around and it's going to be the beggar thy neighbor dynamic that we witnessed back in '08 and '09 where countries were looking to competitively devalue their currencies to export their way out of the crisis. So I think this is another dynamic that can help this inflationary story.
Mike Philbrick:	00:18:38	I think it's important to... So lots of neat stories and lots of good arguments as to why one way will work out or another. I would argue that in that consumer basket that everything is globalized. We import tons from China, et cetera. But all of a sudden the oil price has been eviscerated. So the way in which we transport things would be a factor that attenuates that. And it's so interesting. And we're having this discussion at this moment in time. Assuming things continue in some way, but this is very, as my partner Adam likes to say, it's very path dependent.
Mike Philbrick:	00:19:12	So one of the uncertainties is what's the virus going to do? In a scenario where the virus rears its ugly head again in the fall and winter and we need to do another shutdown, and then there's another 10% charge to GDP that has to be nationalized through the debt, then it becomes another very difficult situation. Then you start to get the stagflation, the lack of growth.

Rodrigo Gordillo...:	00:19:36	Yeah, well no amount of financial money printing is going to help the real economy, right?
Adam Butler:	00:19:40	Oh there's third-order, fourth-order effects too.
Rodrigo Gordillo...:	00:19:42	Morphs into like it did the Spanish flu where it morphed into a deadly virus for people in their twenties and thirties. Are we going to say everybody wear a mask and get back to work? It's not going to happen. Everybody's going to stay at home and it's going to be even worse than it is today.
Adam Butler:	00:19:56	Or there's going to be a breakdown in social cohesion. I know in our home, people are starting to get pretty frisky, want to get out in the world and go back to their daily lives and-
Rodrigo Gordillo...:	00:20:06	They're starting to rebel.
Adam Butler:	00:20:08	I'm starting to see across the Twitterverse and social media, there is a groundswell of basic need to get out and go about their daily lives. And there's good research, the affect theory of decision making. We are going to feel strongly, and then we are going to act in a way that alleviates these strong feelings, and then we are going to do whatever it takes to defend those actions.
Adam Butler:	00:20:33	So what happens when we have a breakdown in social cohesion? Right now it's astonishing. I know where I live and where you guys live. Everybody is obeying this stay at home order. I wonder how long that's going to last.
Rodrigo Gordillo...:	00:20:47	I'm already being asked.
Adam Butler:	00:20:48	And let's assume that they let us out and then they've got to order us back in in the fall for another six weeks? How is that compliance going to be then? These are the path dependencies that start to get really complicated.
Richard:	00:21:03	The social unrest could be augmented by the shortages of basic supplies that you're starting to witness. Everybody was joking around about the lack of toilet paper, people hoarding toilet paper.
Mike Philbrick:	00:21:16	There's a lack of farmers, workers to harvest the crops that we need in order to have food. And if there's less food, what happens to food prices?
Richard:	00:21:27	That's exactly right, and now there's going to be a lot more dollars circulating in the economy because you have this fiscal

bazooka being deployed. And what happens when you have that many more dollars, an order of magnitude more, chasing the same loaf of bread? What happens then?

Adam Butler:	00:21:44	Well, I may be going out on a limb here, but people can only eat so many loaves of bread.
Mike Philbrick:	00:21:50	And I want to just change the narrative totally. The virus is cured, we have a vaccination. We have a vaccination, and it fades away into the distant memory of humanity within six weeks. Okay, go.
Rodrigo Gordillo...:	00:22:06	So I've been meeting our Slack roll. This conversation evolved from the fact that we all took a very strong stance at one point or another on every one of these narratives. And I've been looking at our Slack roll. You guys have all been all over the place. Mike, maybe you've been a bit more ... than everybody else. That's just in your personality. But depending on the news that's coming out on any given day, any given hour, we were all swayed one way or the other. And now to be clear and systematic, this doesn't inform what we do. And we're going to talk about how we can deal with this systematically, but the point is that there's a lot of noise out there. There's a lot of volatility and information and we've proven the point here. We've all made some compelling cases on what could happen. We've talked about how the inflationary pulse may not be enough from a financial perspective to offset a second and third round of this coronavirus. It might be completely deflationary.
Rodrigo Gordillo...:	00:22:57	We've talked about the fact that it's enough and in fact this is going to go away in a week. It's a technical bounce and it's going to be back to normal in about six weeks. We've talked about the fact that it's too much money in the system. We're going to go somewhat to normality and inflation is going to rear its ugly head. Or we're not going to go to normality and it's going to be stagflation.
Rodrigo Gordillo...:	00:23:12	So let's talk about the framework that we can use that is sound and solid in order to deal with these levels of uncertainty. By the way, this has all been covered in one of our podcast channels. That's the 12 Days of Investment Wisdom podcast. We're going to kind of just briefly touch upon a lot of these topics, but if you want to get deeper as we talk about it, we'll give you the podcast episodes. You can review more in depth.
Rodrigo Gordillo...:	00:23:37	Why don't you walk us through this economic dynamic, this inflation growth dynamic so that we can start with some sort framework to handle the coronavirus scenario.

Adam Butler:	[00:23:48]	It goes back to, I think we've established, and that was really the purpose of the last 20 minutes of discussion, was to establish the fact that what we are facing is an extreme level of uncertainty. Probably an order of magnitude more uncertain than anybody, or that most people had ever considered that we were going to face as investors. And so how do you face down uncertainty and move forward? Because we've got savings, we've got investments, we've got financial objectives. We need to still meet those. How do we navigate a highly uncertain climate? And we go back to a Bernstein quote, which I think we use all the time and it has special meaning here, where Bernstein said, "In general, survival is the road to riches. Let me say that again: Survival is the only road to riches."
Adam Butler:	[00:24:39]	That's what diversification is for. It's an explicit recognition of ignorance. And I don't know about you guys, but as we've gone through this in our Slack channels, as we've had private conversations, as we've had this conversation, I haven't gotten any more certain about what the future holds; I've gotten less certain. And in the face of high uncertainty, the first step you want to take is to re-evaluate how you think about diversification.
Adam Butler:	[00:25:07]	So we like to think about diversification at a foundational level as dividing potential outcomes into different surprises on the dimensions of inflation or surprises on the dimension of growth. So you could have surprisingly high inflation combined with surprisingly high growth, surprisingly high inflation combined with surprisingly low growth or negative growth, surprisingly low inflation combined with high growth, surprisingly low inflation combined with surprisingly low growth. So if you divide the potential scenarios that might unfold into these different regimes, now you've got sort of inflationary growth, dis-inflationary growth, deflationary bust, and stagflation.
Adam Butler:	[00:25:54]	And so the way we think about it is, we don't know what's going to happen, but what we want is to have at our fingertips a universe of asset classes so that members of that universe of asset class are able, are fundamentally designed, to thrive in each of those different economic environments. For example, what thrives in an inflationary growth environment? Things like emerging market equities, international real estate, inflation-protected bonds, emerging bond spreads, that sort of thing. Think about the period from 2000 to mid 2008: Big push in emerging markets, international equities outperform US equities, commodities go to the moon, that sort of real estate. Obviously, dis-inflationary growth.

Adam Butler:	00:26:40	Think about the 1990s. You've got major tech leadership, declining inflation's reasonably good for bonds. Domestic equities are designed to do very, very well. Stagflation. Think about the 1970s. You've got low economic growth, poor environment for equities. You've got high inflation which means poor environment for bonds, but it's also high inflation was very, very good for things like gold and commodities which produced double digit returns basically each year over that decade. And then you've got times like deflationary busts like we experienced in 2008, like the Great Depression, and potentially like what we're facing going forward here. Not making a guess, but it's possible.
Rodrigo Gordillo...:	00:27:22	We're also putting up this chart of just some examples of these secular trends, these secular, inflationary boom periods. And you'll see here that emerging markets at 31% commodities, 21% gold, 19% the rest were losers during a period of dis-inflationary boom, which is 1972 to 1987. So lower inflationary shocks, higher growth. 1982, yes, you have developed equities and bonds doing the best, having the best returns. Deflationary bust. The only winners as we've seen in '08 is treasuries. In '08 to '09, treasures are up 14%, gold is up 8. In 1972 to 1980, gold was a whopping 41% annual return during that period. And commodities number two.
Rodrigo Gordillo...:	00:28:07	So we've seen these dynamics at play. And to be clear, those are the secular trends of last years, but these dynamics also occur in smaller cycles. They happen every year. Another chart that we like to show is this yearly ranking of asset classes from best to worst. And you can see here that any given year, depending on the micro inflation and growth dynamics, there's going to be big winners and big losers. There is a secular trend, but in any given year in that 10 year trend, you might see different outcomes.
Adam Butler:	00:28:40	Well, what I think might be really surprising to those who are maybe less familiar with the risk parity literature especially, is that in fact, across every different type of cycle, there are asset classes that you can be long that deliver spectacular returns. So you don't even actually need to be short in order to make money, even in environments that are particularly painful for stocks and bonds.
Rodrigo Gordillo...:	00:29:05	Druckenmiller, who everybody believes to be a man who can thrive or has thrived in a lot of economic shocks, was recently asked how he knew when to short equities and he said, "I've never made my money in equities. I've made all of my money in bonds, sovereign bonds during those periods, sovereign bonds and Euro dollars." So you don't have to go short. Indeed, in fact,

a lot of the P&L for CTAs back in 2008 and today is coming from treasuries, it's not coming from shorting.

Rodrigo Gordillo...: 00:29:34 So it's important to note that these are structurally different asset classes that are about, they're going to react predictably in certain environments. The problem is to try to predict what environment we're going to be in. That's the tough part. So if we can predict that treasuries and gold are likely to react well in periods like this, the only thing that's left for us now is to predict when it's going to happen.

Adam Butler: 00:29:56 And I think the overarching takeaway from this conversation, and I hope people in general who are listening to this have internalized this view, but the reality is we can't really forecast. There's no amount of really good global or macro information, or an ensemble of macro-economic indicators that are going to really give you high confidence over horizons that are going to allow you to sort of set it and forget it over a few years. I think you need to be dynamic, both dynamic in how you're measuring correlations and volatility at the very least in order to maintain appropriate diversification across this truly diverse universe of global asset classes. And then you need to layer on systematic proven edges that are able to tilt the portfolio towards certain markets and away from other markets in a dynamic and systematic way based on established dynamics in how markets work. Those edges are really what we lean into as we seek to advantage client portfolios in this type of period of profound uncertainty.

Richard: 00:31:07 I think one of the conclusions that one might arrive after hearing this uncertainty environment, is that passive buy and hold portfolios are going to have a very tough time over the next foreseeable, call it 5 to 10 years. So I think this is where Adam was getting at. If you're talking about holding some of these asset classes that have done so well in the last 10 years and just holding them passively, I think it's going to be a shock to a lot of investors that are relying on these portfolios as to what this new reality, this paradigm shift that we might be witnessing.

Rodrigo Gordillo...: 00:31:45 Yes, I think that's true, but I think the passive that we're talking about is that traditional 60/40, home country buys a 60/40 portfolio. It's going to be a lot more difficult. You're getting you basically in two asset classes for the most part. And one asset class is 60% equities dominates the risk of the portfolio. And so you're kind of dependent on one regime which is growth. You're hoping for growth. You're hoping that the Fed solves this. And what we're trying to highlight here with putting together this idea that we don't know what the Bernstein diversification idea is that, that's not going to cut it. You're going to create balance. You're going to need to have some assets that will thrive if it's inflation. You're going need to have some assets that'll thrive if it's deflation. You're going to need to have some asset classes that will drive its growth. And you need to put them together in such a way that is thoughtful.

Rodrigo Gordillo..: [00:32:33]

First step would be to just acknowledge that maybe having some gold and commodities is the right thing to do. This is the Harry Browne portfolio, the permanent portfolio that everybody's been talking about. That portfolio hasn't done poorly. You got your gold in there, you got commodities, you got your bonds, you got your equities. The next step might be what we've always discussed is saying, is it appropriate to just do equal weight across these asset classes and dollar terms? No, it's probably better to have equal risk contribution to make sure that the maniacs aren't taking over the asylum. Equities have that significantly higher volatility than bonds.

Mike Philbrick: [00:33:01]

I would add one more point. In that passive policy, I'll call them, I don't think that they understand, maybe they do, but I'm not sure that it's understood that three times the S&P has had negative equity risk premium for more than 13 years at a time. So calculate that in to a financial plan and we've had conversely a very high equity risk premium for the last decade or so, especially in US markets. Maybe it continues, but one has to actually present that question to oneself and say, okay, well there has been three times, more than 13 years that equity risk premium has been negative. It's not a bond. It doesn't occur every year like clockwork.

Mike Philbrick: [00:33:47]

And I think that's what the last sort of 10 to 12 years has, maybe, I'm not going to say trick, but there's behavioral biases at work here. There's a recency bias which feeds into an overconfidence bias, which also plays into the endowment effect. Because I own these things, they've been so good to me and I don't want to part with them. And so there's almost a tidal wave of behavioral bias here that's working against the average investor as well to skew portfolios in exactly the wrong direction as we go into what Richard puts as a regime shift, potentially.

Rodrigo Gordillo...: [00:34:17]

Well, this is what nobody wants to hear then. Everybody wants to hear that it's business as usual, or some people want to hear that they have gone 100% cash and that they should continue to be in cash and the market's going to go down aggressively from here. The first takeaway here is, look, there's a reason why preparation is key here. And preparation is making sure at the very least you have exposure to a broad array of asset classes that can deal with a broad array of outcomes, whatever they may be. So our first case, first people are asking where do we go from here? What should I do? At the very least, create balance in your portfolio. Get away from your biases, don't listen to the narrative and have confirmation bias by only searching the thing, "Who else believes that deflation is in store for us for the next six months?" Just say, I don't know, and balance your portfolio. That's a good starting spot, okay?

Rodrigo Gordillo...: 00:35:07 And then the question is, okay, how can we diversify further? We've always talked about diversification isn't just asset class diversification, although it's done pretty well. I mean look at the risk parity strategies that for some reason have gotten a really bad name. That idea of preparation, of not predicting a lot of the future, but just simply having all these asset classes in balance, this year was a non-event for this parity. For the most part, there's one or two blowouts.

Adam Butler: 00:35:31 There's one bad week.

Rodrigo Gordillo...: 00:35:32 There's one bad maybe week, maybe a couple of days.

Mike Philbrick: 00:35:36 It's stemming from a liquidity crisis.

Adam Butler: 00:35:38 Yeah, liquidation phase of the sell-offs.

Rodrigo Gordillo...: 00:35:40 Yeah, but for the most part it did exactly what one would expect it to do. It didn't suffer much in February, didn't suffer a lot for the most part in March. It was a fully expected drawdown. That's the power of preparation from an asset allocation perspective. And the question is, should I sell my risk parity now and go full hog on equities? And what we're trying to say is like, no, that still is the right thing to do. If you don't want to go further into the diversification spectrum we're going to talk about, that's a good spot. So now let's talk about further diversification.

Adam Butler: 00:36:09 The Global Risk Parity Strategy is a really good naive prior. In other words, if you truly don't know where, what sort of macroeconomic regime you're going into, the global risk parity portfolio leaves you maximally prepared for that without having to take any active risk. The challenge here, I think-

Rodrigo Gordillo...: 00:36:29 Sorry, Adam, I don't know if you're going to talk about the challenge. There's a challenge on, on what everybody's going to say, I think, which is risk parity's not going to make any money if we start investing in it now because bond yields are so low.

Adam Butler: 00:36:41 Well yeah, I mean I think you've got a really good webinar which we would recommend you go look for. We'll probably post it in the show notes, that talks about 90 years of risk parity and I think there's some extraordinary comfort for people who go through that webinar with you. There's obviously been periods where bonds have had negative yields and massive drawdowns in real terms for 40 plus years, and yet the risk parity portfolio still managed to deliver. And so I think that may come as a surprise to many investors.

Adam Butler: 00:37:13 But I mean, just keeping it really simple, Elroy Dimson, who publishes the Credit Suisse yearbook every year has orchestrated one of the greatest international data collection efforts for financial data. He's got, I think, data back over a century for over 25 global stock and bond markets, and he used all of this data to come up with a forecast of what 60/40 investors might expect over the long term from here. And his estimate is that US 60/40 investors should expect real return of about 2% a year from here.

Adam Butler: 00:37:49 And I think a lot of people are going to find that surprising and a little disturbing, because I think how can you reach your financial objectives when your required return is three and a half, four and a half, five and a half percent a year, and the forecast is for two and a half or 2% real. You need to do something to close that gap. One of the things you can do is make changes to your lifestyle. You can decide that you're going to save more and live a bit of a more prudent lifestyle. You can decide you're going to delay retirement, the number of years that you're actually in retirement versus working is a big determinant of how much you need to save and therefore your required return.

Adam Butler: 00:38:29 But for people who for whom those different paths are less attractive, you need to start thinking outside the box. And that's what we started doing about a decade ago, sort of looking at the potential returns even from a decade ago may be not reliable in order to provide sustainable financial objectives or retirement outcomes. How can we further diversify? And that's when we started looking for systematic edges.

Adam Butler: 00:38:56 So one of the ones that I think people are most familiar with might be trend, for example. So global trend following typically sort of trend CTAs have provided very strong both returns. There's AQR … and rate papers that go back over a century on returns to diversify trend strategies. Certainly trend is at a challenging decade, but I don't think there's a reason to believe that the trend premium and the reasons why the trend premium exists have completely gone away.

Adam Butler:	00:39:30	There are some other factors that we would certainly advocate for, but one of the overarching things that I think we should touch on first is why we focus on multi-asset types of systematic edges instead of focusing on the typical kind of security related factors, like the value premium, the momentum premium, et cetera. So I don't know if somebody wants to give me a break and dig into some of that stuff. Probably not. You guys won't want to talk about it.
Rodrigo Gordillo...:	00:39:56	Mike and I can talk about it, but I think this is the idea of Samuelson's Dictum, that markets are micro efficient and macro inefficient. There's a wide variety of structural barriers to arbitrage that exists in the asset allocation space, what we've always chosen to be our playground, that do not exist in the equity selection space. When you think about the vast swaths of money that spend most of their time trying to do well at, is trying to pick securities better. In a systematic world we've called that factor investing.
Rodrigo Gordillo...:	00:40:27	So when you look at a pension plan, yes, their strategic asset allocation is siloed. You have your equities, your bonds, your credit and so on. But within those silos where all the money is, they're trying to, at this point trying to bring it in-house, just trying to extract all of the gold ...]. They're trying to beat their benchmark. And they're trying to be active and they're not even hiring external managers anymore that may or may not be doing that. They're all doing it in house. More and more Canadian pension plans, specifically that we've been talking to, are firing everybody and doing that.
Rodrigo Gordillo...:	00:40:54	So the computational brain power that's going into picking better stocks has always been high. It's now gotten significantly higher. And it's easy for them to do it, they can implement that across the silos. Whenever you talk about asset allocation factor, so global macro factors, this is still not fully accepted in the pension plan space. And because of the strategic asset allocation, you can't simply grab a big pension plan and say, "Hey, I'm going to allocate wildly to these strategic sleeves when I feel like it based on these global macro factors." You can't grab this... Strategic allocation makes it, you talk about the actuaries, Mike, all the time and what the impact of that is.
Mike Philbrick:	00:41:32	I'll connect a couple of dots here too, because I think Adam, you mentioned the individual investor, but there's also the pension plan investor who does not have the ability to decide that. I

guess they could cut benefits, but that's going to be a highly contentious issue. And then when you go to your board to approve what your expected returns are in the future, they're going to look at, they're going to take your pie and they're going to look at how much you have in each asset class and where you're going to harvest those returns and they're going to have an estimate about what the future returns are going to be when they calculate all these things. And in doing so they prevent themselves from having a lot of mandate flexibility. Often their size as well prevents them from taking advantage of any portfolio agility.

Mike Philbrick:	00:42:12	And I think those are a couple of things, a couple of items where investors can take advantage of the inability for large pools of assets to arb away those types of opportunities. I think we've got lots of pieces on that stock selection versus asset allocation, and things along those natures. But I think that your point is extremely valid. You're going to have to get comfortable with being uncomfortable, with going into areas in which you may have less experience. Or, well, either way you're comfortable with being uncomfortable. If you're an allocator, then you can cut benefits or you can increase your expected returns. How are you going to do that? If you're an individual investor, you have the same choice. Both are going to be uncomfortable. You get to choose.
Rodrigo Gordillo...:	00:42:54	Yeah, but it's no shock to us because we've been talking about this since we met. It's no shock to us that the risk premia for equity factors has really not been there. Is there alpha anymore? Possibly, maybe a little bit. But whatever we were back-testing is certainly not expected going forward. We haven't seen it since the papers came out.
Rodrigo Gordillo...:	00:43:15	We had our interview with Chris Schindler from Teacher's where he was applying this stuff before it was popular. And when it became popular he saw a hundred fold AUM go into those strategies and immediately saw his Sharp ratio go from 1., I don't know, something I can't remember what, it's like 1.2, 1.5 to like 0.6 and getting worse.
Adam Butler:	00:43:33	It's a really good point actually because I think many people, there've been some papers published that purport to demonstrate that in fact the flows to factor strategies are balanced out by flows to anti-factor strategies. So you've got flows into value, systematic value, but you've got an equal amount of flows to systematic growth, or mutual funds that implement a growth strategy even if it's not sort of classically labeled systematic growth. And therefore, you shouldn't

observe any sort of crowding effect in actual factor strategies. But what can't be easily captured is the extent to which a lot of these very large pools of capital, the sovereign wealth funds, the major pension plans have taken these strategies in-house and are running systematic, long short values, systematic, long short momentum, systematic, long short betting against beta and quality and all of these well known factor strategies in-house.

Adam Butler:	00:44:35	You can't measure that by looking at mutual fund flows, but you can potentially infer it from the performance that we've seen from the strategies when they've been deployed live. I mean, sadly if you look at a lot of these kind of multi alternative funds that lean heavily on market neutral equity factor trading, these have had a very, very difficult time. And that difficult time seems to be accelerating to the downside. And if you look at the AUM in some of these public strategies, we are certainly seeing decline.
Adam Butler:	00:45:07	So we may see a renaissance in some of these factors. You know, these things typically ebb and flow.
Rodrigo Gordillo...:	00:45:12	If people start abandoning ….
Adam Butler:	00:45:13	Yeah. The reality is if a strategy consistently does well inverted, eventually that inverse becomes a systematic premium. So it can't go down forever. It needs to eventually flatline as a sort of equilibrium, but I think the cat's out of the bag. Maybe the emperor's clothes are, maybe there are some clothes, but they're not what we thought. So people need to sort of rethink.
Richard:	00:45:36	Yeah. I wanted to tie this back to what we were talking about, back to the big pools of money, specifically to pension plans and to the capital market assumptions that you mentioned from Elroy Dimson. So a lot of these pension plans have yet to update. There are assumptions on how much they're going to get out of their equity position specifically. So a lot of them are still using circa 7% expected yearly returns from equities. Do you think that that's reasonable?
Mike Philbrick:	00:46:06	Don't forget the bond side.
Richard:	00:46:07	Precisely.
Mike Philbrick:	00:46:08	We know what the bond side is. I've heard and watched people say, Oh, I'm updating my capital market assumptions now because we've had a 30% reduction in equities. Yeah. What about your bond side? Because you need to reduce your

		assumptions when you have a 30 basis point tenure on a significant portion of your portfolio.
Adam Butler:	00:46:26	And people calling it bottom without even knowing how deep this goes. We're all having these conversations. People are starting to, some of them pile back into equities. I've had conversations with advisors, allocators, thinking back into equities. We're still laying lockdown. We don't know if there's a second wave coming on. How can we be sure that this has been market bought or that we've already seen the market bought it and then we're now off 30% off those lows.
Rodrigo Gordillo...:	00:46:50	And look, we're talking about what do we do from here? The first thing we talked about is being balanced across these asset classes. And as we've addressed, the expectations are low. So let's go active. Well, we go to style premia factors in the equity side and what we're kind of concluding is those are low as well. And so again, trying to provide some guidance here. Where we go to from here is, okay, what is out there that can increase that expected return that is sustainable, alpha, that we can count on. And this is where we get to the macro inefficient area.
Rodrigo Gordillo...:	00:47:24	So all these factors that we've addressed also play very nicely on the macro space. And the question that's asked of us all the time is, okay, which are they? And which one should I focus on in this next phase? Clearly. And of course, those in the deflation camp think, "I just, I want to go a whole hog on trend." Those an inflationary side, they want to do things like mean reversion and carry and a wide variety of different group macro factors. They're really non-correlated to each other.
Mike Philbrick:	00:47:51	I think they're counter-intuitive as well.
Rodrigo Gordillo...:	00:47:53	They're counterintuitive, non-correlated, and they've been working for the last, unlike a lot of equity premiums, they've been working really well. And so the question we need to answer now for the audience is, what global macro asset classes, global macro factors we should emphasize going forward. Anybody have any thoughts on that?
Mike Philbrick:	00:48:11	Well yeah, I speculated on that and was entirely wrong.
Rodrigo Gordillo...:	00:48:14	Isn't that crazy?
Adam Butler:	00:48:17	Well, yeah. So we had an internal discussion. It was sort of a spontaneous debate and we hadn't really, it was sort of in the depths of the crisis and we didn't have data at our hands. And so there was some assumptions made about which of the multi-

asset factor sleeves were likely to provide the best ballast during equity meltdowns.

Rodrigo Gordillo...:	00:48:41	There was ... that's going on.
Adam Butler:	00:48:42	Yeah, I mean it was pretty widely held that trend was by far the best protection against a big equity market crisis. And actually when we went back and looked at the data, it was really neat to see that when you look across a variety of multi-asset factors, talking trend, and carry, and mean reversion, and skewness, and seasonality, these types of things, that it's kind of counterintuitive. For example, I think a lot of people have the impression that a global carry strategy is highly procyclical, and that's because typically the literature, first of all, typically deals with currency carry, which is in fact procyclical.
Adam Butler:	00:49:26	And because the traditionally carry strategies have implemented carry on currencies and that it has exhibited this procyclical character, but when you diversify a carry strategy across 50 or 75 global markets, including equities and bonds and commodities and currencies, what you find is that in a predominance of equity market crashes, carry does really well as a counter, as a buffer. Certainly does just as well as trend as often as trend. And then there are other factors that do well in different equity market crashes. And so really you can't tell which of these multi-asset factors are going to act as the best diversifier.
Rodrigo Gordillo...:	00:50:05	For those of you listening, we're posting that slide right now. And we go through a bunch of recessions and bear markets, I think like seven of them. There is no pattern. What's interesting is again, we go back to this idea of, okay, certainly we want to be thoughtful about our prediction, and we're using global factors in order to do that, but what do we allocate to, of these factors? Well, it turns out it's really tough to tell. The dynamics of each bear market have been different, faster, slower, affected different markets. We're not just talking about equity markets here, we're talking about diversified global macro factors that include a wide variety of futures, contracts, commodities, real estate, equities and bonds.
Rodrigo Gordillo...:	00:50:44	And so it's not a surprise after the fact, right after the debate that we all knew for certain that carry was going to be bad and trend was going to be good, that it's all over the place every single time. And so the conclusion we came to was, all right, good thing that we're an ensemble approach that uses these in equal weight because we just don't know. And so again, that

was the recent crash, but what happens from here, we don't really know which one's going to perform best.

Adam Butler:	00:51:10	Yeah, I think we can sort of historically maybe trend has been slightly less reliable. If we move into a recovery period, then trend is maybe a little less reliable than some of the other factors, but not so unreliable that you want to actually take action against it. The reality is as Rodrigo said, all of these are equally likely to deliver good returns and good diversification in whatever economic environment we move into. And so you want to have access to all of them and you want to effectively diversify.
Rodrigo Gordillo...:	00:51:44	Back to the Bernstein quote, but now on the macro side, on the macro factor side.
Richard:	00:51:49	Not to mention the fact that we've yet to see the end of this current new market dynamic. We wrote a piece recently on this called, Anatomy of a Bear Market. And we're, what, seven, eight weeks into this. The typical bear market lasts a couple of years. The last bear market lasted about 27 months. We've just witnessed a very aggressive equity rally and we know that bear market rallies are some of the most aggressive out there. And a lot of people have thrown in the towel of being short and they're like, "Okay, this is over. Let's go back." And this is still the very early innings.
Mike Philbrick:	00:52:26	It's a bull market in gold and bonds.
Rodrigo Gordillo...:	00:52:30	Right.
Adam Butler:	00:52:31	That is true. You know, one thing we haven't talked about is the fact that, not withstanding a bear market rally, is it healthy or normal for markets to be going up by 3% to 5% a day, even up 5% a day. Is that the sign of a healthy market?
Rodrigo Gordillo...:	00:52:44	My quote, the one that I sent you guys, bear markets, yo, the S&P 500 just posted the most daily swings of 3% or greater in more than a decade, even as the stock market hit a five week high. The S&P also booked its 38th session of gain of at least 1% this year on Tuesday, surpassing last year's total. So look all of this-
Mike Philbrick:	00:53:03	Those are bear market characteristics.
Rodrigo Gordillo...:	00:53:05	But what does it also highlight, which is the next point of this. It highlights that we just talked about a little bit of prediction here with our global macro factors. And over time these have some

alpha. They have enough alpha to be differentiated and add those excess returns, that we think will have those excess returns in the future. The question is, is that premium really strong right now? Should we just count on just putting all our bets, big, bold bets on all of our factors and all of our asset classes right away?

Adam Butler:	00:53:35	Well let me reframe that because I think that may not come across the way we want. But what we're observing when the market moves up and down 3% to 5% a day is very high volatility. And volatility is a really good proxy for uncertainty, and I don't mean it in sort of the … and uncertainty type context, but uncertainty in the terms of, there's a very wide dispersion of use among market participants. Obviously if prices can swing by 3% to 5% a day, then there are participants that think markets should be much lower, and participants that markets should be much higher. And those are battling it out and in a very volatile way. This high dispersion of use, high uncertainty. The question is, when volatility is high, should we be betting the same amount? So if volatility is 40% annualized at daily scale, should we have the same amount of leverage on or the same amount of portfolio exposure as we have on when portfolios are moving by 0.5% to 1% a day?
Adam Butler:	00:54:43	Well, if so, we have to make the implicit assumption that the expected returns are commensurately much higher when the portfolio is having these extremely large daily swings in order to have the same level of exposure and expect the same long-term portfolio outcomes. So if that's not rational, unless we've got a really good reason to think that the expected return on our edges is higher when volatility is high, we don't have that. There's nothing in the empirical data to suggest that. Then maybe we should scale back our exposure so that we're maintaining a normal bet size against the fact that we think that our edges have the same power today when markets are volatile as they did before, when markets are not volatile. And therefore we just want our bets to be the same.
Mike Philbrick:	00:55:35	Can I take a poke at rephrasing that?
Adam Butler:	00:55:37	Yes, please.
Mike Philbrick:	00:55:38	I think you've summarized it beautifully, but I want to just bring it and maybe make it a touch more succinct in that if you... So passive portfolios maintain their exposure in the face of risk. So you hold your asset classes steady and you let risk run you over to some degree or you can manage those exposures and mitigate the risk of it. But by not de-risking, by holding those

exposures, it implies extraordinary bullishness. It implies that you are very, very confident. Think of the Sharp ratio of the excess return over the deviation, and it just implies that you're expecting a much, much higher return. I'm not sure that in a logical sense that that is consistent.

Rodrigo Gordillo...:	[00:56:24]()	Well yeah, I mean look. You have-
Mike Philbrick:	[00:56:25]()	Maybe I didn't do a good job of summarizing.
Adam Butler:	[00:56:26]()	No, no, you have-
Adam Butler:	[00:56:29]()	The mosaic of all of it will come-
Rodrigo Gordillo...:	[00:56:30]()	We'll get there. I mean you've heard of the pricing model uncertainty hypothesis. The more volatile something is, the lower the price discovery. And what's interesting is the narrative. Like you said, Mike, in traditional portfolios you keep your exposures constant all the time and you allow volatility to happen to you. Right now we're allowing everybody, the vast majority of passive money is allowing volatility to happen to them. And they're seeing it as like, "Oh my gosh, there's so much opportunity right now. I can make so much money right now because of March, whatever, March 24. I can make so much money from here." Yeah, because your volatility is five times higher. Why don't you just lever your, you think you're good here when the markets are normal, lever at five times. Why don't you do that? Because there's a ton of opportunity when markets are normal for you to make money if you leave it at five then.
Rodrigo Gordillo...:	[00:57:16]()	So the way to think about the bet sizing is, look, this is trader's intuition. So let's go back to intuition. Have you guys met a trader that would go big during market crashes? Everybody we've talked to, there's one caveat; you keep your bets small. And the way we've always framed it is, as volatility expands, you reduce your exposure.
Mike Philbrick:	[00:57:35]()	Not de-risking the portfolio implies extraordinary bullishness.
Rodrigo Gordillo...:	[00:57:39]()	That's right.
Mike Philbrick:	[00:57:40]()	And then trying to bottom pick implies bullishness that I can't even fathom ... It's like you said, there's old traders and there's bold traders, but there's no old bold traders. I guess a wall street adage for you.

Rodrigo Gordillo...:	00:57:55	Here we are with everybody taking big bold bets right now whether they want to or not.
Adam Butler:	00:57:59	I think we should concede something because there's a bit of an elephant in the room from the way that we frame the conversation. So there are going to be people who are just believers, faith in long-term equity returns, the economy is going to be fine, there is going to be a long-term equity risk premium. And who are comfortable stepping in to equities when they're down 25%, 30% because they have faith that they will eventually recover, the US economy is resilient, The global economy's resilient. Eventually it will grow into those earnings.
Adam Butler:	00:58:32	Human ingenuity-
Mike Philbrick:	00:58:33	Companies are not going to go away, exactly. I think the problem is that we've studied global markets to such an extent that we don't share that optimism. At least I don't. I've looked enough at Japan, I've looked at other scenarios through history: Germany, China, Russia, Austria, other stock markets that have actually gone to zero.
Rodrigo Gordillo...:	00:58:55	Every equity market in the last 10 years except for the US?
Adam Butler:	00:58:59	Every equity market has, yeah, really hasn't recovered from where they... Levels, even on a total return standpoint, the levels that they were at in 2007. So a lost decade for virtually everything except for, firstly every equity market except for US equities, especially pricing US dollars.
Adam Butler:	00:59:15	So if you genuinely just are a deep believer, I mean I don't share it. There are people that share, Warren Buffet obviously shares that belief, right? He's going to step in front of the steamroller because he thinks the steamroller is going to slow down, halt, and back up. That's not the way we're wired and we're talking to other people that are wired like us. The Great Depression, was a market that went down 90%? It's a market that went down 80% and then got cut in half again. So we know that this can happen and that's, I think, the framework that we operate in. Obviously we're not going to be speaking to everybody, but there's going to be a group of people that recognize those extreme risks that will resonate with.
Mike Philbrick:	00:59:54	I think, Adam, you, you raise a really great point. This is contextual. If you're 25 years old, have a meager amount of savings and you're continuing to save for a long period of time, the equity risk premium is pretty good. You should be praying for the seventies. You should be very happy about your ability

to save as long as you can remain gainfully employed. So this comes back to am I a stock or am I a bond, personally, and how that might have implications to my portfolio.

Adam Butler: 01:00:24 And also if you're a young person, you should be really, really pissed off that they haven't allowed markets to reset so that you have an opportunity to get in on this racket as well.

Mike Philbrick: 01:00:35 Absolutely. They've preserved higher valuations. They have done that by layering on debt that those companies and that society is going to have to pay for, that you will have to pay for through your taxation of your earnings in the future. I grant you, you're absolutely right. It's interesting, Warren Buffett's first three moves have been to issue bonds to get more cash, issues those bonds in other currencies other than US dollar, and to sell airlines. And so a lot of people are saying, "Hey, let's buy the dip in front of Warren." And it's kinda like, well, Warren has a lot of cash on hand, first of all, and he's building more cash. And your idol hasn't even made a move and you've decided to make a move. That's notwithstanding the fact that most of the people with money that we were talking to in most of the allocations with money, are those that are in decumulation, which cannot have a sustained period of negative returns and deliver the income. Those are really difficult and challenging periods.

Adam Butler: 01:01:30 Retirees and pensions, et cetera, yeah.

Rodrigo Gordillo...: 01:01:33 And what we know about a traditional 60/40 portfolio equity markets, everybody knows this, everybody talks about is that left tail. That three standard, four standard deviation events happen much more often than one would expect. So we talked about most portfolios, they keep their allocations constant and allow volatility to happen to them, hence allow three, four center deviation to happen more often. And what we're advocating is making sure you get your bet size right by keeping our volatility as constant as possible and allowing our exposures to happen.

Rodrigo Gordillo...: 01:02:05 Volatility is three times higher, we're going to have three times lower the exposure. Volatility is significantly lower than whatever we target. Volatilities across the board from 8% volatility portfolio to 6%, all the way to 25%, you choose your target and we'll be able to do that. And the benefit of sizing consistently, making sure you're continuing to keep your bet size constant, is that the left tail, the left fat tail is actually kind of gone away. It starts looking more like a right fat tail and a smaller left tail. And so less big adverse scenarios that will derail your retirement fully by being thoughtful about how much

		money you're putting to work given the volatility of your portfolio.
Adam Butler:	[01:02:47]()	Yeah, those tails wag the long-term average return dog is the challenge, right?
Mike Philbrick:	[01:02:52]()	If you talk about a group that's benefiting, how about someone who's got a defined benefit pension plan that's well funded right now, and I mean they're going to get some deals and they're retired? Oh my gosh. They're going to be in a nice deflationary moment. They've got a nice bump in their lifestyle.
Rodrigo Gordillo...:	[01:03:08]()	No volatility there for them.
Mike Philbrick:	[01:03:09]()	No volatility. Cruises just went on sale, they're going to get those for 25% off. They're going to get a great deal of the next car they buy.
Adam Butler:	[01:03:17]()	Who wants to be in a cruise ship right now though?
Mike Philbrick:	[01:03:21]()	Come next year it might be a little different.
Rodrigo Gordillo...:	[01:03:23]()	I think we've covered everything we wanted to cover. Sadly, we don't have an awesome compelling narrative with a specific direction that ReSolve brain trust was able to put together for you.
Mike Philbrick:	[01:03:33]()	But if you want one, we can brain map it for you.
Adam Butler:	[01:03:36]()	We'll create four, you can choose the one you like.
Rodrigo Gordillo...:	[01:03:38]()	I have one. You guys can give me a call and I'll tell you my personal …
Mike Philbrick:	[01:03:41]()	There you go.
Rodrigo Gordill.o..:	[01:03:42]()	So yeah, as always, the idea here is look, when you don't know, you diversify and there's many ways to diversify. We walked through the idea of being balanced in your asset allocation positions, both on the asset classes that you were going to add to your portfolio, as well as how you're going to weight them. And then beyond there and try to figure out active ways of trying to predict a little bit, cheat a little bit from your balance. And when you're cheating a little bit, make sure that the things you're cheating with are also balanced and diversified.

Rodrigo Gordillo...:	01:04:10	And finally, as we stand right now, what do we do going forward? Now that I have my balanced portfolio, how much money do I put to work? Well, you want to be more cautious right now as volatility continues to be incredibly... You're just heard my numbers: Up and down 3% every day still.
Rodrigo Gordillo...:	01:04:25	So, I think that's what we wanted you guys to take away. Again, if you want to get a very thorough refresher of everything we discussed, the 12 Days of Investment Wisdom walks through a lot of these concepts in depth. You like any one of the episodes you click through, you can download the white papers or the reports. And, as always, we're here. Every one of us can answer your questions and get more in depth if you want to get more color. Anything else, gentlemen?
Adam Butler:	01:04:48	No, thanks for everyone's perspectives. That's great. Okay.
Mike Philbrick:	01:04:51	Have a great day.
Richard:	01:04:51	Yeah, that was great, guys, Thanks.
Adam Butler:	01:04:53	Thanks.
Rodrigo Gordillo...:	01:04:53	All right, signing off.
Speaker 2:	01:04:55	Thank you for listening to the Gestalt University podcast. You will find all the information we highlighted in this episode in the show notes at investresolve.com/blog. You can also learn more about ReSolve's approach to investing by going to our website and research blog at investresolve.com where you will find over 200 articles that cover a wide array of important topics in the area of investing. We also encourage you to engage with the whole team on Twitter by searching the handle @investresolve and hitting the Follow button. If you're enjoying the series, please take the time to share us with your friends through email, social media, and if you really learn something new and believe that our podcasts would be helpful to others, we would be incredibly grateful if you could leave us a review on iTunes. Thanks again and see you next time.