Michael:	**00:00**	There we go.
Adam:	**00:01**	Okay, yeah. Hey, welcome to Riffs we're live. Phil Bak here with us today. Not to be confused with Philbrick.
Michael:	**00:09**	That -
Adam:	**00:10**	Which we were having –
Michael:	**00:11**	Correct.
Adam:	**00:13**	The juvenile chuckle about earlier. So, what are you drinking over there, Phil?
Phil:	**00:18**	So I've got a Bell’s Oberon, it's a Michigan beer. It's a summer beer. Trying to keep the summer alive, so -
Adam:	**00:24**	Like Ascension Ale?
Phil:	**00:26**	Mm hmm.
Adam:	**00:27**	Yeah.
Phil:	**00:27**	Yep. And they only release it in the summers here in Michigan.
Adam:	**00:31**	Beautiful.
Michael:	**00:31**	Fantastic.
Adam:	**00:32**	What are you drinking? Michael?
Michael:	**00:34**	Oh, I'm actually got a little bit of the hair of the dog. And so I'm going with an Armagnac, something that, you know, brandy, to try and sooth the throat and try and make me feel a little bit better. From all the chit chatting –
Adam:	**00:46**	I can’t believe your drinking that without a cigar. You know?
Michael:	**00:49**	Yeah.
Adam:	**00:49**	That would really make the episode –
Michael:	**00:50**	True story. You know what, noted for next time.
Adam:	**00:54**	That's right. Exactly.
Michael:	**00:55**	Yeah. Yeah, absolutely.
Adam:	**00:57**	Do you want to say a little spiel?
Michael:	**00:58**	Yeah, well, yeah, first of all, this is for fun. And we will have wide ranging conversations that may have some investment tone to them. But if you are going to take any of that, please take that to a licensed professional before you put any of our advice to work anywhere. And that will allow us to have a nice, open and wide-ranging conversation. Now lads, we have Richard joining us to, Richard Laterman will be joining us. So, if he pops in and out and there's three or four

screens as we go along, don't worry about that he'll jump into the conversation where he can. He's having a technical difficulty or issue which is fine. That's, hey we're at the bar, it's happy hour and people come and go as we go through the time together. So I'm looking –

Adam: **01:44** Exactly I was actually thinking maybe Rodrigo might join us after all, because I wonder if the base was, his daughter had baseball this afternoon. Is that what it was?

Michael: **01:52** Rugby. Sport ball -

Adam: **01:53** Oh.

Michael: **01:54** It's a ball sport. Something you will be unfamiliar with.

Adam: **01:58** We have a case on the island - a community, what do you call it? A community transmission case of COVID on the island. So I was wondering if maybe some of the sports would be canceled this afternoon, but –

Michael: **02:09** Right.

Adam: **02:10** So anyways, people come and go on this show. And it's very informal. So Phil, what, you've been through quite a lot of change over the last few weeks and months. I remember reaching out to you maybe I don't know, three or four months ago, and you saying God, there's big changes ahead. I'd love to get this out of the way before we connect. So I think most of that is behind you, right? Like you've got, there's –

Backgrounder

Phil: **02:37** I've been looking forward to this for a while. So I'm excited. But yeah, look, I mean, it's been everyone you know, every single person in some way or another has had their year thrown into, as I said they had their nice and orderly plans for the year thrown up in the air, but us no less. So, you know, Exponential ETFs, is a firm I started, four, a little over four years ago. We had built in the company, we'd built two ETFs. So one based on using proprietary customer satisfaction data. Another one that we're probably most well-known or infamous for is the reverse cap weight ETF, which is the S&P 500 holdings, just weighted by the reciprocal of the market cap, one over market cap and weighted that way. And what we had done beyond that was we built what's called an ETF sub-adviser business. And that is a business that, essentially we were an outsourced portfolio manager and capital markets desk, we managed the portfolio trading and the tax management, re-balances and a bunch of wonky nerdy stuff on behalf of other asset managers. During the course of the last few months, we've sold that sub adviser business and in the process now of separating the two funds from each other, and kind of restructuring the whole thing. So I have a new gig, a new company that we're going to be building up that I'm starting on Monday of next week, super excited about it. But it has been, to say the least, it has been an adventurous time. And also in that period of the last few months, it was a whole pivot to securities lending and a business plan that we had that we're raising capital for. So it's been an adventure, a lot of Zoom, you know, a lot of uncertainty –

Adam: **04:12** Oh, yeah, trying to do all that in a global pandemic as well, just adds an extra dimension of flavor to the process, I'm sure, right?

Phil: **04:21** "If it wasn't a challenge, it wouldn't be fun." That's what people say. But I can tell you, it was a challenge and it was not fun. So I don't know, but a -

Adam: **04:27** So what is the -

Phil: **04:29** You know, everything works out well in the end somehow. So we got very fortunate and I'm very proud to announce that Toroso Investments has acquired the exponential sub-adviser business. We did not lose a single job in our company. Everyone is now, who had been on the trading capital market side is now employed by Toroso and combining that sub-adviser business with Toroso, as a firm and the other services that they offer on the distribution side and on the product white labeling side, really makes a very formidable offering for them. So really proud of that and really glad that, you know, everything landed well. And, you know, super excited for everything that's to come.

Adam: **05:04** Congratulations and cheers for the completion of your deal. And –

Richard: **05:08** Congrats.

Michael: **05:09** Cheers, I wonder if Phil you could probably, if you could paint a, just a brief arc of your history because you've got you know, you've got quite a history in ETFs. And maybe tie that together with, just so the listeners who may not know you can pull all that together in a more concrete narrative, because you know, you've gone quite a journey, and it'll relate to us discussing a little bit more of entrepreneurial-ism to as we go through today.

Phil: **05:37** You know, I have really been through kind of the earliest stages of ETFs, very lucky to be in the right place at the right time to see the growth. And then, you know, while ETFs are still growing like weeds and wildly popular from a commercial standpoint, there are some challenges now with the ETF space that I think are widely known, but we could certainly talk about, but to see that whole life cycle of, you know, a new and exciting, you know, investment vehicle that everyone is just, you know, overly bullish on and, you know, the, you know, the future is so bright, and to see that come to full maturity. And then get to the other side of it, where now all of a sudden, there's consolidation, major fee pressure, and, you know, less of a dispersion of, you know, the, other ETFs were once called the Silicon Valley of the finance world, which I always loved. I don't think that's still the case. And to see that whole life cycle of that come to fruition and then go the other way, was quite a journey. It's really something interesting. But, look, I started my career back in the day and, you know, right at the, right after the dot com bubble, as a trader, as a proprietary day trader when such a thing existed. And, you know, I showed up for an interview and they said, "Alright you have a pulse, good enough." They said, "They were hiring on the desk, a number of traders, like a dozen traders." And they believed that there were, you know, there's something about being able to let your winner run and be able to take a loss immediately. There's something about that, that is inherent to your personality. And they can't teach it, they can't train it, but some people have it, and they were looking for that needle in the haystack trader that had it. So they were just like, "Alright, we'll register you for the series seven, if you pass it, you'll come back and you'll have a job. If you didn't pass it, we don't want to hear from you again." And that was how I got started. And, you know, of course, that was like, that was the end. I mean, they were wrong about their thesis, the day trading bubble really collapsed at that point. When it started, there were like 75 traders at the company on the desk. And it's just pure momentum trading, scalping.

Adam:	**07:28**	When was that Phil?
Phil:	**07:29**	I’m sorry.
Adam:	**07:30**	When? What year?
Phil:	**07:31**	This was ’01, ’01 or –
Adam:	**07:33**	Okay.
Phil:	**07:35**	And there was an MD, who had left his practice to day trade. I mean, there were people that, you know, had given up these great careers. It was fun. It was like playing a video game. And, you know, you're up and down, it was a lot of fun. But, and there were people who were making big money. But of course, you know, no human can be faster than an algorithm, right? And no human could be more disciplined, certainly, than an algorithm. So you know, 75 traders on the desk, when I started within three to six months, there were like 11 of us left. I mean, it was just, you know, every week you'd show up, and four desks would be empty. And, you know, people either blew up their accounts, or just decided to go do something else. So that was like my first entry to the market. And I was at a cocktail party, or some, wondering, I was at some event, somebody said to me, “Phil, you're a trader, what should I invest in?” Now, you know, I'm in and out of, you know, whatever is volatile, like, I was trading a lot of semiconductors and stuff like that back then. But that wasn't investing, right? It's like the furthest thing in the world. Literally, it’s just playing a video game. So I said, like, “Oh, you know, just buy a portfolio of low cost ETFs.” And in that circle of people that were talking, was another person who I had not yet met, but a hedge fund manager who said, “Wow, I can't believe you said that. Nobody knows what an ETF is and I’m about to start a company based on that. That's going to do…” We did what would now be called like an ETF strategist, but basically building portfolios of ETFs. And I ended up joining them and working as an analyst, you know, made my way up to what we called Rydex Investments in Maryland, product development. So I built alternative mutual funds and ETFs for them. Product management, product development, and one of the products that I was the product manager for some time on was RSP, the equal weighted S&P 500. And I spent a lot of time thinking about, you know, that premium, how is that alpha equal over market cap? Why is that, you know, persistent more or less persistent but what is, you know, is it just the small cap tilt? And if so, you know, why, you know, relatively why would you want to be in large cap at all, essentially, and, you know, what about the re-balance mechanism where your profit taking your winners and your buying your losers, and, and all those things and, you know, ultimately, that's what led to the idea to do the reverse cap weighted ETF. But in 2010, I left Rydex, right around the time we got acquired by Guggenheim to join the New York Stock Exchange to work on the ETF, the ETF business there. So we had an ETF listing business. You’re working with ETF product developers and issuers on getting the product on boarded onto the exchange. You're working with the regulators on market structure initiatives, working with market makers on capital markets issues, and, you know, it was just an incredible place to be. And I was so fortunate to be in that seat at that time. I ended up spending six years there. And over the course of those six years, ETFs really ballooned. I mean, that would be from 2010 to 2016. And, you know, to be able to have that inside view into, you know, the market structure process, the SEC and FINRA and how things are moving, you know, I mean, people don't realize there's a dozen divisions within the SEC itself. Some are more or less knowledgeable about certain areas of business. Some require approvals, and some don't. I mean, there's a whole intricate web there. And, you know, there's also the market structure. I mean, we've got major

issues going on right now. Fragmentation and, you know, market maker incentives, which are, you know, really light to the point where it's, I believe, a systemic risk in the market. And, you know, there's a bunch going on there that really gave me an inner seat to the industry and allowed me to, you know, really meet people all over the industry and work on ETFs and then started Exponential ETFs here in Michigan, in 2016.

Adam: **11:11** Wow, so what was it? I mean, in Michigan, right? So you weren't, did you always, were you always working in Michigan? Or you were traveling around to be at the various company headquarters, or –

Becoming an Entrepreneur

Phil: **11:24** I'm a New Yorker, you know, I'm a New Yorker originally, and I've been in New York for just about all my life. But for family reasons, I had to come back, to move to Michigan, or at least I had to split my time here. So I'd gone through a divorce and I have children from my first marriage. And really, they more than I did, they had to be here in Michigan for family reasons. So, you know, the question was, do I fly back and forth through my whole life? Or do I try to build a life here? And I was very lucky again, in that, NAIC allowed me to work remotely from Michigan for a year. I had been there already for four or five years and then I did a year remote. And, you know, that was great. I'd do Monday to Thursday in New York, and then flew back and was here with the kids on the weekend. I did Fridays from home. But after a year or so it started really to take a tax and a toll and, you know, it's hard to do. So, you know, I had two things going on at once. I had been looking to do something entrepreneurial really my whole life. And, you know, I had a couple of opportunities that came up that I'd been researching, you know, I had this, this moment. I had a pituitary tumor that required two surgeries and, you know, I had some major health scares. And at the same time gotten to this, you know, people talk about, like, you know, the belly of the beast during the hero's journey. Like I had gotten to this low point in my life and emerged from it. And came out of it because I was very fortunate that the two surgeries were a success, and I had my health. And I had a renewed outlook on life. And, you know, a lot of things that I just put off that I'd said, "Well, you know, that's something I'd like to do. And I'll probably do that one day." But you know, that day just never comes. I had a renewed outlook, where it's like, you know what? I'm going to do it. I'm not going to let fear hold me back. And, you know, I think, even today, a lot of the things that I'll say online, or different things that, you know, I just decided I'm not going to hold back based on what I think a future job opportunity might be, or how I'm perceived in my career. I'm just going to be truthful and be honest and call things the way I see it. And, you know, take whatever next steps, I think are the right steps to take without fear, just removing fear from the equation, right? What is the -

Michael: **13:26** I love it.

Phil: **13:26** Best for, and that's really what led to, you know, starting the, the company. But, you know, in the course of researching different opportunities, there are two opportunities, two different business plans that I was going to run with, in 2016. And, you know, the key thing for me was to do it here in Detroit. We actually started in Ann Arbor in Michigan, but to do it here locally, you know, just after having spent a year flying back and forth, I really wanted to, you know, build up my own company, my own culture, my own, you know, build something the right way here, which I know, some people do well, remotely, now that everyone's remote and you know, with that market, but I felt like I, you know, really wanted to have that local presence as part of the identity.

Michael:	**14:08**	I love it. So I love that journey too. And, so you had a near death experience that gave you the insight into the limited nature of all of our journeys, which then I think crystallized your ability to take risks or to be, you know, just to be okay with letting her fly and just having a go at it. And maybe you can just talk about, so, you know, you start trading, very entrepreneurial, then kind of Rydex would be, I mean, they were, I guess, they were a start-up when you got there. You go through the journey with them to a large company, then you go to sort of the, I guess, was the Exchange you went to at that point. So another sort of large, very large company and then you strike out to be an entrepreneur, and like how, what goes into that decision? How would you advise young and old? I think there are different challenges if you're talking to someone who's young and thinking about being an entrepreneur, and even someone who's getting older. I mean, the proclivity is to, as you, as you get older, to not take the risks, right? But how do you encourage that continued risk taking, as you go through the ages? What would you say to that? And how, was your personal, you know, what were some insights into your personal decisions and journey making there?
Phil:	**15:32**	I mean, that's a difficult question to answer, because the smarter thing, the rational thing, is to get a job at a big company, and to keep your head down and play the political game and rise through the ranks and live very comfortably. You know, that is, you know, by any measure that is the smarter, more logical decision, right? But there are certain people and, you know, if you're one of them, right? And I think -
Michael:	**15:54**	Do I? Oh, do I Phil?
Phil:	**15:58**	I don't want to watch in black and white. I want to watch movie in color. I want to feel, I want to really, you know, my career is important to me. What I'm doing is something I'm passionate about, and I want to, you know, really feel it and experience it more. And the difference between, you know, working, and I've worked at both. The difference of working at an entrepreneurial, you know, company, and that doesn't necessarily mean being a founder or an entrepreneur, but just being in that environment, like you said, Rydex is a perfect example, already a big company, but very entrepreneurial, versus being in a big bureaucratic organization is night and day. It's a totally different thing. The skill set that survives at a big corporation is a political mindset. It's a CYA mindset. It's not to say people don't work hard and do great things, and they're thorough. But it's a very different thing than trying to carve something from nothing. It is a lot harder. It's a lot more all-encompassing. If you're at a start-up, you can't, you know, there's no weekends. There's no nights. You're thinking about things before you go to sleep, and you're thinking about them when you wake up. And, you know, you're putting your heart and soul, and blood, sweat and tears into it. And people need to be honest with themselves, if that is truly for them or not. I think telling everyone that, "Oh, it's better to go be an entrepreneur." Not everyone is cut out for it. And I saw that with Exponential where a lot of people when they started, "Oh, yeah." You know, "I'm a start-up type guy, too." You know, "I'd love to come work with you." And in a couple instances, we saw, well, it really wasn't the case, you know, and, you know, not that people, they thought of themselves that way but once you really experience it, it's different. But I think there is no higher calling than to be an entrepreneur. You are creating, I mean, you are creating something lasting. You are creating jobs. You are creating efficiencies, something that your clients, whatever business it is, there

are clients who want it and that's how it succeeds. And it's just a very, you know, a very different mindset. I think Taleb, Nassim Taleb, has had a very big impact on my thinking as well and, you know, Skin In The Game is really, I think, I mean, he lays out the case, a 100 different ways in that book, you know, about having agency, about having Skin In The Game, of course, as it's called. But, you know, the difference between being, you know, a bureaucrat making decisions without living with the consequences, and putting your name on the door, and having those consequences be, you know, really vital to, you know, critical to what happens. It's a totally different thing, and I think it really can make you feel more alive and proud of what you do. But it is hard, it's hard and it's truly not for everyone. And, you know, I don't want to kind of, you know, say that it is or that, you know, every, it's the right path for every person.

Michael: **18:30** How have you -

Adam: **18:30** Well it is a different journey, right? Because, I mean, if you think about somebody who rises up the corporate ranks, right? They like, the current, the status quo for C suite at major companies is heads I win, tails you lose, right? It's, it's, there's no shared risk on the downside. And there is leveraged participation on the upside, right? The difference between that and entrepreneur, and entrepreneurship is, yeah, there's linear exposure to the success of the business on the upside, but there's the same linear exposure to the business on the downside, right? And so you're legitimately taking this, taking on this risk personally, and it does take a very different type of personality to be able to endure that and sleep at night and get up and get excited to knock down challenges every day when you go to work, right? And you got to be the Jack of all trades -

Phil: **19:27** Yeah, I mean, if you look at most investors, any start-up has investors. It's not, you know, necessarily, certainly not all their capital. In some cases, it might not be any of their capital. But the investors, they're not just random investors that bought your stock. These are people that believed in you. These are people that you pitched, "Hey, here's my vision. This is my team, this is my plan." They said, "You know what? I'm going to write you a cheque even though all you are is a couple guys with a, with a pitch deck." Those are people that believed in you. So any, you know, any founder worth their, you know, worth their title is going to be obsessively focused on proving those people right. And making them feel like, you know, they bet on the right horse and they made the right decision. So it's an enormous, you know, pressure and responsibility. And then, you know, you also have employees that come in and say, "Hey." You know, "I'm going to turn down the corporate job, I'm going to come with you on this journey." You know, and, you know, you want to, you want them to be rewarded for that and it's hard and most startups do fail.

Michael: **20:18** Have you -

Richard: **20:18** What's the vision?

Michael: **20:19** Go ahead.

Richard: **20:19** Now what's the vision now with the acquisition from Toroso and where is the entrepreneurial mindset headed from here in this environment, especially with what Adam was describing in this, and the notion of skin in the game as you've rightly pointed out?

Phil: **20:37** So I can't speak for Toroso, but I can tell you having worked with them for some time that they are extremely entrepreneurial minded. And, you know, when you look at the ETF space, you've got these major and huge corporations, right? So you've got, I mean, forget about obviously, BlackRock, and Vanguard and State Street who are dominating, you know, in terms of assets and floats. But you also have, like DFA just announced, they're coming in with a large cap US fund at 12 basis points, that's cost. They're coming in at cost. Bank of New York Mellon is not a small company. They recently launched ETFs, at zero fee, truly zero fee. So you're not only competing against, you know, PIMCO and Templeton and, you know, all these different people. You are also competing against, you know, for whatever reason, that just happens to be the area of the market that got commoditized that people are willing to do for a loss or for cost to bring in business elsewhere. So it's really, really difficult in order to compete, you have to be super differentiated, right? In a number of ways, in terms of the product and in terms of, you know, your investment philosophy, but also in terms of distribution, and how you, you know, how you work with your partners. You really have to think differently and outside the box to stay ahead of these guys. And that's something that Toroso does and does really well. So they are behind a bunch of the funds. I know you had the RPAR guys on the show here. Toroso has helped them in terms of operations and back office. They've worked on a number of the more innovative new ETFs. And they've worked with a number of the more entrepreneurial minded companies. Me personally, I'm not going to be working with Toroso. I'm going to be making an announcement next week. I guess anyone who is this deep into it, maybe I don't know, we're kind of holding the announcement for a little bit to try to make a splash. But I'm going to be joining an advisory firm that's really upending the annuity distribution space here, based here out of Detroit, but using technology to do so. And I'm going to be Chief Investment Officer and building with them. And a lot of the stuff that we've been building, the capital market services that we've been doing. So not just the trading and, you know, the sub advisory in the capital markets, but also the securities lending. A lot of the next layers of services that we've been planning out to offer, we're going to be building together as part of this group here in Detroit. So, you know, I'm super excited about it, and it is very much, you know, an entrepreneurial, so we're coming fresh off our, almost next round will be our series A so, you know, it's still very early stage.

Richard: **22:59** Congratulations.

Adam: **22:59** Is that going to be an ETF? Like, is there an ETF tie in there with annuities? Or are you trying to wrap annuities into an ETF structure? Or anything related to that? Or is it more like fintech enabling the distribution of, and pricing of annuities through the internet or something?

Phil: **23:19** It's going to be a fintech focus. There will be some investing aspects to it as well, but it's going to be a fintech focus, not ETFs. So, you know, after a long time, after, I guess 15 years now, I'll be out, not directly in the ETF industry.

Michael: **23:36** Is it going to be the same concept, though, that ETFs brought to the investment world that you're going to be trying to bring to the insurance world? Sort of the democratization, if you will, or the further clarity for, you know, the fees and charges with respect to annuities and that type of thing. Is that the plan? Or is that sort of, what's the objective? I guess I'm speculating on what the objective is just given your experience and how that might translate.

Phil: **24:03** Yeah. And we are in the financial services space, right? You know, things are becoming more efficient, more integrated, more cost efficient. And, you know, look, advisers, they themselves, you know, are under, you know, a lot of sales pressure, there's a lot of saturation there. And, you know, the last thing advisors want to be doing is spending all day, you know, integrating different investments from different sites and different accounts. And certainly, I think the traditional fee structure on annuity distribution has, as Bezos says, “Your margin is my opportunity.” And it's certainly left some opportunities available there. So, you know, we're going to be focused heavily on that.

Michael: **24:41** Right. So as I understand it, in the insurance world, the big costs are the medical, the lapsed policies, things like that, that there's a tremendous opportunity to think about, you know, insurance being bought rather than sold because the salesman's commission is another major part of the expense of insurance. So I think that certainly insurance is one of the last bastions of this investment, because it is an investment to some degree, this investment world where it's shrouded in a whole bunch of really complicated things that nobody can understand. An MTAR line and the taxation that occurs and how it accrues and over what duration, and how insurance companies can average their returns over 10 years. And so it's all very complex. It's extraordinary. It's beyond the comprehension of any investor. So if you talk about 500 stocks representing the S&P 500, or any investment scheme that was an ETF, it pales in comparison to the complexity of insurance products. And they are sold at high, you know, at very, very, not very high fees, but higher fees. So is that what we're going, I would love to see it attacked. But, I mean, attacked is the wrong word. I would love to see the consumer empowered through a better offering that allowed them to, you know, sort of enjoy better pricing in a more fluid, free, open market.

Phil: **26:14** I think democratized is the buzzword.

Michael: **26:16** Democratize, that’s the word, damn it.

Phil: **26:19** But you're 100% right. I mean, there are complexities and the sales process. I mean, there's a reason why, you know, people will pay to take, you know, seniors to take “blue hairs” out to dinner and buy them steaks and try to sell them these expensive annuities. It's just an area of the market where the product, the idea of the product, you know, getting the guaranteed income stream has an appeal to a certain investor. There are tax advantages, a very elegant and, you know, nice investment approach, in some ways. In other ways it's kind of been corrupted, right? So that, and that leaves opportunities to do it more efficiently, to do it better, to do it, you know, with a more cost efficient, in a more cost efficient manner. So, you know, we plan to capitalize on those opportunities -

Michael: **26:58** Well, that's exciting.

Phil: **26:59** Including the welfare of the investors.

Michael: **27:01** That's exciting.

Adam: **27:03** Yeah, the whole annuity space is a big mystery to me. I've always thought that the privatization of retirement was one of the major policy errors of the last century. And one of the reasons for that is that one of the benefits of traditional pensions is pooled mortality risk, right? So you, if every investor needs to save and manage their own retirement then they need to invest and spend as though, you know, they need to budget the risk of living to 100 or 105, or 110 or 150, who knows what sort of life lifespan expanding health care technologies are going to come to market over the next little while. So, you know, I always wondered why annuities were not just a default option for most retirement plans. And I think that a lot of it's just incentives, right? They typically, the, when you sell an annuity, it's off book. For, if you're an advisor, you sell an annuity, it's off book, and so you in the fee you get paid on it. It's just not very high relative to the idea of keeping it on book etc, right? So, are you going to try to address some of these challenges then?

Phil: **28:22** From the actuarial side, so, you know, when you talk about, you know, life expectancy increasing, I remember, like, 10 years ago, there was this whole big wave of people buying life insurance policies. And like, I think, there were a lot of HIV patients at the time who were targeted, they said, "Okay, you have HIV, you need money now for treatments but I as the acquirer of your insurance company who wants to get the benefit, I can then get this great return, because your life expectancy is small, and, you know, I'll give you the money now that you need now, but ultimately, I'll get the death benefit." And all those companies lost their shirts, because I mean, thank, you know, thank God and that, you know, that, you know, medicine came out, and, you know, the life expectancy of HIV patients increased dramatically. And, you know, kind of good because people, it's pretty grim to be on the other side of that bet. There, so there's a lot, you know, there's a lot kind of going on there. And you if look now at the potential for inflation, the way a lot of annuities are priced, you've got variable annuities tied to different assets. But, you know, very few that are tied directly to inflation. So, you know, when you think about, well, what is the investor in annuities? What do they really want? What are they trying to do, right? They're, maybe they're less concerned about leaving a retirement or leaving, you know, leaving something behind, but, you know, they still want to have that security for the rest of their lives and security -

Michael: **29:37** Right.

Phil: **29:38** So -

Michael: **29:38** Right. Maslow's hierarchy of needs, right? You want your food, your shelter, you cover that off through your government benefits, maybe your company pension, you add an annuity on it, then you take the rest of the investments that you have, and you have those other aspirational type parts of the of the Maslow's hierarchy of needs that can be realized. But, first and foremost, you need to have your food and shelter. So, you know, I think that's, that's great. I look forward to seeing that. Because I think that would, you know, if there's a higher general understanding of how annuities can benefit the end investor, I think then that probably gives more long-term capital to the markets. Because if you're taking a portion of your portfolio, and you're saying, "Okay, I'm going to cover off the lower levels of the Maslow's hierarchy of needs. And I'm going to assure that through these various vehicles." That story sort of assures that those longer term aspirational, you know, this money is for my kids, this money is for something else down the road, it gives more certainty to that actually happening. So it's, I think it's, it could be of great benefit to sort of, investment advisors and clients and things like that. That's really interesting. I think it's an underutilized tool quite honestly.

Adam: **00:31:02** Totally –

Richard: **00:31:04** Go ahead.

Adam: **00:31:06** I was, if you had something on this topic, go for it.

Richard: **00:31:07** I was just going to ask him, other than the insurance facet of it, what are some of the other areas that you're hoping to disrupt through this fintech endeavor?

Phil: **00:31:18** So, there are other areas, but we're going to be building them in stealth mode for a bit. So until we, you know, until we launch them and promote them as well.

Michael: **00:31:28** I love it.

Adam: **00:31:29** If you tell us you'll have to kill us, is it?

Michael: **00:31:30** No, there's really, there's nobody else here, you, it's fine, it's fine.

(Everybody Laughs).

The Maturation of ETFs

Adam: **00:31:37** It's just us girls. Okay, well, I guess we've sort of reached the point where we can't really discuss any more details on that. But I am interested in pulling on another thread that you laid down earlier about what sounded like a thesis about, if not the twilight of the ETF life cycle as a technology, but maybe the sort of the maturation. So I'd love to pull on that a little bit. Where were you going with that? And what are you seeing?

Phil: **00:32:06** Well, for a while, you know, what seemed to be happening, or at least what I thought was happening was a bit of a convergence between active and passive management where, you know, discretionary, active, you know, the idea that you're going to pay for an expensive mutual fund, and the mutual fund manager is going to say, "Well, you know, I looked the CEO in the eye, and you know, by the strength of his handshake, I could tell that's a winner and I bet on that stock." And those days are done, right? And active funds now, active mutual funds, by and large, they're, they're to, you know, to some extent, they're algorithmic based, right? You've got some sort of filter. You've got some sort of weighting mechanism, and maybe you're going to make discretionary decisions on top of that, but for the most part, they're largely built on algorithms. Well, ETFs are entirely built on algorithms. I'm not talking about actively managed ETFs and there are some. But I'm talking about what, what's, you know, become known as smart beta. So if you take, if you accept on its head, that indexing has some benefits. And if you accept that the ETF structure has some benefits, and it does, it has some tax benefits, that are, you know, kind of wonky, but particularly here in the US. Then, you know, the question is, well, how do you want to access the best investment thesis or the best investment strategy on a going forward basis? It doesn't necessarily mean that passive market cap weighted indexing is the best way to go, you could still do it in a rules based systematic way, you can still find ways to invest, that will give you a better forward looking risk return profile than market cap weighting. It hasn't been that way the last couple years. But that's an anomaly, looking, you know, historically, there are very simple value momentum filters. There's, you know, equal weighting, of course, as I talked about, is historically over like 40, 40 years of S&P data at a 65% batting average. So two thirds of the time, it'll outperform market cap weight, and do it by almost 200 basis points annually. So, you know, the convergence of active and passive is that, well, if anybody can pile into a passive, and when I say passive, market cap weighted, market cap weighted index fund, well, I want to do one better, I want to, I want to, you know, I want to optimize. I want to have a, I want to have some alpha, one of the better risk return profile. Well, the best way to do that is in, is utilizing the ETF. You get some tax benefits. What happened, what or at least what I think happened to a degree is, you know, that you had a proliferation of these smart beta funds and strategies and multifactor all over the place. single factor funds, different thematic funds and ideas and some of them are great ideas more than the, the, you know, the, more than, I think there was a lot of decision fatigue, and there were a lot of people who, you know, were a little bit overwhelmed. There was a very heavy push by the issuer side, it was almost like a, you know, like a jump ball, and everyone's trying to grab all the assets that everyone saw coming over as models move from mutual funds to ETFs. And then you get a run of market cap weight, where all these smart beta strategies underperform for a couple years. And, you know, you have a lot of advisors and institutional investors that are like, "You know I kind of gave this thing a shot and it didn't really pan out." So, you know, they're kind of going the other way. Another thing that happened is the industry started to eat itself. So, you know, Goldman Sachs famously came out with GSLC with a, with a multi factor smart beta fund and nine basis points. And their idea was, well, you know, we still have an opportunity to be the Vanguard of smart beta. And, you know, this, this follows, of course, Vanguard is, you know, basically at cost, slightly above cost. Schwab came out and launched ETFs, and said, "We're not going to price it for breakeven today. We're going to price it for breakeven at full maturity. So you know, at $2 trillion of assets, then what's our cost? Our cost is all the way down here." So they're willing to lose in the beginning years to make money on the back end, and they came in super low cost to compete with Vanguard. iShares was trying to compete with Vanguard, so they come out with their core products, get cheaper and cheaper, so then they got people that were late to the game. So now JPMorgan and Goldman Sachs come in and say, "Well, we can't miss this whole ETF train. All the flows are going into these low cost products. How are we going to get in?" That's why you get a two basis point fund from JP Morgan, and a zero basis fund from back in New York, and, and on and on. Now, all these models, or all these companies are planning, well, the only way we can get to scale is by being super low cost. That's the only model that's proven to work. It worked for Vanguard. It worked for Schwab. It worked for iShares. The only way to do it is to be, you know, as low as we can possibly be. There's not enough scale in the market, there's not enough scale to feed all of those business plans. So when JPMorgan and Boni –

Michael: 00:36:38 Great point.

Phil: 00:36:38 And BlackRock and PIMCO, when you have 10 funds, all chasing the same low cost, there's just not enough scale to go around to make them all, you know, what would be called liquid in the eyes of the investor, which is not in ETFs, good if you look at volume and assets. There's just not enough. So they start, you know, finessing each other, "Well, okay, I'll, you know, one up you on basic points, one up you until it gets to a point where there's just no, no profit to be made. And if you look at ETF issuers, there's a feeling out there, people think, "Well, their assets are so high, they're making a lot of money." But if you look at it on a revenue basis, right? If you look at ETFs on a, I mean it's very simple, let's say market cap expense ratio, it's all publicly available. There are firms that are making great money, right? You've got ProShares and Direction are making great money. You've got, you know, firms like First Trust and Global X that have really found their niche in their core audience. But the vast majority of firms, even a lot of very high asset firms are not making a lot of money at all. And it's just gotten incredibly competitive. Another problem there is, intellectual property protection, which is something I've talked about often where there was in the first half of my career, there was, not about a gentleman's agreement, but there was, it was frowned upon to steal somebody's IP outright. It was just, it was just something that, you know, yeah, okay, fine. Look, you can have 1000 Ben Graham disciples that are all value investors, but to do something that's like, deliberately stealing from somebody else, what they're doing was not really done, those rules have gone by the wayside. And now people are willing to do it to the point where, you know, there's one story that that, you know, will make your stomach turn. There's a young entrepreneur, launched a fund. This is probably about 2014, or 15, started to do really well, a thematic fund, good timing. And a gatekeeper, for one of the large wirehouse banks, called up another ETF issuer, that he's in a great relationship with, whatever that means, called up the product group there and said, "Hey, you know, a couple of my advisors want to buy this thing, I haven't approved it, why don't you launch something similar that I can approve." And, and, and the wirehouse gatekeeper actually gave the idea of the fund to the company. They launched it. He, you know, he approved it, and, you know, that fund has exponentially more assets than the original. In what other industry can that be done? I mean, yeah, I guess, you know, you hear complaints at Amazon steals somebody's, you know, product idea, or, you know, you see it done, but it's a, it's, it's pretty, it's pretty awful that to see it happen to an entrepreneur. So there's a lot of factors that are working against the business side of things. There's also, like I said, when you have saturation, it just gets very difficult. It's hard for investors and advisors to really, you know, get a handle on all the funds to understand them. So a lot of them rely on, what I think are very lazy metrics. What are the assets? You know, are people coming into it? If not, what is my forward expectations on a risk return basis? What are the assets? You know, what's the historical performance? Okay, but it just seems like the idea of trying to find a better way to invest, trying to find a creative, interesting, better way that's going to give you and your clients a better risk return profile on a forward-looking basis. That's like eighth on the list. And maybe that's the product of a stock market that's up every year without any, God forbid, we get 5% pullback from all-time highs, the Fed comes in and saves everyone and nobody's worried. So nobody's really worried about eeking out alpha and nobody's really worried about trying to, you know, enhance, get another 1% here or there. So they default to these other things. And it just makes it a very, very difficult market.

Adam: **00:40:12** But I think also regulations have played a role here, you know, where, there's such a focus on costs now, you know, that you've really got to go out on a limb from a compliance standpoint, in order to put a fund in a portfolio that costs more than a few basis points, because this is such a proliferation of products that you can access. And the regulators are not really equipped to differentiate between value funds or, you know, between factor funds or what have you. If you've got a value fund that's available for three basis points, and another one that you're considering for 30 basis points, then, you know, you do put yourself at risk, I guess, at investing in the 30 basis point one even though maybe there's craftsmanship in that, in that product, that actually gives you a reason to have higher expectancy, net of costs. There's, you know, the regulations just complicate those decisions. And, you know, as you say, there's been such a proliferation of everybody sort of scrambling over one another into what are essentially the same factor products, you know, you've got sort of the fundamental indexing and the DFA model have now taken on a life of its own, right? And, you know, we've been doing some thinking internally about what the impact the adaptive nature of markets, what the impact is, of such a gargantuan tidal wave of capital flowing into very, very similar strategies that are selecting securities with very similar characteristics. I don't know if you have any thoughts on this, but it seems to me to sort of go back to first principles on why do these excess returns or edges exist in the first place? Well, clearly there are investors that are either making systematic mistakes or more likely, just have non-wealth maximizing preferences that are causing them to select securities or deselect securities with certain characteristics, right? And by then deselecting or under-pricing those securities, it gives so called factor investors the ability to go in and sort on those characteristics and then buy those securities and then arbitrage that gap in expected returns to earn a premium. But, you know, obviously, there's a, there is a cohort of investors that have made those decisions, expressed those preferences of de-emphasized stocks with those characteristics. But there's not an unlimited amount of capital deployed by that cohort of investors that are expressing those preferences, right? Like, it just makes intuitive sense that eventually the amount of arbitrage capital is going to overwhelm the capital that was originally investing in these, in these strategies that were creating the premium in the first place, right? So if you've got enough arbitrage capital that are investing in stocks with certain characteristics, those characteristics may have implied higher returns before. But now you'd almost expect the sign to flip on those premia. And now stocks with those characteristics would be expected to have negative excess returns, right? And so I wonder, and I'm sort of, you know, I'm looking at the value premium, the small cap value premium over the last several years, these multi factor funds, the multi alternative funds, and it's been just an incredible, you know, - 1 or - 2, Sharpe ratio, straight line down. And so, do you have any thoughts on whether there's just, this has become overgrazed, factor investing has become overgrazed and now the sign has flipped, and we need to find some sort of equilibrium before there's going to be some premium again. And when it does come, it's probably going to be much lower than what was implied by some of the early back tests.

Phil: 00:44:00 So, there's actually been a lot of research on this, on the crowding factor. And, you know, how, you know, crowding into a strategy, does in fact reduce your forward-looking expectations. We kind of saw this play out on a micro level with the low vol strategy, the low volatility funds, was it like, early 2019, late 2018. But at some point, over the last year or two, there was a huge influx of assets into the two biggest low vol strategies, the iShares and the Invesco funds. And iShares have been promoting it really, really hard, and they were successful, and they got a ton of assets to come in. And then, you know, as soon as that kind of levelled off, all of a sudden so did performance. And, you know, there's a number of factors and reasons why that might be. I don't think it's necessarily entirely because it had been crowded in but there certainly is that effect. But eyeing pressure on a set of stocks are a factor, it's going to have an impact, I mean, the algo that you're trading against doesn't care, right? And there's, no there's been no, like no mechanism in the market to, you know, to have a true intrinsic value. So like Tesla is a good example. So, you know, market makers are just making markets based off the, you know, the options Greeks, right? And you can push things around that way. But there's nobody to say, “Well, hold on a minute, maybe this company, even in the most optimistic scenario is not worth X, it's worth Y.” Okay, well, the market doesn't care. There's no, how does that, you know, where's the true up? And I think that's why a lot of value investors have gotten smoked, because there's just been no true up back to intrinsic value where I think we see stocks moving because of buying pressure. It's just the relentless, relentless flow of assets into market cap weighted. And, you know, to me, I think market cap weighted is a factor just like anything else. That's one of the thesis on reverse cap is, well, you know, the reciprocal, the market cap, you say the market cap itself as a factor is non-optimized, then in a zero sum world, one minus that, if it's non- optimized is no, it's taking that extra, that extra alpha. But you know, you can't market cap new money coming into market cap waves, you know, bias high, bias high, bias high wherever the market is. And as long as there's new flows coming into that strategy, and I don't know, when that's ever going to end, if ever, and I'm not just talking about ETFs, you know, there's also options that, that, you know, are all tied to the S&P. There's futures, there's direct indexing, there's, you know, an unknown amount of institutional money that is market cap weighted internally. And until that slows down, it's just really hard to get to that true up, to get to that point where, okay, Apple, Apple is a great company. It's a great company, right? But maybe it's a little overpriced here, right? Maybe the Amazon PE should be somewhere below, I don't know, say 250. I mean, you know, there's a level. There's a point at which a great company is still overpriced, and there's no mechanism now in the market to find that level, to find the level. Well, you know what, I liked it. I really liked the stock at this market cap. But now it's 10% higher, I no longer like it, it's the opposite now. People think the opposite, they think, "Well, you know, I liked it there but now it's running up. Now I really like it –

Michael: 00:47:05 Yeah.

Phil: 00:47:06 I, on the momentum play.

Michael: 00:47:07 It's the Vernon Smith. The price, the price that you bought at and the new price is higher than that price. And that's what justifies the buying of the new price which is higher, which then reinforces the, the previous purchase and more purchases. It's that reflexive nature that, that markets are going through. And as you're on this arc, we did have a question, as to, you know, what is, why does the reverse cap outperform equal weight and general market cap weight? And I know you're going into that, so you might as well just address this in an extra sentence or two, as you as you roll through that. So, continue on.

Reverse Cap Explained

Phil: 00:47:40 Yeah, yeah, so there's two factors at play with reverse cap. And they're actually they have about an equal contribution to the historical alpha. And when I say historical alpha, it's all back tested since the day we launched this fund. It has underperformed during the whole FANG run, but that's the nature of the fund. It's always anti-cyclical. Before the global financial crisis, it looked like an anti-financials fund, when financials got out of working S&P, today, it looks like an anti-technicals fund. Just as it did, by the way, before the dot com bubble. And there will be a day where that strategy and other people who are value investors will be rewarded for that. But you know, there could be some pain between now and then, you don't know when that comes. But the two factors are, you know, one of them is size. So it's, you know, small minus big, it's the, you know, same thing by size, is the inverse of the market cap. So what you get is, if you think about, let's say the, the average market cap of an S&P 500 company is 200 billion, right? So if you have Apple's at 2 trillion, I don't remember the exact numbers, but let's say and it's 10 times higher on the other end of the spectrum, you're going to be, you're going to be a lot closer to the mean, on the low end than you will with the outliers on a high end. So you end up when you do the reciprocal, the top weights tend to be a rebalance about, you know, 60 to 75 basis points of allocation, you end up with a distribution that's much, much less concentrated and much more well diversified. So you've got this small cap tilt within them. You got a whole basket of, these are, you know, the S&P 500 constituency, these aren't small cap companies. And if you read the research on small cap, you know, you've got the Amazing Assets paper in a, size matters if you can control your junk, right? And Larry Swedroe has something similar where he says, “Yeah, the small cap premium does in fact exist but you have to only if you can avoid what he calls a lottery stocks.” And the idea is that in, you know, small and micro-cap, you know, the valuation, so you're judging everything by size. Well, the size is the market cap, it's all being pushed around with thin volume, with thin, you know, with thin liquidity. So you can get into some names that you don't even want to be into. Well by limiting the size till two large cap, two S&P constituents, you've got, you know, that's your quality filters. You say you're going to do size tilt within large cap, then it plays out then you don't have the junk or the lotto ticket issues. And the size tilt has contributed historically about half of the alpha. But the other factor is more interesting. The other factor is mean reversion. And if you think about it, let's take equal weight because it's a little easier to visualize, right? You've got an equal weight fund, you've got 500 stocks, everything has a 20 basis point allocation. And then, you know, bell rings and everything trades for a quarter. Some go up and some go down, right? At the end of the quarter, you rebalance. You sell the winners and you any buy up the losers. You true them all back up to equal. Right, now everything's at 20 basis points. Well, in a trending market, right? The winners, you don't want to rebalance them. You want them to run. You want to be heavier in them and you don't want to buy all your losers. You want to have less of losers in a trending market. But in a mean reverting market, that's exactly what you want to do. And more often than not, the market has acted in a mean reversion factor. So, if you go to reverse cap, you see even more so, we're going to, we're going to, when, if the portfolio gets out of whack, we're going to rebalance it. We're going to allocate more money into the smaller allocations which are either companies coming into the S&P or companies who have dropped, and the ones that have run away to the upside, we're going to take profit there. And we’re going to reallocate the profit back to the stocks with the most room to run. And historically that has provided, is really, it's amazing. It's almost equal from, you know, distil down and there's a great S&P paper on their Index-ology blog on this. And we've run the numbers ourselves at exponential, you know, just the attribution of those two factors. It's amazing how it's almost equal 50/50 split between those two.

Adam: **00:51:25** Okay, so yeah. So the, that's your, it's sort of the rebalancing premium. You're also sort of implying that there is this mean reversionary dynamic at play as well, right?

Phil: **00:51:37** Yep.

Adam: **00:51:38** But I think you're basically referring to the rebalancing premium or rebalancing bonus, or gamma scalping or whatever, there's a bunch of different names for it. And so you maximize the rebalancing premium with equal weight. But I think, so I think your thesis is, you get a lot more rebalancing bonus from your reverse weight, because it's not actually reverse weight. It's one over the market cap weight, right? Isn't that how you do it? Yeah. So actually, your, the, the Gini Index of your reverse weight is not, is not, is much smaller than the Gini Index of the S&P, right? You do have a lot more weight diversity in reverse, than you get in the, in the S&P 500.

Phil: **00:52:26** Yeah, very much. It's really not reverse weight, its inverse weight. But we could –

Adam: **00:52:29** Yeah.

Phil: **00:52:29** Inverse because inverse in ETFs is how they call the -1 beta and -2 beta funds.

Michael: **00:52:33** And you don't want any mixed up with that. Yeah.

Phil: **00:52:36** We don't just flip the names. We take, like you said, reciprocal of the market cap –

Adam: **00:52:40** Yeah.

Phil: **00:52:40** And everything by the sum of their reciprocals.

Adam: **00:52:42** Right, so that's a much more diverse portfolio than the cap weighted portfolio. And for sure, you are emphasizing small, smaller names. And so did you, how did you compute? Do you remember how you computed their rebalancing premium there? Did you, did you take the weighted average of the constituent compound returns and the weighted average of the portfolio returns and the difference there was the rebalancing premium?

Phil: **00:53:09** Yeah, we took the performance of the funds that we, exactly, the funds that we bought up that we had to, not the funds, the stocks –

Adam: **00:53:16** The stocks, yeah.

Phil: **00:53:17** That we, that we had to true up. And the ones that we took profit from, I'm trying to remember the S&P methodology, it's escaping my mind. The S&P ran the same study on their equal weight, and it's on their Indexology blog.

Adam: **00:53:27** Mm hmm.

Phil: **00:53:28** And we did it a little bit differently, man it's a few years ago, it's a few –

Adam: **00:53:13** Yeah, I know it's, you write a lot of papers and you do a lot of analysis. And some of it just inevitably leaks. I got to go chase down that S&P paper because I'm writing my own paper on the rebalancing premium at the moment with the, in the context of risk parity, but I'm fascinated by the whole concept at the moment. So I'm just –

Phil: **00:53:51** When we do factor attribution, when we did factor attribution on it, it was weird because a lot of the people, a lot of the data sources use equal weight or the equal weight to market cap weight premium as their defining factor for size within large cap, which, you know, again, to us is ridiculous. So, you know, we looked at deciles. Another interesting thing that we looked at was, you know, we used the S&P. And if you, if you did, if we did just the rules based top 500 by market cap and then reciprocal of weight, instead of using the S&P hold. And so typically, the S&P, the overlap between the S&P 500 and the top 500, just rules based top 500 by market cap with no index committee or criteria. There's an overlap of typically, it changes, but typically about 420 of the stocks will overlap. And of the 80 that don't, it's usually the smaller names anyway. So in the, in the S&P version, you're still getting something extremely - once in a while you have a Tesla or something that will have some sort of material impact on performance, it didn't make it in or that made it and shouldn't have. But for the most part, it's not going to have much of an impact. But what we found, we did, we ran a test on a basket of just those 80. So every rebound's period in the S&P, we took the companies that would not have made the rules based version against the companies that would have, but that weren't in. And we ran, we ran performance on that, because what we wanted to show was that using the S&P there is a built in, there's built in –

Adam: 00:55:20 Quality load in there.

Phil: 00:55:22 Yeah, the quality, and what was the word I'm looking for, not downside protection. But there is, it was a stabilizing force, the amount of money, just the trillions of dollars benchmarked to the S&P, we didn't see anything in the up markets. But in down markets, we saw that those names have some artificial support, which we attribute to the S&P index included.

Adam: 00:55:42 Interesting, I love it. I don't know if you saw there was a paper, Cory shot it over to me earlier this week. And I think he dropped it in Twitter, Tuesday or Wednesday, but where the authors looked at the old Research Affiliates fundamental indexes. And, because I had never seen this before, somebody using the rebalancing premium as,an explanatory factor in a traditional kind of factor regression. And these authors showed that the rebalancing premium completely explained all of the returns to the fundamental, the fundamental indexes. And so all of the loadings on value and quality and etc, were completely irrelevant, and that the rebalancing bonus was the, was the entire juice. And so it's neat to see that you have, you know, observed something similar. And I know that your, the reverse again, is not, it's not equal weighted. The equal weighted is, will under certain assumptions, maximize the rebalancing premium under different assumptions, the minimum variance portfolio will maximize the rebalancing premium for stocks. But still, it's like I hadn't heard anybody else do that kind of decomposition before. So I'm interested to hear that you've done that and that you found out those results. That's pretty neat. So what's, what other ideas did you have for products that, that didn't quite make it into ETFs? I'm curious.

Phil: 00:57:17 I got a lot of ideas. And what I found is that the ideas, product ideas are just not that valuable. So I might as well, probably you won't care. But, you know, it's fun, I mean, the idea that you can, you know, sit there in a lab, and, you know, be clever, and come up with something that, you know, that you can just then run a product indefinitely, based on the, you know, the rules that you set out in the index is pretty cool. You know, it's pretty great. And, again, for most of my career in the ETF space, that was like a very viable thing. So, you know, you're at a company like Rydex in the early days, if you come up with, you know, a smarter way to, you know, define value, and you just filter and sort and there you go, you're off to the races, you know, obviously, you know, everyone, everyone jokes, and it's a fair, fair joke about, you know, the, you know, back test performance versus actual live performance. And I think it's just a very natural thing, that if, if you need several people to sign off on an ETF launch, right? Internally, there's probably a product committee in it, that, that's an officer for the portfolio, you know, you've got, you've got a bunch of smart people together. And you've got market makers, you've got stakeholders, and you have a board. And, and if you're going to launch a fund, you know, people want to see that it works. And what does it mean that it works, it means that the back test is good. So if you take two strategies, let's say, two sides of the same coin, right? Let's say, let's say market cap or reverse cap, or let's say, you know, growth, let's say momentum and value, okay? You're going to, by, by nature, you're going to launch the one that is coming off of the better back tested period, right? Because that's the one, "Oh, yeah, look it works. So, you know, look, look at the back test. The thesis makes sense. It's not like people are data mining, or just running back tests for the sake of running back tests. But you have a thesis that makes sense and then you've got data that says that it works, and it launches. And in reality, you've got this regime cyclicality, so the minute you launch it, you're at the tail end of that regime, and all of a sudden, you start underperforming. But, you know, something that I really wanted to do a year ago was a high yield Fixed Income Fund that by rule just filtered and sorted by debt service coverage ratio, cause, you know, at the end of the day, everything I've done single factor is super simple. And what I like about this factor is, look, if I'm going to own paper that I'm nervous about, the only factor I really care about more than, I mean, that service company can they pay off their debt? Right? I mean, it really doesn't get more simple than that. And if you look at defaults, and you look at downgrades, and in the corporate space, it can be very telling, that was pretty conclusively seen on the tail end, on the down end, a very bad DSCR was conclusively linked to downgrades and defaults. A very good one versus a pretty good one didn't really have much of a result for us. But just by taking out the bottom two deciles, we had a pretty material difference on performance. We came close to launching it, you know, I never did. We had one seed investor but ultimately from a commercial standpoint, you know, we just found distribution to be too challenging and expensive on the ETF side. So we, we never went that way. We built out instead on the capital market side and filtered out those other services. I'm trying to think off the top of my head, the one that I really wanted to do, also, I guess, about now, two or three years ago was currency wars. I really wanted something that would capture what I expect it to be increasing volatility in the FX market, and never really came to pass or never really came to pass yet. But I thought that was going to be a good place before the trade wars. And, you know, when the trade wars, I was like, "Oh, we should have launched it." I think we had a ticker of war of wars or something, I might still have it. You know, but, but it never really happened. We never really, the gaping issue there is, we never really cracked the code on, you know, any index methodology that would have captured what we're trying to capture is increasing volume on the FX side was, was too difficult to do, or at least we didn't figure it out.

Richard: **01:00:58** It seems like now might be the prime time for, for something like that happening. But I don't know, if we want to go down that rabbit hole, and into abyss.

Michael: **01:01:05** Hit him.

Phil: **01:01:06** Guys, you can have it. It's all yours and, or whoever wants it, I'd love to see it happen. You know, it's, like I said, my days of watching ETFs, at least for now are over. So, you know, I'd love to see it happen in one way or another. But, you know, -

Richard: **01:01:18** Did you throw in some gold and Bitcoin in there as well. Just curious if, if that's what you are minding.

Phil: **01:01:22** That was another idea we had, the SHTF, we got the ticker, if shit hits the fan.

(Everyone Chuckles).

Phil:	**01:01:28**	You know, but I've long wanted to do something that, that captures inflation in a truer, in a more accurate way than, I think most of the inflationary have been, than TIPS does, are mostly inflationary measures of products. I mean, there's still a lot to do, if you look at the alternative space, really underdeveloped in the … side, in the mutual funds and ETFs, a lot of opportunity there and in the alternatives. I think, you know, like I said, the FX space has got some opportunities. There's some really cool products that came out recently. You know, ADR is a, that are a currency hedge. And again, it's the kind of thing where people don't really think about until it's too late, you look at, you know, what happened with WisdomTree with DXJ. They were so successful as a hedge, right? When the dollar is worth more, when, then when the dollar goes the other way, you find out, well, nobody was really hedging. They were just trying to enhance their performance and hop on the dollar trade so, but I think the FX bet that's embedded into any equity bet is, you know, really unrelated and should be hedged. So, I mean, so somebody able to convince investors of that.
Adam:	**01:02:29**	You're right. Any other awesome products out there that you are, you know, you think are pretty cool for the ETF wrapper?
Phil:	**01:02:37**	I'm a big fan of SWAN, s-w-a-n, Black Swan Fund. So it's a, it's not a, it's not a tails event fund. It is a protection from a tails event. And the way they're going about it is very interesting. Rather than buy puts, what they're doing is getting the beta through, through a long option strategy and then 90%, 90% of the allocation is just sitting in treasuries, long dated treasuries. So what you get net/net, it depends on the market environment. You get about 70% beta on the upside, and then you're capped at 10% downside because of the treasuries. So I just think it's a very elegant way and a very interesting way of providing downside protection. I'm trying to think what else there's, I don't know, you know, my mind, I'm trying to, I'm trying to forget everything I ever knew about ETFs right now, so a little bit of PTSD going on.

(Everyone Chuckles).

Michael:	**01:03:28**	What are, what are the challenges with a low rate environment for annuities? I mean, that, that's got to be something, I, have you, have you thought about that as you're thinking about your new role?
Phil:	**01:03:38**	Yeah, absolutely, you know, and that's the challenge. But, you know, there's a lot to do on the variable annuity side. And again, it's yet to be determined if we are going to be a sponsor of our own annuities right now. You know, we're focusing on distributing existing annuities for some of the other insurance companies. We may, we might create a proprietary product, but we might not. So we'll see. Obviously, as you guys can tell from this conversation, I love it, the product development side, the financial securitization side, you know, I truly love. And I think it's got such a bad, such a bad rap, you know, from, you know, the whole financial crisis. And there's so much skepticism about anything new and different in the financial product space. But I think it's really unfortunate. And I think ultimately, the goal of any good product developer in the financial space, the goal is to create, you know, better funds, new funds, that makes sense, that makes sense to you and to the clients. And I think for the most part that is what happens

and, you know, it's always, it's always fun to, you know, it's something I will probably get back into to some capacity.

Michael: **01:04:38** Maybe, maybe we could just come back to that whole entrepreneurial side, as we kind of wrap, and so we're just over an hour here. So we set the stage for, for wrapping up, I always like to, you know, when I had, when my kids were younger, I would tell them, “Okay, we have to leave.” But knowing that we didn't have to leave for half an hour, so I would prepare them for the fact that we have to leave.

(Everyone Chuckles).

Michael: **01:04:57** And then in half an hour, we can leave on time.

Adam: **01:04:59** I actually do have to leave because I've got, I've got people who here –

Michael: **01:05:02** Oh, there you go.

Adam: **01:05:03** And it's, it's gonna be, it's gonna be a big racket, but I'm might mute and stay on and then –

Michael: **01:05:08** Okay.

Adam: **01:05:08** Go back.

Job Swaps

Michael: **01:05:10** There's actually a really interesting question in the questions, which is if you could swap jobs with anyone for a month and get all their skills, who would you pick?

Phil: **01:05:18** That’s a good one.

Michael: **01:05:19** Which is, is really interesting. I thought, well, maybe we'll wrap it a little bit of, you know, we're all entrepreneurs, we're all in the financial services world. We've all had various roles. That's an interesting question. How do you, how do you, I have a couple of other add-ons. Do you have any thoughts on that Phil? Does anyone’s jump into your mind?

Phil: **01:05:37** I mean, there's two ways to answer that, right? So if I could, if I could, you know, wave my magic wand and do so, you know, I'd love to go into the Fed one day, take a palace seat and, and you know, change course on a number of things. I think that'd be, would that be fun? No. Absolutely would not be fun . You know, I, I love global macro. I'd say to be a proprietary, you know, answer to nobody, unconstrained global macro investor where I can be in, you know, Indonesian equities one day and I could be in copper the next day and I could be short the end. I mean, like, you know, to go wherever you want to go. as a, as a macro, freestyle trader, just seems like a lot of stress.

Michael: **01:06:21** Oh, I could see, I could see Richard, Richard’s eyes lighting up to Soros, Druckenmiller.

Richard: **01:06:26** I thought he was gonna describe Hugh Hendry that's why –

Michael: **01:06:28** Hugh Hendry?

Richard: **01:06:29** I thought that's what he was going for.

Michael: **01:06:34** That's great. Well, you, what about you, Richard, any thoughts on that?

Richard: **01:06:37** Yeah, I gotta say, living the dream in St. Barts, do the global macro thing was, was where my mind was going at.

Michael: **01:06:46** That's, that's really interesting. I actually, it's a, that's a tough question. Actually, I don't know. I kind of think, I don't know, sitting in Bill Bell, being Bill Belichick for a little while might be kind of neat. Little sports action.

Phil: **01:07:01** Mets and yeah, maybe I'll take that one and be a, manager of the Mets and try to finally get them, you know, get them somewhere.

Michael: **01:07:07** There you go. There you go. Love it. Adam is coming back. He'll have something. Did you hear us? We were just talking about the last question was the –

Richard: **01:07:18** If you could swap jobs what would that be –

Michael: **01:07:19** Look at that mic!

Richard: **01:07:22** And learn all their skills, who would you pick?

Adam: **01:07:25** Oh, my God you went there?

Michael: **01:07:26** Yeah, we're wrapping up with the entrepreneurial, aspirational.

Adam: **01:07:30** Okay. All right. So –

Richard: **01:07:32** You have to answer Adam. We're waiting –

Michael: **01:07:34** Jim Simons. There you go. Jim Simons. You know, he was he was open. Everyone else wanted in discretionary global macro. And I wanted to coach a football team.

(Everyone Laughs).

Michael: **01:07:46** So I wanted to be Bill Belichick and they wanted to be Hugh Henry and George Soros.

Adam: **01:07:51** Oh, wow.

Michael:	**01:07:53**	Fantastic.
Adam:	**01:07:53**	Two aspiring global macro traders over here.
Michael:	**01:07:57**	Yeah, yeah. So any, any –
Adam:	**01:07:57**	I knew who Richard was but –
Michael:	**01:07:59**	Any other, so as you're starting up this new insurance game, have you thought about, sort of, and I'll just we'll wrap with this. But when you think about that entrepreneurial nature of a firm versus a more of bureaucratic nature of a firm and then attracting the right personnel into those firms, right? So you've got a right fit and match, have you given any thought of that to, to the rollout here? So thinking, I'm thinking of, sort of, you know, you've got the Patriots way, you've got Netflix that that sort of did a, did a slide, if anyone hasn't seen that it's a pretty worthwhile to read. And basically, everyone wanted to work at Netflix until they got to Netflix and then, you know, I think is it, is it Reed, it's Hoffman or Hastings, I forget, I got those two guys confused.
Richard:	**01:08:45**	Reed Hastings.
Michael:	**01:08:47**	Reed Hastings. So he did this SlideShare deck, right? That said, “Hey, by the way, I know everyone wants to come but here's the actual things that happen in Netflix, and here's how you're going to feel comfortable. So if you're over here, it's not going to be comfortable for you.” So can you offer the insight there. Have you thought about that mission, mission, vision type stuff?’
Phil:	**01:09:05**	Yeah,I mean, it is so critical especially, you know, now I, you know, got a few grey hairs and I've been in this game for a little bit and seen the difference I'm just myself in different places I've been, being happy when I feel like I'm with like-minded people who get it, who get me I get them where, you know, versus being in a, an organization where it's not the right fit. For everyone, for them, for me, it's just, it's the night and day difference, I'm joining a team here that's already up and running. And the reason why I'm joining them is because they are very much like-minded in the way, the way I see the world. And, I mean, that was, that was so critical. I made a list. Okay, look, I don't think I can do this alone right now the entrepreneurship thing, I was trying to raise capital for the SEC lending business plan and there was COVID and I'm doing these Zoom calls. And it's just, it was so hard to put it all together. You know, I reached a point I said, “Look, I need, I need a team, I need other people who are behind me, I need good investors, you know, the right, the right whole total package in order to pull this off at this time.” And I made a list of places I wanted to go. And there were two, two or three, the two and a half, I guess, it was. But, but, but places where I wanted to go and this was number one of the list of really two. So, you know, very much like minded, entrepreneurial minded, you know, go getters and, you know, I just wrote this post about joining, you know, the people, you know like chips on the shoulder. Like Josh … says chips on the shoulder, but chips in the pockets. People that are willing to, you know, really fight and to, you know, when appropriate, but, you know, to really make sure that this thing succeeds. And, and to, you know, and to go all in and that's, that's what was really critically important to me. And I'm really, really glad to have found it.

Michael:	**01:10:42**	Love it. What do you think? Sounds like a great place to wrap up.
Adam:	**01:10:50**	Yeah, sounds great, man.
Phil:	**01:10:52**	Thank you guys. This was great.
Michael:	**01:10:53**	Yeah. Appreciate –
Adam:	**01:10:55**	Phil, appreciate it, man. Thanks for coming on and sharing your story and some great insights.
Richard:	**01:10:59**	Thanks for coming. Good to meet you Phil.
Phil:	**01:11:01**	My pleasure, guys. Thank you and have a good weekend everybody and a great weekend to the audience.
Michael:	**01:11:05**	Yeah, you too and everybody.
Adam:	**01:11:06**	You too. Alright.
Michael:	**01:11:09**	Reserve to stay on for a few seconds.