Rodrigo: **00:01:14** We're live.

Richard: **00:01:17** Hey, boys.

Mike: **00:01:18** There's a bit of a delay in Rod’s audio.

Richard: **00:01:23** That island internet has … island internet as well and he seems to be doing fine.

Mike: **00:01:32** Yeah, true. True.

Rodrigo: **00:01:35** … it might CPU and I'm 100% this is a problem.

Mike: **00:01:36** All right. We'll figure it out. Cheers, gentlemen. Cheers, Patrick, thank you for joining us for ReSolve Riffs and it being 24 hours earlier than usual. Appreciate the ability to come on and I hear you're also on Caribbean Island.

Patrick: **00:01:55** That's right.

Mike: **00:01:56** That's fantastic. I will say that anyone listening to this should realize that there is no investment advice here, there's only fun and opinions and some thoughts and that you should get help. You should probably go subscribe to Patrick’s service and get some help with your trading. If you're doing that et cetera, all of those things, we're going to have a wide ranging unbridled conversation and we want the ability to do so. So no financial advice here, not by these four scallywags for sure. Now, with that said, welcome, Patrick. We love your stuff and maybe why don't we kick it off with you giving a little bit of your background for everybody, because you'll do a much better job of it than we will. Then Richard, I'm going to let you run this, you've got a bit of some thoughts that you want.... So I'm going to let you roll with it and I'm just going to pipe in where I want.

Richard: **00:02:51** Sounds good.

Patrick: **00:02:52** All right. Sounds good. So who's first? Me?

Mike: **00:02:55** Mm-hmm.

Backgrounder

Patrick: **00:02:57** All right. Well, what kind of background do you want? You want my backstory, or you want just what I'm doing right now or all of it?

Mike: **00:03:04** Well, if you tell us what you're doing right now, and you used to be a trash collector, we might not put as much emphasis on what you are saying. We might have more I'm not sure.

Patrick: **00:03:14** You know what? Actually, I'd love to circle back to it because when I graduated at school, I got a job working at CIBC at their discount brokerage right out of school. So I was a trading and just as a kid on there, and I got right into it in 1999. So my first experience was going right into the bubble peak. I want to circle back to that. Well, that's a fun story we can we can talk about. I had the opportunity to work on an investment team over there later on where I was the trader managing a pool, about a $50 million pool of just option writing.

So what I was doing was premium harvesting, just selling puts and covered call writing and doing that with over and over again. That's where I cut my teeth and learned everything on options doing that. Then I spun off and I have been in this business that I am for about 10 years. So there was a thing that's on the CIBC floor that you can stay 10 years but after 10 years you're a lifer. So, you either had to make a decision to go and chart your own course or you're going to be a bank guy forever. So, back about when I was about a decade ago, I spun off and been doing what I'm doing now. I'm running Big Picture Trading and we basically are doing market analytics and providing all sorts of analysis on the markets and providing trading opportunity ideas to my members and I run a couple podcasts. The Market Huddle and I co-host Macro Voices with Eric as well. And so had the opportunity to just pay...Like what you guys are doing, pick the brains of other people and just have a great conversation to learn. I've learned so much from this process and it's so great. And thanks for having me on.

Mike: **00:05:23** It's a pleasure. Isn't one of the blessings of the quarantine world, this whole idea for us stemmed out of the fact that we couldn't have those water cooler conversations as much, and we just wanted to have some chats with people about stuff that's investing centered, and it just gave us a great opportunity to share those conversations with other people as well. So, one of the hidden blessings of quarantine.

Patrick: **00:05:51** Yeah, for sure.

Richard: **00:05:53** So, Patrick, we know of your options background, but what else do you bring to the table when it comes to your toolkit for making sense of the world of investing? And what kind of framework do you use for your hypotheses?

Traders vs Money Managers

Patrick: **00:06:07** Well, first of all I have the blessing of predominantly being a trader, which basically, when you're managing money, and especially large sums of money, you have to follow all sorts of portfolio theory and you have to follow diversification and all sorts of things as a fiduciary to make sure you're doing everything right. As a trader, you can be a little bit more of a gunslinger, you can see an opportunity and you can act upon it. So I have the opportunity of being able to be long or short, or be in cash and have all sorts of flexibility to be selling premium or going long gamma, all sorts of different things. And really, it's about finding asymmetry, it's about where can I find an opportunity where I can manage the risk, there's some opportunity where the risk can be limited, defined in some way. And the opportunity is really great if it works, and it doesn't have to always work, it's just about finding that process. So, Big Picture Trading, I was originally partnered with some guys that we were doing a trading program, but they were day traders and they were just in and out of the market, just trading SPOOZ, and I did it for a while but I realized after a while that the real money was in catching the really big moves, not just fighting the machine trying to clip a paycheck down in the trenches in and out within seconds or minutes, it was more of the, look, if I can just catch these bigger moves in the market, just time where the cycle is that's where the opportunity is. And that's really where I spun off from them and started Big Picture Trading, hence the name.

It really came about on the idea that you want to use a top down process of macro, you want to understand what is actually the unfolding reality in the macro space. And the fundamentals are incredibly important but they're very hard to market time based on the fundamentals alone, because the trends that are emergent are very much driven by things like money flow and when the cycles are playing out. And this is where I love technical analysis, but technical analysis in itself is incomplete. But in a way, fundamental analysis is somewhat incomplete as well. There's this beautiful way of, I always like to say I'd like to technically trade fundamentally good things, you got to merge the whole process together. So, when I'm doing this top down process of finding my opportunities, I'm looking at what are the big macro trends, where's the timing associated? And then I bring in the options market to try to build the asymmetry in the opportunity, how can I express this trade in a way where I could take it in the right size, know what my risk is defined to? Where am I going to take my profits? I'm going to manage it, the trade along the way and develop an overall methodology that follows this stream of thought.

Options and Trends

Mike: **00:09:24** I'm going to get a couple of things there. How do the options help you harness the big trends? I also want to understand a little bit more about maybe getting into how you identify those trends. What are your checklist indicators, if you will, but maybe before we do that, how do the options for you provide that opportunity to harness those big moves?

Patrick: **00:09:51** Well, the options market is evolving. So it's not always the same cookie cutter strategy. It has to change like for instance, right now it's very challenging for instance to put on a Bitcoin short with the options market, like you can use something like a micro strategy, or one of these companies that have fully listed options that are committed. But the skews and the volatility premiums mean that it's not very asymmetric to buy a put option outright on this market. So you can't say I just use options, there has to be the right conditions for the setup in order to build the trade that way, and then you have to be creative on how you construct it. But options are to me the convexity and being long options is something that I find a lot of tactical ability to put on trades in an interesting

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way. So, a lot of people don't like the theta burn, the idea that when I buy this option, I have a defined time frame, my option is time decaying and it's going to cost me money, there's a carry cost to expressing the trade with an option.

But I look at it from a little bit of a different perspective where I remove substantial amounts of risk beyond that premium. Often, one of the reasons why traders need to... or investors and, and portfolio managers need to anchor off of diversification is because it's one of the most commonly accepted ways of managing risk. So you diversify with uncorrelated assets but I could take on a very concentrated position on a theme that I feel incredibly high conviction on and I can define my risk to a set amount of the portfolio and it's an absolute risk. So if I say, I'm not willing to risk more than one or 2% of my portfolio in maximum loss on this idea, I could still have even a 20-30% allocation to the trade idea and still be able to define with an option my risk to that limited amount. Now if my high conviction idea comes to fruition, I'm levered up properly and exposed to grabbing that return while somebody that's over diversified. The obstacle with diversification is that while it diversifies risk, it also dilutes chances of making big returns. Because one thing that's working the other things not and you're getting the average return and so more of a methodical rise and that's great if you're managing someone's multi million dollar net worth. But when some investor comes in with $100,000, they're not looking for a 7% return, they're looking to make a meaningful return on their money so that they can actually watch their money grow.

So each one has a different way of approaching it. And while there's a lot of investors and money managers such as yourselves that focus on the very traditional role, and there's nothing wrong with that. But I try to present alternative ways of approaching it and finding interesting ways of managing the risk still while leveraging up for those opportunities to that are my big favorite themes.

Richard: **00:13:23** How do you think about the sizing of those positions? I mean, you're not relying on a grand portfolio construction theme. Rather, you're being more opportunistic in the themes that you're addressing? How are you thinking about that position sizing? How do you fit in those different moving parts in the portfolio?

Patrick: **00:13:43** Right. I'm a trader, I'm not a portfolio manager. So I use a very trader approach to the sizing of my risk which is it's a percentage of the portfolio. So if I'm sizing my risk to 1% or 2% per trade, then I'm working backwards. So, if I'm trading a million dollars, I can go in there and I'm sizing the trade based upon knowing that if everything goes wrong, I'm going to get nipped by 10 grand. That's my exit, that's where I know, and I can take on a trade as big as I want, so long as I can bring my risk down to that amount. And I think that that's a compelling way of approaching it. What I, what I love doing with options is being able to through this process, leverage up the portfolio to considerable leverage that most people would find gut wrenching. But I'm able to do it because I construct the trades in a way that each of these risks are defined.

So, I'll give you an example. Let's say I went long gold and I turned around and gold goes up let's say 3% or 4%, on the upside. And what I often will do is sacrifice the immediate returns that I've made to buy a protective put to actually hedge or lock in that gain. Now, I basically use the capital gains that I've earned to actually finance the insurance. But I've actually made it a risk free trade. Because now the put is paid for by the capital gain. Now I have 100% of the upside, and all the downside risk has been removed. Now I can turn around and leverage into a new opportunity because this one that I'm long has already been constructed into being a risk free trade. This is a, this type of methodology is not commonly utilized on our space, there isn't too many people that approach their methodologies that way. But so long as you are developing a way of always managing risk. That's the first thing. Like when I train traders, I say stop calling yourself a trader, call yourself a risk manager because the first thing you have to do is always manage the risk, the profits take care of themselves. If you get enough of the trades into the enough trades, just by accident, you're going to make money on the upside if you get into enough opportunities. But what it is, is that we, especially retail investors fall into a trap where they can't sell a loser, they can't sell something at a loss. And they go down the spiral of allowing something just to get bigger and bigger and worse and worse. And the damage that it's doing to your portfolio traps them. There's that saying that on Bay Street at least that was in my day where it's like the definition of a long term investment is a short term trade you're losing on. I don't know, have you guys ever heard that one?

Mike: **00:16:49** Yeah. That trade just turned into an investment. I'm now a long term investor.

Wrong, or Early

Patrick: **00:16:56** Yeah. So what I love is the way that when I construct a trade, because an option has a defined time, there's also an inherent exit strategy built into it, which is that if it's not working, if I bought a one-month protective put just for simplicity sake, if in one month has gone against me, there's a forced exit coming at expiration. And it forces me to go back to cash and reevaluate, well, maybe I was wrong, either I was early. That's what we always say, we're not never wrong in the markets we're just early, right? But either you were early to catching the cycle or whichever you're looking for, you have to step back reevaluate and then when you do that you're looking at, well, should I get back in? Or should I be allocating the money to another opportunity that has developed since the last time I was looking at the markets. And you're always reevaluating it and there's a fluidity to trading that way and it's not easy for anyone to just do, you have to develop an actual trade plan for following these types of rules and going through it.

Rodrigo: **00:18:09** Can I dig a bit more into that trade plan. So, different traders have very different perspectives in terms of the timeline that they're looking at, long term, midterm, short term. And also, what tools are you using to evaluate it? So technical analysis is fairly popular, fundamental, understanding what is happening in global macro scale. What do you lean on most?

Patrick: **00:18:36** Well, I feel that the biggest money is always made when you're lined up with the big macro fundamental. Like you could trade for instance, gold to the downside, you could be a technician and see that it crossed below a 50 day moving average and some technician says I'm going to short it, and then they're going to hit it. But there isn't a macro fundamental reason in my opinion to be short gold. And therefore, that's just a very short term trade that may not even have very much a symmetry in it, is just an opportunity for a trader to clip something if they're lucky. But catching the next big breakout on the upside during a reflation impulse in the markets. There is a big upside and I'm more inclined in that circumstance to trade in line with the macro fundamentals of the narrative that we build and I'm using only the technicals as an action point because when you're dealing with options you have a defined time horizon, and therefore you need something that's an action point saying, this is when I should act upon the opportunity. And if you just buy it on fundamentals alone, you almost have to buy the underlying because like a value investor you might have to have a three to five year time horizon on holding something like that and that doesn't necessarily lend well to options trading which have these much shorter time horizons and you're suffering theta burn, carry costs, all sorts of different things built into the trade.

So you need to have some degree of market timing when using options, and that's where you have to. But macro, having some sort of bigger macro landscape that you've built. And I have the opportunity of listening to so many really smart macro investors come on to our different shows. It helps me construct a base narrative of what I think can happen and then I'm always stress testing it against the technicals and the charts to see, is that the unfolding reality right now? I mean, it's a great-

Rodrigo: **00:20:53** Isn’t every macro player just a bear all the time isn't everything? ....

Patrick: **00:21:01** If you listen to macro voice and obviously that's the case.

Richard: **00:21:02** …

Patrick: **00:21:05** Yeah.

Richard: **00:21:05** You mentioned gold as an example a couple of times. So I'm guessing he's pretty long gold at this point.

Rodrigo: **00:21:16** So you’ve got the macro level, you’ve got your technicals. I've also heard you talk on the options, expired flows and triple witching hour, like there's certain flow of information that I think you use as well to help you with entry and exit points. Is that right?

Patrick: **00:21:31** Well, those flows are much more relevant to things like a week in week out timing, like the gamma pin, which is a common thing that develops into an option expiration, is just the fact that dealers have to be buying and selling that many more futures in order to keep themselves hedged out. And therefore, there's a natural pinning effect to the market. So if you're trading, let's say, a one week out option expecting big volatility and you're doing it into an option exploration with a huge gamma pin, you're fighting natural resistance, you'd have to have a true macro catalyst emerge to really unpin the market and drive an impulse move. So that doesn't drive my macro narrative, that's more of getting into the granular parts of the short term market timing, the way Kevin and I on that market had always talked about is that when the Market Huddle were like two traders in the trenches, like if it was World War One and we got bullets flying over our heads, like you're right there in the trench on the front line while a lot of macro traders are out, the generals in the back, they're sitting there, this is the big picture of what's happening and traders, you're right in there, you're in the grind fighting to get the better fill, to get the perfect execution and so it's a balancing act. The macro is something I lean on, it's something I always have in the back.

But there's no point like, for instance, I'll give you an example. I was for a long time. I was always talking with Brent Johnson with his Milkshake Theory and I got to spend some time with him down in San Francisco and we always shoot the shit. And for the longest time, I subscribed to the view that dollar strength was a narrative, but there was a technical backdrop for it, there was a technical uptrend in the dollar for years. That was something that I was able to see, well, there's a macro narrative and the trends emerging on the charts are confirming that macro narrative, and I'm going to stay. But as soon as that dollar trend shifted, and as soon as we saw the liquidity flows shift, and as soon as the dollar became incredibly distributed, well, Brent's on his own. I'm going to adapt to the unfolding reality and if the dollar bear here is coming in, well, if I got the story wrong, well then let me go to the drawing board and what could be the story and you have to go and rethink it and ask what is happening that's different than what you originally constructed in your macro narrative. And it's always a stress test.

I find being a good trader involves a large amount of humility. The more I find someone that is a cocky piece of shit that is so sure they know exactly what's going to happen, you know that you do not want to take that person's advice because there's going to be a moment where the market is going to school them.

Richard: **00:24:56** Trusting your priors, right?

Patrick: **00:24:59** Yeah. A good trader is always willing to stress test their ideas to see whether they got it right and have the mental flexibility to say it's not working, there's something different happening and I'm not going to lose any more money trying to force onto the market something that isn't happening, you have to be able to be-

Mike: 00:25:21 Constantly updating your priors.

Patrick: 00:25:23 Yeah, absolutely.

Rodrigo: 00:25:25 I was so cocky, I became a quant**.** I got plowed over and over again, I'm like okay, some machine needs to make those decisions for me.

Richard: 00:25:36 So maybe just summarize, Patrick, you're looking for convergence between the technical analysis that you're using with the macro backdrop or the narrative, and you're looking for that convergence, and you're expressing those views through options because you're looking for the symmetry and the loss and the asymmetry of the gains that you can get from the options. Are these primarily exchange options? Are you looking at only OTC?

Patrick: 00:26:00 Yeah, unfortunately I'm not a big enough trader to go OTC. I don't have my … account. But I predominantly focused on exchange traded options and rightfully so, there's good liquidity and all of my members and anyone following my work can actually replicate what I'm doing if they liked the idea. And so exchange traded options are for sure the better way that we always approach the markets.

Mike: 00:26:31 What indicators or data sources are you using to track the gamma pin levels and those very unique viewpoints?

Patrick: 00:26:43 Actually, I'm very good at cherry picking other people's work. I don't actually do my own gamma calculations. So we're good friends with both Charlie McElligott and Brent … over at SpotGamma, and we have a good relationship with them. So we get their work. The one thing that I... I'm a trader, first and foremost, so I don't get in the trenches doing my own analysis all the time, especially when there's smarter people that are allocating all of their time to come up with the data and why am I going to go and try to...Am I creating alpha by trying for me to get an edge over them? Or are they giving me the backdrop of their information for a small subscription fee and I can now go on and trade, understanding the data that they're producing? I mean, you want to understand who's creating the data and how they're creating it? And is it good data? Is it relevant? Does it add value to your trading? You have to go through that process, but I don't mind allowing other people to do the work for me. So these guys are pretty good. The SpotGamma site is a great low cost subscription site to give you the levels. It does a great job over there.

Avoiding the Land Mines

Rodrigo: 00:28:10 And that makes sense. Richard, I think you summarized it as you got your convergences between the global macro, the technicals but also, I think this idea of understanding the flows and the gamma is more about avoiding landmines when you're trying to put your trades on. It’s an important thing to think about.

Patrick: **00:28:26** It's an important consideration. And generally, what we have seen is a substantial growth in the use of options. Actually, if you share the screen over here, let me just see, this is actually the recent chart from Brent … over at SpotGamma. What this is actually showing the blue line, what we're looking at here is taking the difference between options that were purchased to open at the buy, versus selling the open. So how many sellers of premium are there versus buyers? And in blue, is equity call options. And what you're continuously seeing today is that all of these Robinhooders and all of these new wave of traders that have come in this COVID period where this amazing phenomenon, by the way, what we saw, let me just zoom in on this-

Rodrigo: **00:29:24** That’s gonna help. We’re starting to see that started getting out of control, January 2020. Is that what we're seeing?

Patrick: **00:29:29** Yeah, but no, it was about April, it started to really spike in April. And what we had was a wave of people that basically were stuck at home getting served checks, and they were like, I'm going to be a day trader. It's amazing for-

Rodrigo: **00:29:46** … became day traders.

Patrick: **00:29:48** Yeah, it's amazing the phenomenon that we saw in this, I never would have predicted in a million years. I was so shocked to see how this post COVID period emerged. I would have never been able to have predicted this the way it played out in a million years. But it is what the conditions from we are. But anyway, the point here that on this chart is showing the equity calls and what it's showing here is that we have an ever increasing amounts of traders buying to open call options to rent the upside of the market, and it's becoming an increasingly popular thing to do. And that is just evidence of the froth that is currently in the markets, this era of easy money where everyone just can go, like it just the amount of stuff that you see on TikTok now with these people saying it's really easy, I just look for a stock that's going up, I buy it, a week later I sell it and look how much money I made. That's the new investment strategy of 2021.

And so a lot of these traders are using call options to do this. That shows a lot of froth but it also shows that someone's on the other side of that. So if retail investors and institutions are net buyers of calls, who's the seller, the dealer? So the dealer is short gamma. And now what happens is that as the gamma on these options into an expiration is coming up, they're actually going to be suppressing this. It depends actually what the conditions are whether they have to buy up the market to the upside from there. But option flows are a big deal now, they weren't a big deal a year or two ago. When I started in the options business, I thought this is my little secret thing, I'm going to just be me and a bunch of traders are going to take advantage of the options market. Now everyone seems to be an options expert. It's like a rolling, there's that one guy that turned 20,000 into 2 million doing Tesla calls over the last thing like all of these crazy stories of people that are just rolling options. And it's created a bit of a fever on this, but we're finding ourselves what you see here on this chart, we find ourselves where actually in the exchange traded options market for put options, people are actually net sellers of puts, while there's an extraordinary ratio of people that are net long calls.

That just shows just we're at a stage of sentiment where easy money is in there. It's like this is easy, just buy the calls and make money. And what's interesting is the last two times that we saw this, Brent was talking about here was January before the COVID drop. And again in August, both times that we were in similar conditions to today was right before some mean reverting market correction or in the case of January, it was actually quite a severe market crash. But paying attention to these extremes gives you clues as to when things have gotten a little frothy and maybe there's not much asymmetry in being long. It doesn't mean the stock market can't keep going up for a couple more weeks. It's not like I came on your show and I'm marking the exact market top here and calling it, but you know that at some point there's probably more downside risk than most people are comfortable with. And especially there was a chart, let me just see if I can dig up this chart. Hold on a second here. But there was this chart showing the... I have it right here. These are two other really interesting sentiment charts. This was showing on the right hand side you have Citibank research, and it's the panic euphoria model. And we have now reached a point in their euphoria blowout that has surpassed the 1999 Peak. Now you can push back, I don't want to claim there's a market crash coming like 1999 per se. But what we do have is a market that's incredibly frothy and the era of easy money is there and what I do know is that through history whenever traders and investors get so sure that the upside is the only path, the market plays the role of the great humiliator and teaches everyone a good lesson as it drives a liquidity correction on the other side.

So right now, I'm not seeing a lot of asymmetry and pressing the long side of this market, there is definitely the path of least resistance, like the S&P measures up to 3900, or maybe even 4000 on the upside. For the maybe next week or two, the market may very well tack on a few percent. That is actually something that I would accept as a very reasonable probability. But you're almost trying to squeeze a couple percent on the upside knowing you're going to get caught in a 10% market correction. Now, of course, I'm talking trading not investing. But as a trader, you're trying to scalp a couple percent, does that sound asymmetric? I would never take a trade like that where I'm going to try and make 2% at the risk of losing 10. I look for the exact opposite ratio where I can risk to two make 10 and so right now, I'm very cautious about the markets. Things have gotten really frothy. Everyone is so sure Janet Yellen is going to take care of business. And I'm not so sure.

Rodrigo: **00:36:05** So, you did not bother to buy bitcoin.

Patrick: **00:36:09** Bitcoin for sure. No. I'm a no coiner. Sorry.

Mike:	**00:36:15**	So are there any asymmetric trades to the downside at the moment where you see the limit on the upside, and there's a potential asymmetric trade for you on the downside, or in this type of froth is that folly.

Rolling Straddles

Patrick:	**00:36:31**	I always position myself on the short side of the market by rolling straddles. And it's a little more of a... I don't know whether you guys want to get me into this, but the point is, is that by rolling straddles your call option often is offsetting what you're losing on the put while you're actually trying to discover where a market top is. So it doesn't involve any real market timing. The problem today is the market has got so much momentum, that it's a dangerous proposition to short. In fact, I've dabbled with a couple of shorts and had to cover them pretty quick, because it's not yet a market that is ready to be shorted. There are different strategies you can do to try to position yourself that you have skin in the game if the market turned or a way of reducing the volatility of your portfolio by having some of that downside hedges built into your portfolio. Actually, that's one of the strategies that I think is really useful today is, now what I'm doing in a lot of cases, I'm actually rolling equity long positions I have into deep in the money call options. And what I'm converting there is that a high Delta call option is actually in some degree or another synthetically behaving same as the underlying. Now, there's tax considerations, if you have big capital gains, you've created a tax disposition and other considerations. But when I roll into that, you've actually created a convexity in the position that if a market correction starts, you actually, the worse it gets, the slower your loss is incurring. Well, it's about the natural convexity of delta and you have a situation where, in these periods, I might not necessarily be shorting the market, but I'm positioning myself where I'm not going to get my face ripped off if the market does start a liquidity event to the downside, and I have ways of managing the risk out. And that's one of the things I actually pride myself in the portfolio like in the in the portfolio that I have there during the entire COVID crash, I only experienced a 7% drawdown on my account during the whole period because I was able to offset so much with the way that I positioned it. And then I was there for the turn, and so you want to find ways of using options, and that's another thing. Most people when they learn about options, they immediately associate with speculation, with leverage. I'm going to go and with a $10,000 account, I'm going to control $100,000 of long equity, They are basically using the option as a gambling tool as a way of getting a big return and then they can parade all over the internet, "Look at my 500% return on this position."
Rodrigo:	**00:39:39**	It seems Taleb did amazingly this year.
Patrick:	**00:39:45**	Yeah. I like to look at options as a risk management tool. To me, it's about how do I make sure that when the left tail risk kicks in, when the market really starts to get ugly, that my portfolio is not getting killed. How am I reducing the overall volatility? When

you do that, especially for people such as yourselves that are looking at Sharpe ratios, or Sortino ratios and all this stuff, the volatility or standard deviation of your portfolio becomes a big consideration. If you can reduce the overall volatility that you're experiencing, you're going to have much better numbers coming out in terms of your performance and whether you're creating alpha in the portfolio. So I like to look at options as hedging tools.

Rodrigo: **00:40:35** I think this is like an interesting part to get into, it really comes down to cash management. I used to be a poker player and when you go into the table, you're not going to bet 100% of your of your bankroll and going to play no limit Hold'em. You will need to have 100, 150 times whatever you're playing, so that you can survive the ups and downs of-

Patrick: **00:40:59** The draw downs.

Rodrigo: **00:41:00** The draw downs to your cash flow, I can't imagine you're going out there and putting all of your money in options that have theta decay, that have asymmetry. How do you manage, I guess, is the question . How do you manage your cash, generally speaking, given that the you really are getting non recourse leverage, so you can do a lot with that?

Sizing Risk, and Gambling

Patrick: **00:41:23** Yeah, it comes back down to what we were talking about at the beginning. I actually size my risk as a percentage of the portfolio, very similar to your example of using gambling. What you're trying to do is size your risk. So a lot of traders mistakenly are saying, I believe this will happen, this option position will make me the most amount of money if it happens, and then when it doesn't happen, they have their faces ripped off. And they take monstrous losses because an option has to be considered an absolute risk, like an option gets zeroed when you're wrong and you have to position in your portfolio based upon sizing the trade that that is actually a realistic chance of happening and that you have to approach your trades, but when you're building asymmetric trades... And so this is where we could talk a little bit about the difference between trading and gambling, because when someone goes into a casino, they're looking for a probability edge, they're looking for an edge where the mathematical probability is better for me at this moment, because I counted the cards or I did whatever and now I'm going to start betting because I know that I've got the edge.

For me as a trader, I look for my edge in the asymmetry of the trade, and not the probabilities of the trade. In fact, sometimes I might only be scoring a 40% win rate. But sometimes I'm getting a four or five to one payoff and so even though I might be losing even more often than I'm winning, if every time you lose, you lose $1, but every time you win, you're winning three or four, then even with a 50% success rate, you're raking in huge amounts of money. So me, I don't focus on claiming to always be right and never wrong. I found some secret holy grail where all my trades work, no. I have a good whack of losers that come in, but I can actually contain the risk, manage the risk, I have a way of managing those losses down to small paper cuts that are just a part of the trading process. And then I'm there for the big picture move. That big move that you catch and win that big payoff. Sometimes one trade will make me more than I lost on six trades.

Mike: **00:43:50** I think you're nailing a.... So, a couple of things. One, investing is something and it's very different than trading.

Patrick: **00:43:58** Very different.

Mike: **00:43:58** The business of trading is what we're talking about here and you have to have the trading plan and do this in an extremely disciplined way. You're taking these very small portions and hoping to get large payoffs, almost like a VC would investing framework. And so that really has to be stated, I want to state that explicitly. So, don't try this at home if you don't have the trading plan, if you haven't looked into, or the knowledge. And if you lack the knowledge, go get the knowledge, Patrick, you've got great information and courses, use some guidance and that sort of thing. So, the trading side of it is, that part is exceptionally important. And then I forgot what I was going to say.... Then from a behavioral perspective, when you think about the behavioral edge that you're exploiting, think about this. How do people act? There's the bias of sell the winners and keep the losers. In this case, you're saying no, we sell all the losers, the losers have a very fixed cost. And we beat the winners into full and total submission.

Patrick: **00:45:11** Love it. Exactly.

Behavioral Investing

Mike: **00:45:12** So, by doing so, what is the behavioral ability for participants in the market to be able to do that, to actually lose on seven out of 10 trades, make seven or eight times the money on the three trades and do that over and over and over again.

Patrick: **00:45:36** So you can improve, it's a tradeoff, because if you're going for the big win, you have to ride an option a little longer than someone else would. And so a lot of times a trader might be just targeting a double on an option and they might be able to hit a winning percentage greater than 50% in the process. So it's just my style, happens to be more of a VC model, which is like, I want to catch that big macro trend and ride it for everything. I've caught some really big wins doing that way. But there's been a fair share of paper cuts along the way where you're testing the market, is this where the breakout's happening? Is this where the opportunity is emerging? Nope, I took a loss, I'm going to go to the sideline and reposition. But what I love about it is you don't get trapped with your losers. The funny thing is back when my very early days at CIBC, one stat that I found out from the discount brokerage side is like 90% of discount brokerage accounts are dormant, they basically are not trading at all. And one of the reasons that is a common thing is because these retail investors start losing on their stocks and they refuse to sell them at a loss, then that portfolio-

Mike: 00:47:04 They ignore it.

Patrick: 00:47:04 They just ignore it.

Mike: 00:47:05 It’s an investment.

Patrick: 00:47:07 Yeah. It's a long term investment.

Mike: 00:47:09 It becomes a long term investment.

Patrick: 00:47:10 It becomes a portfolio that you're waiting for this thing to turn and as a trader, you have to always be looking for the next opportunity, the next thing and you can't get trapped in trades that aren't working. And what I love about the methodology of using options, even though we got carry costs and theta burn and all these other issues, it forces you out, it forces you back to a neutral state where you can come to the markets again with a clean slate and say, where's the next opportunity? Where's the next position to take.

Mike: 00:47:45 Do you find just one more... One more follow on question, sorry guys. Last one for me. Do you find when you look at your trades do you find a follow sort of the Pareto Principle then, like sort of 20% of the trades provide the vast majority of the actual profits? Or is it a smaller?

Patrick: 00:48:04 For sure. Absolutely. But I think even if you read some of the top traders in Market Wizards, they'll give you a similar style kind of things where they'll say something like I think it was … O’Shea that said that I come up with 34 major investment themes a year and make all my money on four of them. It's this idea where I you're always trying to find out where is the next big move? Where is the next opportunity, but you allocate money to these trades to discover which of them is going to be the trade and you discover that no, this is the wrong idea. I got this wrong, you have to be very quickly as a trader willing to say no, I have to go to the sideline and rethink this or maybe I got my timing wrong, maybe this opportunity is good, but it's just going to happen six months from now, you have to be able to go back and neutralize yourself emotionally. Trading is completely like investing, like when you're a money manager such as yourselves and you're going through it, you have a portfolio construction theory, you have a way that you allocate assets and do all of this.

But as a trader, you're in the trenches, so it's the way I say like I was using that analogy of being in a World War One trench and bullets are flying over your head, you're down there in the trenches fighting at the frontline and so it's all emotion, it's all emotion, and you in order to be a good trader you have to be humble and you have to have selfdiscipline. If you don't, you're screwed. You're done. You might get lucky out right off the bat, but the market will quickly school you at some point if you don't have that ability to have rules, discipline, ability to stay emotionally calm, to ride through that. It's very important things to develop in yourself.

Richard: **00:50:07** You've talked about the sizing, right? Let's say you have a position or a trade that you got pretty big convictions on and you think that the maximum position there could be 4% of your portfolio, let's call it, how would you go about building? Are you going to break that up into quarters or something and start? And then if that position goes against you, are you willing to add to that up until a certain point? Or if it goes in your favor, but you haven't really gotten to the size that you want are you buying into that trend going up in your favor? How do you think about that trade off.

Testing the Water

Patrick: **00:50:39** I added to winners. So because I use Fibonacci for the predominant technical technique, the first entry is actually incredibly important. If there's a tactical thing... I usually do leg into trades, and so the first trade is always a little bit smaller than you'll ultimately want to be carrying if the position is developing into being a true winner. And so you start by it's like a stress test, you're putting your foot in the water with your handle on the exit button, like the eject button on a fighter jet, you're like, get me out of here, you're stress testing whether the idea's good, and then if the trade starts working, then you build it and you build it once it's winning. I don't add to losers. What I do is I'll be sidelined and I'll revisit the trade when it looks like it's setting up again. Often when the trade is entered incorrectly right off the bat, it's a timing issue, it's a sense that you might be right about the bigger macro story but you're wrong on the timing of it. I give an example, gold, just what was it? A couple of weeks ago, here, we could even share the chart on that. Let me show the chart on gold.

Mike: **00:51:56** As you're pulling that up, Patrick and talking about that, also touch on when do you consider those paper profits yours? Or do you ever? Do you ever consider the paper profits yours because the trade starts at 1% risk? Do you say this has grown by 30% and I'm incorporating that or are all those paper profits not calculated, and you just keep your stop or where your exit is.

Patrick: **00:52:19** So this is where option strategies are amazing. What I often will do is if I believe a market has gotten too frothy, gone too far too fast but I still really love it in the bigger picture. I want to keep riding this trend for even months more, but it's just gone way ahead of itself on the short term. The biggest mistake I feel traders do is selling. What happens is that once you sell your position, it's so hard to get back in. Once you've let go of a trade thinking that it's a short term thing, finding that re-entry is actually one of the hardest things. So, once I've entered at an amazing moment, I never want to let it go until I've ridden the trade to the maximum and then I walk away. What I often will do is, strategies such as a risk reversal, or a collar is known as a collar on top of a position. And so here, I'll give you an example. First of all, let's just give an example on this gold trade and a failed breakout.

Essentially, this entire rally we were looking at this as the beginning of the next gold advance. We thought that this was a deep enough retracement in gold and that gold was actually beginning a brand new breakout. I was early, I was wrong. It did not follow through and then gold gets slammed on the downside. So when looking at a trade like this, the first position is you go long gold at your tactical moment, and you're going to give it a chance to work. But when a trade proves that you got early, it doesn't mean that gold isn't going to go up. Maybe gold is going to correct downwards and consolidate and it's probably going to rally but it might be a March or April rally. Bulling it in January, I might have been two, three months early. And so my job is that if I got in too early, I go back to the sideline, that's where I cut the loss. It's clearly my timing was off and I'm back to cash and neutral and I'm looking at where is the next tactical opportunity to go long gold. I'm not going to go and average down the position and keep working it. Because you want the emotional reset. You want the emotional reset that I'm back to neutral. Because once that position has gone against you in a loss, you start doing crazy things like justifying why you're long gold and doing all these things. I'm a trader at first, I only want to be in things that are working.

Richard: **00:55:06** How big is that testing though? Is that a third? Is that a half of your position? Maybe a quarter? What size of the max?

Patrick: **00:55:14** That actually depends on the options market. If the volatility is very low, I don't have a lot of Vega risk, I can buy the premium very cheap. I might take the position much larger than I normally would because the options market is allowing me to size my risk very well and I could be far more aggressive and getting in early gives me more asymmetry to the upside. But if I'm coming in especially let's say during a market crash, volatility is going through the roof. Your option premiums are ridiculously expensive. You can be totally right on the market timing but to hedge it out with the options market is so expensive that it's not the right time to make the big move and I might trade that position much smaller right off the bat and wait for things to normalize before I'm adding more aggressively.

So, I'm very adaptive to the real conditions of the market. You have to size up where you are in the market in order to make that sizing decision. But I'll give you an example. Let's say I want to talk about let's say Freeport- McMoRan. I was blessed to have published this thing back when it was around $8. We bought leap options out at $8 on Freeport, and we've been riding it ever since. And when this thing hit $16, $18 area, all of our leap options were up over 100%, some of them were 200% return. Every member just wanted, should we take our profits? Should we take our profits? We got in somewhere on the breakouts over here and we're talking about the price over here. I'm like, yeah, you know what? It probably at this moment is gotten frothy, it's due for a correction but we can't sell it because there's all these fundamental reasons why copper can be bullish and the conditions in this market can keep working. Why the hell would we lose our position when we have secured an $8 purchase price of Freeport-McMoRan? Why would I give this up when I have an entire year of time to ride this? We bought the leap options, we were like out to 2022 on this position. So we collared it. We sold the covered call above against the position, it's not really a covered call because when you sell against a leap, it's a calendared right, and not an official collar. And then we use the premium to buy a protective put.

So we created a risk reversal hedge wrap, then when this little market correction happened on the downside, as soon as we realized that that was all that was happening on the stock and it was reversing back up, we removed the hedge and we were still long, and we've been riding it ever since. So while a bunch of traders would have been already knocking themselves out of the trade up 100, 200% we're up like 400, 500% on these leaps. Along the way, there was an infinite number of reasons to have taken the profits and the only way you make the big money is finding a reason to stay in and yet finding ways to hedge out the risk that if in fact you got caught in the market top and it was reversing, that I put some way to protect the profits that I've made. This is where you have to be tactical about these things.

Rodrigo: **00:58:59** This is interesting. What made you want to do a leap instead of a shorter term call option? Is that a macro call?

Patrick: **00:59:05** Yeah, it was a macro call on the fact that we couldn't believe that they were giving because we were very bullish copper. I remain a commodity bull. I think that we've transitioned into a commodity bull market that will last maybe many years into the future. The problem today is that we're way too frothy on so many of these things. These commodity stocks have gotten almost-

Mike: **00:59:33** They're tech like.

Patrick: **00:59:34** Yeah, they're tech like. It literally has gotten like if you didn't tell me this was Freeport-McMoRan, I would have told you it's an EV stock, or some solar player or something. These things have gotten stupid frothy. At some point, they're going to mean revert. I mean, it's not that fundamentally Freeport-McMoRan isn't a great stock, but at some point this thing could easily print 25 bucks or 23 on some sort of a market correction, and it's just going to be a buy on dip in the bigger picture. But boy, will it be painful to anyone who hasn't hedged it out when of these corrections kicks in.

Mike: **01:00:13** … go ahead.

Patrick: **01:00:14** No, I'm done.

Mike: **01:00:16** I'm just wondering if we... I'm going to ask if we can shift gears, I'm going to ask my partners if it's okay that we shift gears a little bit from the nuances in the trading and talk a little bit more about how you paint this macro mosaic? What are the key macro indicators that you focused on? What are you focusing on now? So I'm going to ask you a trail of questions and I apologize for that. So you're making a macro mosaic, you use indicators, what have you used recently? How have those indicators evolved? Can you share with us about you being a professional trader doing this on a regular basis and the changing flight instrument panel, if you will? Has it changed a lot? Or are you using a lot of the same items that you've used for years. So creating the macro landscape and all that, go.

Patrick: **01:01:11** Well, the biggest change has been the bond market, the bond market over the decade has been a fabulous indicator within the macro landscape. And now that we've really reached a zero interest rate regime and central banks generally are losing their effectiveness with monetary policy, the signals from the bond markets are no longer as relevant. It's not that they're not. I mean, the bond market can still do something that will freak people out. You can't ignore the bond market, but the macro landscape that I've always had over a decade has dynamically changed in the last year just because of where we are in that. But to me, it's really one big trade anchored off of the US dollar. So until we go off of a US dollar centric system, that being the world reserve currency, the US dollar is the center of all macro. It's one of the keys, of course, from a commodity perspective, oil is a very important commodity in that same scope. And so when you have oil and you have the dollar in there, the core anchors, it becomes the center pin of the reflation trade versus a disinflationary cycle that often is occurring within there.

So the very first underpinning thing that I always look for is what are the predominant trends in the dollar. That has to be the number one thing to watch. And maybe there's a point in the coming future as we transition away from that. There's so much talk about this digital currency stuff and whether or not some new central bank digital currency will emerge that will dethrone the importance of the US dollar as the center linchpin of macro. But until that happens, the US dollar is it. One of the biggest themes that we've seen in the cycle is the derivative of what happens once the dollar begins trending. The dollar downtrend is one of the key precipitating drivers of the reflation trade. So, once you have that dollar trend in place, then you generally see strength in commodities. And each commodity has its own little fundamental story, it's not so relevant to natural gas as it is to oil or some other type of a commodity, but when we basket commodities as an aggregate, generally commodities are in bull trend in a reciprocal fashion to the dollar trend.

So, when commodities are bulling, particularly oil, it becomes one of the key input variables to inflation expectations. So, you notice that the moment oil started to break out above 40 plus on the upside, suddenly all the break evens are starting to blow out and all these different things, you're starting to see inflation starting to be priced into the market, you saw 10 year yields starting to increase, all of the different backdrops of that. So, this is all intertwined into one big trade, which is dollar down and the reflation trade stuff working. One of the single biggest things to identify is when has this current cycle exhausted itself? And one of the things that bothers me, and me and Kevin always joke about it on the Market Huddle, but we both are natural contrarians, and we both hate when everyone agrees with us. The problem today is the dollar bear is the most consensus view out there.

Richard: **01:05:28** That's right. Everyone is a dollar bear.

Patrick: **01:05:32** Everybody is a dollar bear. Now, that doesn't mean there isn't a macro fundamental reason behind dollar weakness. But I always look at it like a boat and if all the traders run to one side of the boat, the boat is almost going to capsize, naturally, intuitively some of the people are going to run to the other side of the boat to try to level it. And this reaction function that happens is what can cause what I believe is going to be a US dollar short squeeze. That doesn't actually have to be a fundamental reason behind it. So I think it's going to be very much a liquidity driven event. It's just it's such a crowded theme. Commodities are overextended to the upside, the dollar is oversold to the downside, and everyone is so convinced everything will continue. The market again plays that role of the great humiliator. You just know, there's just something coming. When I worked back at CIBC, the portfolio manager I worked for, my boss used to always say it's what you don't know you don't know, that always hammers the market.

And so everyone was so sure it was the elections that was going to hammer the market, no way. The elections were going to cause the event because everyone saw the elections coming from a mile away. It's been priced into the market, all the outcomes have been considered. It's always the surprise, it's something that we are not talking about on the show. We've been on for an hour and we haven't talked about it because we don't know it's coming yet. There's that one event that's going to cause a sentiment shift and it's going to cause that incredibly crowded trade to have a counter trend squeeze. It's going to be an event that happens the other way but I still think there'll be a buying opportunity. I think that this the macro trend that's been established is one that will probably be with us for many years. But this is the wrong time to get into the reflation trade. If you haven't been long commodities for last six months, if you haven't been short the dollar for the last six months, this is the wrong time to be getting onto this bandwagon.

Rodrigo:	**01:07:42**	There is so many tactical players going short the dollar long commodities and the macro players that have been playing it for a long time are way off. So we need to shake them off.
Patrick:	**01:07:52**	Exactly. That's going to be a shake moment and that doesn't make me a commodity bear. It doesn't make me a super US dollar bull. But there's no asymmetry left in pressing this trade. This is the ninth inning, eighth-ninth inning of this move maybe. And sometimes in the ninth inning comes a really good run and there might be a big blow off. There could be some big kind of still one more surge in the prevailing trend. But this is the wrong time to be jumping onto this bandwagon right now, you've got to wait for new tactical opportunity to be playing this storyline.
Richard:	**01:08:28**	What do you think are some of the catalysts that might... Everybody would think perhaps the inflation scare or potential inflation scare will definitely going to get a denominator effect because inflation prints are so low because of COVID last year, you're going to get that initial denominator effect, you would definitely have to see a follow through for there to be real inflation but that head fake might be or maybe something on the geopolitical end, do you have any thoughts on the catalyst?
Patrick:	**01:08:56**	It might be a reaction function. Sometimes a market turns without a reason but the media needs a reason, so they make a reason. And so what happens is that you might have a dollar turn, and everyone at that day was when Janet Yellen came out and said something like we don't support a weak dollar policy or she'll say something and suddenly everyone's like, Yellen ruined the party, right? They'll blame her but the market was way overdue for the squeeze. It just conveniently was the headline that corresponded with the market turn and it becomes the anchor of what we use as the excuse why the dollar is rallying.
Rodrigo:	**01:09:36**	I love that, every morning, every day, I look at the Apple stock charts thing. So the first thing and there's always a reason for why the market gained or lost money, right?
Patrick:	**01:09:46**	Yeah.
Richard:	**01:09:50**	They got to write something right? They're always looking for a story.
Rodrigo:	**01:09:53**	Everybody borrowed that headline and that became the thing for the day and totally agree that it's what you don't know. It'll become that later. But it's what you don't know that you don't know and I think COVID was one of them, we all knew that COVID was out there, nobody paid any attention, we didn't know that it was going to be as bad as-
Patrick:	**01:10:13**	No one cares till everyone cares and they all care at once. And that creates a liquidity event. So it's like you'll have a headline and no one's reacting. So it can't be that important. And then there goes another headline, no reaction, that's thing. It's amazing. The part about market timing, I'm going to go off a little tangent a little bit. But the part

about the markets that is incredibly different than something like being a bookie and gambling, so let's say I'm a bookie making a book on the Super Bowl. Super Bowl is going to come up eventually here. Let's say I'm the one that's creating the handicap and I'm putting in everything so that I'm hoping that as a bookie there's an equal amount of people that will bet on the one team versus the other team. And in the end, I'm going to make my spread for having made the book.

The thing is that in the gambling world, it doesn't matter whether I priced that Super Bowl game wrong and everyone bet on Team A versus Team B, because it has no impact or bearing on the outcome of the game. When those players hit the field, they're still going to play a football game and both teams are trying to win the Super Bowl and how everyone bet on the game outcome didn't have any bearing influence on the actual outcome of the game. But the stock markets are very different or macro markets, any markets. There's a self-fulfilling prophecy to the markets which is if everyone believes something is going to go up, then they buy it, which forces the market to go up, which only confirms to everyone that they were right about their thesis, and it becomes a self-feeding loop that buying actually begets more buying.

Giffen Goods and Shorting Bubbles

This is why I best describe the markets as a Giffen good. Have you guys ever heard the term Giffen good before? No. So a Giffen good is something that defies normal supply and demand. So normal supply and demand is that when prices in let's say microeconomics, if prices go up, demand should go down. That's your 101 Economics, right? But a Giffen good is that when the price goes up, it actually increases the demand. And a good example is Toronto real estate. Because you can't lose money on Toronto real estate. So what happens is that as it goes up, it only actually confirms to everybody that that statement is true and therefore that many more people leverage up and go into it that much more, which actually... and this what's happening with Bitcoin, this is what's happening with Tesla. It's this feedback loop that everyone wants to be making money where everyone else is, and everyone comes up with a story and the one that looks the one like they're right is the one that that ends up getting more of the money flow and in the end it creates that feedback mechanism that's in there.

So we're seeing bubbles everywhere in the market because of this feedback loop of this Giffen element in the markets. What happens with this is that this loop lasts until it exhausts itself. And inevitably, every bubble exhausts itself. And Tesla will exhaust itself, and Bitcoin will exhaust itself, every one of these parabolic rises. But until it does, this feedback mechanism self-confirmation keeps money flowing in there misallocated to something that has no fundamental basis being where they are. The problem with individuals like us that actually understand fundamentals, you start looking at the balance sheet and the management and all this stuff and you're like, what the hell is going on here? This makes absolutely no sense, but yet, it's actually the market taking a life of its own based on these feedback loops. That actually is what happens. And so as traders versus investing... like as money managers, such as yourselves, you have to actually have a fundamental reason for buying a lot of things. It's hard to just say we're getting in just because it's hot.

Rodrigo: **01:14:34** What's the professor, I can't remember his name. We've talked about him numerous times, but he studied bubbles and university settings, people coming in-

Mike: **01:14:45** Smith, Vernon?

Rodrigo: **01:14:47** Yeah.

Richard: **01:14:49** Vernon Smith.

Rodrigo: **01:14:51** What he found is that, listen, there is a predictable shape to these bubbles… this is something that human beings do. What I can't tell you in 30 years of doing this is when they end. They look very similar but trying to time these things, he's not a trader, so he probably hasn't figured it out. But it is interesting how there isn't a pattern that's so obvious that everybody can get it right. How do you managed that fact? Are you very… how you position your trades and whatnot. But are you very defensive right now because of all this.

Patrick: **01:15:29** So, what I've learned the hard way of trying to catch market tops, because I pride myself on, I'm one of those guys that tries to be a rock star and actually catch market tops. It doesn't work most of the time, by the way. You have to be very brave to attempt it. But what I have learned after 10, 20 years of trying to trade this way, that actually catching the very first blow off top is actually the wrong top to catch. Let me share my chart here. Let's take a look at Bitcoin here for a moment. And I'm going to go back to-

Richard: **01:16:08** We're going to get a lot of hate.

Patrick: **01:16:10** That's okay, that's actually a very good sign that the market top is close. Is that-

Rodrigo: **01:16:18** Just look at who we've got here on the chat.

Richard: **01:16:18** Exactly.

Patrick: **01:16:19** Anyway, but the point I want to get it is forget this current state of where we are, I want to go back to the market top from... Let's go back to 2017, 18. So here was the parabolic rise of Bitcoin back into its 2017 peak. Now, you can sit here exactly to what you were saying, it's so difficult to try to catch the top. To say that I know exactly where this is going to stop, it is nearly impossible. Because this thing is like a freight train moving down the track with all this momentum and you trying to be a rock star and standing on the tracks, and this is where it's going to stop, you're just going to get run over. But after a bubble bursts, there tends to be this pattern which is, it sells off and then has a failed rally. That is where you short bubbles, you don't short into the parabolic rise on the upside, you actually wait until the bubble has actually broken and then is when you actually are engaging the downside of the short. So you don't ever try to catch the actual absolute top, you first wait for the bubble to burst and then you engage the short side after its burst. That's what I've learned. So I've stopped trying to catch the absolute tops. I wait for the excesses to actually turn and then I'll start short selling.

Rodrigo: **01:17:59** Does it work on the flip side there? April 2018 was, I don't even know. Was that the bottom, I'm also at no coiner by the way, a very tiny coiner.

Patrick: **01:18:07** No, it kept bleeding all the way down. Like it went all the way down to 3000 from 20,000. 85% wipe out that lasted over a year. This isn't about Bitcoin, this happens to stocks all the time, this happens to-

Mike: **01:18:28** I can think gold, 2011?

Patrick: **01:18:30** Absolutely, it happens to gold, it happens to everything. This boom bust cycle is the nature of what happens in markets, you allow markets to be free trading. Human nature creates these boom bust cycles. And all I'm trying to identify here, I picked on Bitcoin but the point is, don't try to catch the parabolic rise and the top at the very peak. You wait till the bubble is broken and then you short it, is the way I would put it.

Richard: **01:19:03** What do you think about the macro narrative that's been going on? I mean, the narrative now predominantly says that there's institutional money coming in, they're putting in all the guardrails so that you can get the big endowments that the institutional money is now really contemplating this as a serious asset. And that is allegedly one of the reasons why this thing has gotten so frothy all the way up to 40,000. How do you square that with your technical analysis?

Digital Currencies

Patrick: **01:19:30** Well, listen, I'm very suspect that these institutions are long term buy and hold investors of Bitcoin. There are these big institutions that are allowing their prop traders to go and try to profit from the upside. But there are hard stops on prop traders and as soon as Bitcoin starts going down, these institutions that are buying on the way up are just as going to be selling just as fast on the way down. I don't subscribe to that. And generally, while I do believe there's a digital revolution in currency coming, I don't believe it's going to come on a private currency. It's going to be a government based digital currency that is ultimately going to prevail. Because if you think about it, while we can be capitalists and we can say markets should be free trading and privatized, and all of these different things, money is a social contract. And even though a lot of people get disenfranchised by the idea that money is fiat, and they could create it anytime they want, there's an actually important function to that.

For instance, let's just say there was a disaster, let's say in North America, Yellowstone blew up and half of America is covered in ash and there's a huge natural disaster that happens, in the end the ability of a government to run massive deficits to support people, to clean up the mess, to do all of this. That's how they funded World War Two, this is how different things happen. Governments need to be able to access money and the natural way of doing so is by it being fiat. Even when it was backed by gold, as soon as a crisis happened, they would drop the gold standard and immediately turn it back into a fiat currency, that's happened through history over and over again. The idea that we're going to have some private digital currency like Bitcoin where... What is this statistic? I hopefully I'm saying it right, but something like 98% of Bitcoin is controlled by like 2% of the wallets, I don't know what the exact...or 90% of Bitcoin is controlled by 2% of the wallets. In a world where wealth inequality is the biggest issue, we're going to have these private wallets that we don't even know half of these people who own these, who they own taxes to or how this money would even be allocated. What we're going to do is we're going to take Bitcoin to a million dollars and allow these people to become multi billionaires, if not trillionaires. For what? Governments are going to create digital currencies that, I think Bitcoin is the Palm Pilot of the 2000s.

Rodrigo: **01:22:28** I loved my Palm Pilot. I loved that.

Patrick: **01:22:30** Exactly. And you know, at the time, it was the technology, it was the big thing, but this revolution that's happening is going to be dynamically different years from now. And Bitcoin was just going to have played an important role in developing it. But I don't think that Bitcoin is the end game. And there's a much different way that the cryptocurrency story is going to play out and maybe you don't even need to know it. It's not going to be Bitcoin. It's going to be something different.

Mike: **01:23:06** So Bitcoin is Netscape.

Rodrigo: **01:23:08** Netscape. Exactly.

Mike: **01:23:10** Google, we just don't know yet.

Rodrigo: **01:23:13** Patrick, let me ask you a question that I've always wondered, whenever I speak with a trader, with a prop trader, it's super exciting, you guys are cutting edge of trading, you live and die by the market every day, you're trying to come up with the latest and greatest idea, and you're cutting losses and you take in more losses than your gains. But you have, generally speaking, the people I know, have a very good outcome, very good returns. And yet, I don't find any pension plan, large institution hiring an army of prop traders to represent 100% of their assets. So I'm curious to understand what the aversion to traders like you to add value to large pools of money is. Is it capacity constraint?

Institutional Traders

Patrick: **01:23:59** First of all, what I would say is there's a very large failure rate in trading. So this is not something that this is the secret holy grail, you just got to learn to buy when the moving averages crossover and there's a green signal up or red signal down and you've got to figure it out and you're going to beat the market. The second thing is that it's easy as a small trader to outperform. And as a small trader, I mean, you're whipping around millions of dollars, instead of billions. Once you get big enough, the way I describe it is that big portfolios and pensions and things like this, they're like an ocean, sort of like a barge in an ocean. There's this huge immovable object, this monstrous thing. And traders are like little tiny speed boats that are doing donuts around them and able to have the flexibility of being able to adapt, but as soon as you try to move that barge the same as these little speed boats, you can't, it takes a mile to turn that barge, when you're managing big money, trading starts losing its effectiveness. To find an edge, it's often you have to be small, you have to be nimble, you have to be able to get in and out of the market and no one knows that you were there. This is why you have to have so much respect for the Stanley Druckenmillers of the world, because they did it but with big money. I could turn around and be whipping around seven figures but I don't know whether I could ever do that with a fund that large. It's one of these things where size matters, it really does.

Second thing is that, to become a good trader takes a lot of training. It's not a part time endeavor. And this is the thing why I laugh when I see all these TicTok things about all these people that seem to have figured out during a market bubble, how to make all this easy money on the upside. Becoming a good trader is a lot of pain along the way, a lot of mistakes, and you have to endure the school of hard knocks of learning through trial and error on actually how to find your edge. And there are a lot of times where the market changes, so you work really hard to get an edge and then suddenly, a year or two later, the market evolves and your edge is gone. And suddenly now you have to almost reinvent yourself as a trader, and this is where portfolio managers, you anchor off of the long term appreciation of equities, things that happen in a slow and steady course as long as you stay the course over a certain time horizon.

For most people, that is a much easier way to go down the journey. Trading, you take so much punishment that you have to really love what you do, you have to love the markets, you have to love trading, you have to love being there in the trenches and doing this. If you don't, if you're doing it only for the money, and you're not doing it for the love of trading, you're going to fail. Because you have to feel the markets, you have to understand them, you have to become almost one with them to be able to size it up. There are people that are dedicated to, and I love working with people that want to take that journey. But there is no... I don't want to make it sound like those TikTok traders have got it figured out, it's actually harder than-

Rodrigo: **01:27:59** It's amazing those Tick Tock traders how-

Patrick:	**01:28:01**	They got it all figured out.
Rodrigo:	**01:28:01**	May be legal, they're legal to go out there and say what they're saying. It's amazing.
Patrick:	**01:28:10**	Too many too many of them are. There's too many of them for anyone to regulate. Like how do you go and stop someone just some random person saying like, when you're a regulated institution and you go out and say something, it's easy for your regulators to come down and bear down on you and say you can't say that. But once you're just a Joe Schmo on a TikTok account, you can say whatever the hell you want and who the hell is going to clamp down and remove you off of the internet. And this is why there's so much misinformation out there, so many misleading things. This is why I believe there has to be some sort of event because through history, I'll leave it at this for you guys. I remember back in 1999 as a kid, I'm this 23-year-old kid just coming on to a discount brokerage account taking orders, and back then the hot shit was Nortel. Do you guys remember this?
Rodrigo:	**01:29:15**	Yeah.
Patrick:	**01:29:15**	Nortel was the hot shit and back then one of the drivers behind it was the fact that Canadian RSPS had to be 80% allocated to Canadian equities and banks and resource stocks were dogshit back then. So the only thing you could own that was making any money was tech. And there was only a handful of things you can own like JDS Uniphase, Nortel, that kind of stuff. What was the other one?
Mike:	**01:29:49**	The cable one, it spun out.
Patrick:	**01:29:51**	Yeah, but anyway, so there was only a-
Rodrigo:	**01:29:54**	Blackberry also in that.
Patrick:	**01:29:55**	No. Blackberry was 2007. That was the next bubble. But back then Nortel, and so everyone just the way everyone's talking about the easy money of Bitcoin today. Back then everyone owned Nortel. I mean at its peak-
Rodrigo:	**01:30:11**	Yup. Like 40% of the TSX-
Patrick:	**01:30:15**	No. It was the composite, BCE and Nortel combined we're 30%, 30 some odd percent of the entire Canadian capitalization. The entire Canadian stock market was in two stocks. I just remember the froth back then. And I remember the story of this one guy that phoned me up and Nortel at the time was trading like 120 bucks and it came down to like 90 bucks a share at the time and it was going into its earnings and this guy had his entire life savings in Nortel. He basically calls me up and I'm not allowed to give advice, It's a discount brokerage , and he says , how many shares of Nortel can I buy on margin. And I basically go and pull out the calculator and I say you could buy another 1300 shares of Nortel.

So this guy goes from like 700 shares to 2000 shares. At 3: 30 right before the earnings announcement on the close, Nortel goes and he goes and buys it. And Nortel goes and gaps from like 90 bucks to like $60 a share on the earnings miss. And this guy's account goes from being worth like 70 grand to being worth minus $5,000 the next morning. And then I had to give him the phone call to tell him he's getting margin called. Know what the guy does? He sells down the position and goes and gets a line of credit to meet the margin call on the other part of the shares and then loses that too. And so my first taste into this business was watching severe destruction and people losing a lot of money in bubbles. So when I see today the kind of froth that is, it's just feels so 1999.

Rodrigo: **01:32:22** People are saying that the markets have become more efficient. I think we can say in 2020 there's a lot of inefficiencies out there.

Patrick: **01:32:26** There is a lot of inefficiency. But you know, it doesn't mean that their-

Mike: **01:32:30** Efficiency is about market clearing, though. Like the market clears, it's efficient. Herding is...

Rodrigo: **01:32:39** Still very much a lot.

Patrick: **01:32:40** But there are the bubble stocks, A lot of those EV names and other things. They're the ones... I don't think like if you own Enbridge and-

Mike: **01:32:52** I have to go guys, I got to go to another call. But Patrick, thank you so much. You guys wrap it up. I'll talk to you soon.

Patrick: **01:32:58** All right, cheers.

Rodrigo: **01:32:58** Bye.

Patrick: **01:33:00** I don't think that when this turns like an Enbridge is going to get hammered,. These are stable stocks with real fundamentals and they're basic and so when you're building a portfolio and you're properly diversified amongst high quality names, you're going to be fine. But if you pumped everything into one of these EV stocks that has gone 500% in the last month, at some point the people that are buying this thing are going to get their faces ripped off on the other side of that and so it's going to be so interesting to see how this plays out. I know it ends badly but when be will the turn? What will it look like? What's going to go down and what's not?

Richard: **01:33:48** How long is the easy money going to be around for**?** It's a big function of where interest rates are and the opportunity cost and-

Patrick: **01:33:55** I'll tell you what, you guys can invite me back in the midst of the turn. We'll, will each grab a bag of popcorn and we'll sit here and we'll watch real time carnage but I don't wish any harm on anyone but like, everyone's got to realize that there this isn't the market is perceived to be easy money, but it always has a way of correcting. It has always a way of those excesses being mean reverted and a lot of people always get hurt during that. So just be careful that's the way I would leave it. People have to realize that if you're trading that really hot shit, you got to par it off a little bit, make sure you're not leveraged, make sure that you have some other things that can buffer it, maybe find ways to hedge it. You got to be a little bit careful.

Rodrigo:	**01:34:45**	I think you said it earlier how difficult it is to trade. I mean, we've been in markets forever. It is the most competitive landscape on the planet. So if you think you're going to be a weekend warrior of the market, you're in trouble. I think going back to the original stuff of what we always talk about is, if you're not going to play full time, diversify. Have that kind of general growth, make sure that you could be diversifying your stocks or bonds, you can go gold, your commodities, get a little bit of everything. And if you're going to do it, take it seriously, know that you're going to take some licks, and try not to get enamored with it during the bull market.
Richard:	**01:35:25**	Because the odds are against you…
Rodrigo:	**01:35:27**	Your formative years, or formative months ended up being this massive bull market and when you open up a TikTok, and you say, this is how I buy, you see when this stock goes like this, that's when I buy**.** And when it does that, I buy some more there. Definitely seen these types and you saw that in 98-99, people leaving their jobs, because they were making more money in the stock market than they were in their jobs. This is in a way many aspects of the market right now are there. And then before the ease of access through things like Robinhood, the Bitcoiners that are getting tattoos and riding it all the way up, it's wild times and just got to be careful and diversify. Talk to the professionals and if you want to be a professional, know that you should start small and work your way up.
Richard:	**01:36:15**	Amen.
Rodrigo:	**01:36:16**	Patrick. Awesome.
Richard:	**01:36:18**	You've been very generous with your time and your time. Thank you.
Rodrigo:	**01:36:21**	Thank you for your time, your energy and enthusiasm is amazing. Can't wait to have you back soon and good luck in the trading world.
Patrick:	**01:36:27**	Thank you very much. I will take-
Richard:	**01:36:30**	Enjoy Barbados
Patrick:	**01:36:29**	I will. Cheers. Thanks, guys.
Richard:	**01:36:32**	Cheers.