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| **Rodrigo:** | **00:01:55** | And we're live. |
| **Mike:** | **00:01:56** | Happy Friday. |
| **Rodrigo:** | **00:01:56** | That wasn't that bad. A minute 40 seconds… |
| **Phil:** | **00:01:58** | How appropriate that you have a video about FOMO as I sit here in Chicago, in the cold without a drink in my hand and the three of you are in the Caymans sipping cocktails. That says FOMO in a nutshell there. |
| **Mike:** | **00:02:10** | Cheers my friend. Here's looking at you. |
| **Rodrigo:** | **00:02:14** | You still got at least two hours more of work. We're done for the day. How are you doing? |
| **Phil:** | **00:02:21** | I'm doing well. |
| **Rodrigo:** | **00:02:22** | Welcome, welcome. |
| **Phil:** | **00:02:22** | It's good to see you guys. Yeah, it's been too long. I hope you're doing well. |
| **Mike:** | **00:02:25** | Good to be seen. Are you going to do any of these conferences coming up in January up in Florida at all or February? Are you going to hit any of these ETF conferences? Will we see you there? |
| **Phil:** | **00:02:34** | Yeah, I think that the tentative plan is to try to do something at Exchange, the new one in Miami. I've been trading emails with Matt over there just to figure out maybe like a speaking slot or something. But, yeah, with the book coming out, I got to try to line up as many conference things as I can. So, hopefully … |
| **Mike:** | **00:02:51** | I look forward to seeing you there. |
| **Phil:** | **00:02:52** | Yeah, yeah. Any other big ones on the calendar for you guys or? |
| **Mike:** | **00:03:00** | There's a few futures related ones. |
| **Phil:** | **00:03:02** | Okay. |
| **Rodrigo:** | **00:03:03** | We're switching over from *Context* to *iConnections* which I think you know, to Miami. The same guys that ran *Context* and are running *iConnections*. So, it's going to be an interesting rivalry there. But generally, yeah, it's going to be, you know, the alternative and futures based conferences that we're going to be at. |
| **Phil:** | **00:03:21** | When's the inaugural ReSolve Wealth Management Retreat up in Cayman? |
| **Adam:** | **00:03:27** | Oh, it's coming soon. |
| **Mike:** | **00:03:28** | Soon. Meb was all over Rod in -- |
| **Adam:** | **00:03:33** | Oh, did we lose Mike's audio there? |
| **Rodrigo:** | **00:03:36** | Yeah, Meb was on the podcast I just recorded with Meb, Meb and Corey. He was like, when's the conference? I'm like whenever we open up. So, we're very close. |

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| | | The Cayman Islands is opening up as of tomorrow, right, November 20th. So, we should be able to plan something. Now you're muted Mike, your button's muted |
| **Adam:** | **00:03:53** | Yeah, you're muted bro. |
| **Rodrigo:** | **00:03:56** | So, Phil, we're going to talk about a bunch of stuff but I do want to see your book cover because the book's never made it to us and … |
| **Adam:** | **00:04:02** | Yeah man show us, let's go. |
| **Phil:** | **00:04:04** | Yeah, hopefully you got the PDF copy. |
| **Rodrigo:** | **00:04:05** | I see four in the back, no? |
| **Phil:** | **00:04:07** | Yeah, we got some. So, the physical ones are on their way to you. Hopefully you had a chance to take a look at the PDF I sent. Give me a check, I'll give you the up close. |
| **Rodrigo:** | **00:04:16** | Awesome. |
| **Adam:** | **00:04:20** | While he's getting the book we'll read the disclaimer, right, Rodrigo? Do you want to go or? |
| **Rodrigo:** | **00:04:25** | No man, you're in charge forever and ever. I don't ever want to do that. |
| **Adam:** | **00:04:30** | We're just delivering the disclaimer here for a second. Go ahead. Show the book. Go, do it. |
| **Phil:** | **00:04:32** | There we go. *The Allocator's Edge*, there it is. |
| **Adam:** | **00:04:36** | Man that's … |
| **Rodrigo:** | **00:04:37** | *The modern guide to alternative investments and the future of diversification.* Go Huber. The four … |
| **Phil:** | **00:04:43** | And some random no name wrote the forward. |
| **Adam:** | **00:04:48** | He wrote a nice glowing foreword too. |
| **Phil:** | **00:04:50** | Oh, it was like classic Cliff. And, yeah, he did a wonderful job. That was great. |
| **Adam:** | **00:04:57** | Yeah. He made a reference to *Greyjoy* in there, which I think is a reference to Game of Thrones, which I was especially tickled by. But he's such a great nerd. Just love him. |
| **Phil:** | **00:05:09** | Yeah, there's a couple references I didn't quite get but I let them just pass. I'm like, this is Cliff's baby. I'm not going to touch it. I'm not going to suggest any edits, it's going to go in just as he wrote it. |
| **Adam:** | **00:05:22** | Yeah, totally. So, I actually thought that *The Allocator's Edge* was a really great -- it connects very directly to the FOMO, like the message in the video at the start, |

right, just going through it. We've been having the same conversation over and over again with …

**Rodrigo:** **00:05:45** Oh, my God, what is going on with the ReSolve's tech.

**Adam:** **00:05:49** … on similar themes. You know, we obviously have been banging the drum for a while on similar themes. So, I mean, obviously it resonated with us. But maybe you just go, yeah, you're working now Mike. Welcome back. Oh, we got to go to disclaimers first. So, whatever we talk about on this episode is for entertainment purposes only. We strongly advise you to not take investment advice from four dudes having a drink together on a screen on Friday afternoon.

**Mike:** **00:06:20** Nothing? You guys can hear? I can't hear you.

## The Allocator's Edge

**Adam:** **00:06:22** We hear you but you can't hear us. That's good. This is fun to do live. So, anyway, Phil, this book, we love it. But why were you motivated to write it now?

**Phil:** **00:06:38** Yeah, I mean, it's been in the works for a while. I just couldn't believe how long the whole process took, largely …

**Adam:** **00:06:45** Yep, Portnoy was still at *Magnetar* when you wrote it. There was a few other references where I was like, yeah, yeah, I can see. It just takes a long time to write and then move through the publishing process. I know.

**Phil:** **00:06:54** Yeah. And a lot of it was on me just my own reasons for needing extensions and whatnot. Like, I inked the deal with Harriman House, my publisher, this was like summer 2019. And summer 2019 was also when I became a dad for the first time. And so having a baby aligned with this book thing. I was like, oh, man, like, when am I going to find time for that. And then we were also during much of 2019, in the midst of our negotiations with *Savant*, my current employer. But at the time, I was still *Huber Financial*, and we'd yet to merge. And so just a lot of the merger related stuff.

And then of course, fast forward to 2020, and the onset of COVID, it just became one of those projects that seemed like every possible thing that could get in the way was getting in the way of it. But then things settled down, like fall of '20. I, like many people who were kind of on lockdown and not doing much on weekends, the social calendar was pretty bleak. So, I was like you know what, I got this weekend time now, I'm just going to crank out and try to get it done. And so I wrapped up the manuscript in March of this year, a couple months of back and forth edits, and then a few months just to get the publication.

So, yeah, it's quite the process. But it was -- I enjoyed -- I wouldn't say I enjoyed all of it. There's definitely some pain points to it as you guys know. But yeah, I feel very happy and pleased with how it turned out, and just fulfilled that I did it. And I would say the inspiration for the idea of why this topic, why write this specific book was really just goes back to my years of experience being in the kind of head investment seat for a registered investment advisory firm. And my role, really just being in support of all of our advisors and our clients, and not just building the investment strategies that we use in our portfolios. But also, how do we best communicate them, and how do we educate our advisors and clients so they can stick with them?

And then one thing became very clear over the years, as we continued to increase our usage of different types of uncorrelated non-traditional investments was, it was a source of confusion and a lot of the vast majority of questions that clients had about performance, or just how do I think about these things in the context of my other assets. It's great in theory to own things that behave differently and move independently. But experience and practice are different, especially when you have a backdrop of a continually rising equity bull market. You know, there was certainly clients and advisors that started to question like, what's the value of holding these things in the portfolio.

So, that was really what motivated me to hit, to really put pen to paper and say, if we're comparing a more diversified portfolio that includes a number of different non-correlated asset classes, you're going to look different than your kind of standard 60/40 type stack bond portfolio, which has been very easy to own and you can own it very cheaply. And it's rewarded investors over time. The challenge is we know the future doesn't necessarily have to look like the past and the math staring, particularly the 40 and 60/40 in the face is not pointing to an experience over the next 10-plus years. It's going to be very rewarding for investors.

And so really the intent was to try to educate advisors on the why, what, and how of investing in alternatives, so they can feel more confident in delivering these valuable return streams to their clients.

**Adam:** **00:10:29** Just before we get started on the content of the book, I wanted to share a quick anecdote from one author to another because I have kind of a funny story of trying to complete our book. In order to get it, sort of push it to the finish line, I decided I needed to get away. And so I actually went to Belize for a week to crank it out. And at the resort in Belize, it was a new resort and the internet was basically non-functional. So, I was cranking, call it four-five hours a day, I was kind of cranking in the book. And I really made a huge amount of progress. I was kind of 80% of the way there.

And while I was there with a few of the locals I was out at night drinking some of their Zacapa XO rum. And when I got to the airport, in Belize City, I went to the duty free and picked up a bottle of the Zacapa XO and I put it in my carry on, because I didn't want it to break and it was duty free. That's the way you have to get it. I get to Miami, and it's a mad scramble to get to the airport and I drop off my suitcase and I run upstairs to go through security again. And I've got this bottle of rum in my bag and they won't let me through. So, I'm like, oh shit.

So, I run back downstairs, like down the up escalator, the one way escalator to try and see if my bag had gone through yet. It hadn't. Or it had and I managed to sort of stuff my carry-on into the checked luggage and I put my computer in it on one side of this divider, and my computer in it on the other side of the divider. It's not going where you think it is. And then I run back upstairs, I go to security. I get back in Toronto, the suitcase arrives, like my carry on suitcase arrives. The bottle of rum is still in it, but somebody has stolen my laptop out of my luggage. Laptop gone, all of the book copy that I've written gone, like it hadn't backed up anywhere. So, that was about a six-eight months setback.

**Phil:** **00:12:40** In hindsight, you probably should have just chugged the bottle of rum at security when they wouldn't let you through.

**Adam:** **00:12:44** Yeah, there's a lot of things that I would have done differently in retrospect, let me tell you. That's like really low down the list.

**Phil:** **00:12:50** I almost went to Belize to finish mine, but then my wife threatened to leave me, so.

**Mike:** **00:12:57** She's a smart woman.

**Adam:** **00:12:59** Yeah, some choices are just easy.

**Rodrigo:** **00:13:00** Oh, yeah, I remember that. That was both like -- that was the funniest and most … I've experienced with you though. That was crazy. You had to rewrite the book from scratch and that took … years after that.

**Adam:** **00:13:14** It took a long time to get the energy back.

**Rodrigo:** **00:13:16** … getting it done in such a short period of time, Phil. Writing a book is … massive for us.

**Phil:** **00:13:23** And even going back to the initial conversations with my editor, when he first reached out, it was like 2016, like late 2016 was like the first contact. So, I mean, like, just the start of the relationship with them. And then ultimately getting to this point, it was like a five year period. It's kind of mind boggling. But yeah, I mean, if anything, I think I almost got lucky in the sense that the topic had been there for a while. But like now that we're at publication, I think the topic is as relevant as it's ever been in terms of when it's coming out and what the backdrop is. And so not that I planned it that way, but hopefully got kind of lucky in that sense.

## Frameworks

**Mike:** **00:13:59** Yeah, it's super timely. And maybe, why don't we start jumping in? You've laid the book out into sort of three sections, so why don't you give us the mental framework of how you kind of laid the book out for advisors to consider and think about what the problem is, how to solve the problem in today's world and environment and as we go through the next decade. You've already highlighted a little bit about the 40 in the 60/40. But give us the framework so that helps the discussion, sort of categorizes the discussion as people listen. It helps me categorize the discussion too.

**Phil:** **00:14:34** Yeah, I mean, the book really, it kicks off with that, the first chapter is literally called *Hindsight is 60/40*. And it dives into why are investors and allocators so fond of that canonical mix. Like why did that becomes sort of the standard bearer of what it means to be in a balanced asset allocation. And so it kind of goes through, well, here's why it's been great to own, but also here are the various reasons as to why that might be challenged going forward. So, kind of setting the table like, hey, it's time to start thinking a little bit differently about how to build a balanced portfolio and not just rely on what's worked in the past.

So, then, kind of moving on from there, in the first part is, well, if it's so obvious that 60/40 is a challenge, I don't think anyone's necessarily disputing that rates are low and equities are expensive. I think everyone, I think generally professionals kind of understand that. But yet still, there's this hesitancy to move away from it. And it's kind of been a security blanket in a way. And I think, part of that is this notion of alternative. It's a very loaded word and it takes a lot to unpack it because the word itself doesn't really tell you much about what's going on under the hood. It's just the way that we categorize essentially everything that isn't stocks or bonds. And so it tells you more about what something isn't than what it is.

And so this idea of it being a loaded word. And a lot of people have very sort of polarizing emotions around alternatives based on prior experiences, or maybe improper expectations that they had going in, and they got burned. And so they're like kind of *fool me once shame on you, fool me twice shame on me*. So, I think it's been a tough -- I think it's been -- obviously, institutions kind of gobble up alternatives and have very large alternatives allocations. Whereas advisors, some don't traffic there at all, some do, but they kind of do so just to like, check a box, and it's a pretty modest portion of the portfolio. And so not as many advisors are really making it a distinct material component of their portfolios and there's a lot of reasons for that.

And then I kind of finish up that first section by just really taking a look through history of like, there's just been this continual trend of improved, better technology. We're getting smarter in terms of our overall understanding of kind of what makes markets tick. So, there's always been this evolution of what portfolios look like, what new asset classes and strategies get discovered and implemented and systematized. And so it should be expected that the components and the composition of a portfolio should evolve over time too. It'd be silly if they didn't. And so that kind of leads into the meat of the book in the middle, which is what I would call the *what* of alternatives. And it's the past, the present, the future of alts.

And so it kind of starts with a discussion around the four, what I would call kind of the four basic food groups of alt. When you say the word alternative, you tend to think of hedge funds, private equity, real estate, natural resources, those tend to be the things when you close your eyes and someone says alt, those tend to be the four biggest areas that show up. And then it progresses into, okay, what are various sort of offshoots of those core four that are becoming more liquid, more accessible today, and maybe sort of tangentially related to some of those categories.

And so things like *alternative risk premia,* like systematic approaches to classic hedge fund strategies, things like insurance linked securities, that type of risk transfer has been around for centuries. But in terms of it being an investable asset class, for a broad swath of investors, it's still relatively in its infancy. And then you have other types of real assets outside of real estate, things like infrastructure and farmland and timberland. And then on the credit side, like private credit, sort of the cousin of private equity on the credit side, and different forms of that, that are continuing to grow in popularity.

And then I cap it off there with like the future of like, what are the novel asset classes that sit at the intersection of finance and technology that are relatively early in their lifecycle or just starting to gain more mainstream adoption. So, things like digital assets, but also things like art and collectibles that people have been doing for centuries, but more as kind of hobbyists, and more again, to display, to own the entire piece, as opposed to what we're seeing now is this trend towards FinTech platforms and apps where you can fractionalize and securitize these valuable collectible, rare collectibles or artworks that you can own a piece of that you're strictly buying as an investment as opposed to looking to hang on a wall or put on a shelf.

And so, a lot to cover, I intended to make it quite comprehensive and try to cover as much ground across alternatives as I could. Which of course, means you can't necessarily go a mile deep into each category. But I also thought it was prudent to include at the end of the book, an appendix, I call it the *research rabbit hole*, where for each of those categories, I included a listing of white papers, books, articles, other podcast episodes, and kind of broke it down by category just for the reader who says hey, really, you talked in this one chapter about insurance linked securities, I want to learn more. What are the resources I can do to go really deeper into that asset class. So, I included that for that purpose.

And then, I think third, the third part of the book and where things close is really, where the rubber meets the road. Like, effectively, nothing in the first two parts is worthwhile if the ultimate allocator, the adviser, whoever it is, delivering these portfolios to end clients. If you can't get them comfortable and confident to stick with them, then it's kind of all for nothing. And so I think I closed with a chapter on communication techniques. How do we best take these concepts and strategies that are not as intuitive as stocks and bonds? And how do we make the unfamiliar familiar? How do we take something that seems complex at the surface, but simplify the narrative or the message to the end user who needs to have this effectively translated, so they can understand why we're including it in their asset mix.

**Mike:** **00:20:51** The last point is really interesting. We could talk the whole show on just that. Did you think about or point out any, the changing nature of asset classes as they attract different participants? Did you speak to that at all or think through that? Any thoughts on that?

**Phil:** **00:21:15** A little bit, I mean, on one hand, from one angle, it could be this idea that like yesterday's alternatives are tomorrow's core portfolio holdings. And so there is, that's why it's so hard to wrestle with the term because it's constantly changing and evolving. And so I think of a handful of categories, like publicly traded REITs, or diversified commodities, or gold, or TIPS, or high-yield bonds. Like those are all things that, probably 20 years ago, were relatively uncommon in a typical advisor directed portfolio. But now, they're kind of staples today. Same thing with things like emerging markets. You're probably more hard pressed to find someone who doesn't have a dedicated EM allocation today than then those that do.

But in the earlier days, that was more of a -- kind of novel thing, and it's perceived as a lot riskier. And so it was kind of bucketed a little bit as an alternative for a period of time. And so that aspect is changing. And then there's just the nature of like, as things become more democratized, the nature of the asset can change itself, as it becomes more financialized. I think commodities are a perfect example of that, where just their behavior seems to have changed quite a bit, post the advent of the various indices that track them and the product proliferation that kind of followed all the earlier research, on here's why commodities make sense academically as an asset class, here's how they've added value. But then post publication, a lot of that changed, and the benefits have seemed to sort of fall off, or fall off a bit.

**Mike:** **00:22:50** I think you identified that in the digital asset space too. I mean, just the financialization of Bitcoin through various ETFs…

**Phil:** **00:22:56** Yeah, we're starting to see that. I mean, I mean, it's amazing to, like you've got -- I mean, it fluctuates a lot just given the volatility, but two and a half trillion, I think, across the entire, like, crypto complex these days. These are like humongous asset classes. Now, Bitcoin alone, I think, is still over a trillion, if I'm not mistaken. But I mean, those are, as much as it's separate from the traditional financial infrastructure, it's very much becoming more intertwined and interconnected. And as larger institutions continue to build allocations, like there could be some knock on effects and some of the *what have been*. Some of the diversification benefits of Bitcoin and other crypto that might start to disappear as it becomes treated more like a true risk asset, maybe those start to rise modestly over time.

And then yeah, like you mentioned, the futures based products have already been quite popular. Like if that first one got to like a billion in two days as an ETF, which is pretty much unheard of. And so you got to believe like, if and when like SEC ever approves … Bitcoin ETF, that's probably like a $20 million ETF in like the first week or something.

**Mike:** **00:24:09** You can already say that this isn't your grandfather's Bitcoin market anymore.

**Phil:** **00:24:13** No, no. I mean, we're far from the --

**Mike:** **00:24:18** The asset class is 10 years old. This isn't your grandfather's Bitcoin market anymore.

**Phil:** **00:24:22** No. In fact, I gave my grandpa a copy of the book last week, and I think he was confused by the title. He goes, "What does alligator's edge mean?" I think he was like … He didn't know what the term allocator meant so I had to kind of walk him through that. So, that was kind of funny. But yeah, he doesn't have a dedicated crypto allocation yet.

**Rodrigo:** **00:24:44** It is amazing how -- Go ahead, Adam. You've been chomping at the bit, go.

**Adam:** **00:24:49** No. Let's finish whatever this theme is because I want to pull it in a slightly different direction.

**Rodrigo:** **00:24:53** No, no, no. Go. I was going to change it up.

**Adam:** **00:24:55** Okay. Yeah, so I just wanted to pull it back, right? Because you mentioned a few times in the book how still, to this day, a very large portion of, and advisors are not familiar with alternatives. They shy away, they have next to zero allocation to alternatives in their client portfolios. And so I wanted to learn a little bit more how you came to be motivated to learn about the value of alternatives and the different styles of alternatives. Just maybe tell us a little bit about your own journey into this realm and why you found it so compelling when so many advisors shy away.

**Phil:** **00:25:37** Yeah, I think it's funny. Some of it comes kind of full circle, like just the fact that Cliff was able to write the foreword for the book. When I think of my very, very early education on alternatives when I was very early into my own career and probably only been at Huber Financial for a couple of years at that point, was kind of playing a utility role. We were a pretty small RIA and very traditional stock/bond portfolio. So, I knew next to nothing about any type of alternative investment.

And lo and behold, AQR launches their mutual fund business and are trying to build relationships with advisors. And so they started putting on an event called *AQR University*, to ultimately try to coach and educate advisors on these various components within alternatives. And so that was kind of my introduction to all this stuff. And so I credit Cliff, and his whole team was just kind of -- that was sort of the foundational layer for me when I started to really think about, okay, maybe there's more to building portfolios, than just kind of toggling between stocks and bonds. Dial up your risk for higher expected returns dial down if you prefer safety and income.

And that's only gotten more, I think, convicted as we've continued to move into uncharted waters and rate environments that I certainly have never seen in my lifetime, and most people haven't. And so I think the very practice of just building a portfolio that can deliver substantial or just material enough returns for our clients to meet their objectives without taking undue risk, that activity and that responsibility of ours is more challenging. Because on one hand, the status quo just means lower probability of types of outcomes we've historically been able to achieve.

The other option is just ramp up equity risk, but that's not -- maybe that's appropriate for some clients that have the stomach and the time horizon for it. But for a lot of folks that can't live through those big depths and might be at behavioral risk of panicking at the worst time, if they've got too much equity exposure. And then there's always the sequence of return risks that can manifest for someone who's entering retirement. So, I think the door number two of just okay. Well, if you're worried about low expected returns on bonds, just take on more equity risk. And voila, kind of easier said than done. So, to me, option number three has always been the most compelling, because there's other types of risk premiums out there that have a high degree of pervasiveness and persistence and intuition as to why you should expect to make money in this particular asset or strategy over time, whether it's risk based or behavioral based.

And if those return streams are diversifying and independent of the rest of your portfolio, then overall, you can build a portfolio that can withstand and be resilient across a wider spectrum of different future environments. And we know that the world can play out more ways than one. There's only one path we see. But you know, ex-ante, we don't know what that's going to be like, and so we want to be prepared. And we're certainly not in the prediction business. We're not big, tactical market timers. For us, it's about long-term allocation. So, in the absence of prediction, all we can do is prepare and I think one of the best ways to do that is just take advantage of the free lunch that diversification offers.

**Adam:** **00:28:59** So, as you were getting started, in this journey, into alts, what category of alts did you get most comfortable with early on? Like, take us through the first kind

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| | | of category of alts that you started to actually add to portfolios and then how that has evolved over time? |
| **Phil:** | **00:29:21** | Sure. Yeah. I think it was largely, I guess, first, given the nature of kind of the typical client profile, who we work with is things like hedge funds and private equity, just like, you know, our vast majority of our clientele is more like accredited investor levels of AUM as opposed to the above QP. And we just didn't have the in-house personnel or expertise and managing limited partnership structure vehicles and that whole process. So, we really focused more on the liquid side, that's what our clients were used to.<br><br>You know, there was a growing number of products being made available, whether it be ETF, mutual funds, and interval funds, which we can get to later, which it kind of opens up the illiquidity basket a little bit for our investors. And so I think largely, it was like, hey, what are some of these classic hedge fund strategies that have this intuitive risk premium that you can deliver at a lower cost? And then be more of like that beta, as opposed to trying to identify an alpha oriented manager just so we can -- so, things like managed futures would probably, I think it might have been the first one that we allocated to. A couple of years later, we got very comfortable with CAT bonds as a diversifier, and that was, at the time, a relatively new asset class to the 40-Act base. And both daily liquid mutual fund format as well as general fund depending on the type of insurance link security that you're accessing.<br><br>So, again I think that, given how we think about building portfolios like that, just there's a lot to like, in terms of what that offers, in terms of those truly kind of structural correlation properties that it has. And then other areas like event driven strategies, and more recently, as we've gotten more comfortable with the general fund structure, things like direct lending in the credit space, or a combination of public and private real assets as well that have some degree of inflation sensitivity to them. |
| **Adam:** | **00:31:24** | Yeah, I hear echoes of a lot of the sort of best practices espoused by guys like Larry Swedroe and obviously, Cliff, right, and Antti out of what is it? What was his book, *Expected Returns*? |
| **Phil:** | **00:31:42** | Yeah, like I've written about that book before. I refer to that as my *Investing Bible*. Like, that's probably been the most influential book in my career in terms of just like, having a number of aha moments that came out of it. It took me a while to get through it, it's a pretty … dense book, but it's -- and then a cool kind of story there was that given how much that influenced me, and Antti actually works at AQR now. So, as I was sharing the draft of the book with Cliff and his team, word came back that Antti got a copy of it and read it and had some kind words to say. So, that was kind of a cool… |
| **Adam:** | **00:32:21** | That's gratifying. |

| | | |
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| **Phil:** | **00:31:21** | Yeah, yeah. |
| **Adam:** | **00:31:23** | Yeah. That's neat. |
| **Rodrigo:** | **00:32:24** | Fantastic. |
| **Mike:** | **00:32:26** | So, as you're journeying -- Adam, did you have some follow up questions on that, because -- |
| **Adam:** | **00:32:31** | Go for it. |

## Communicating to Cross the Cavern

**Mike:** **00:32:31**

So, as you're journeying through this process of building in these alternative asset classes and managers into portfolios, and you talked about this in the third part of the book, a little bit of communications and things like that, can you build on that? How do you get the client across the cavern, if you will, on this new thing that's going to be in their portfolio? Their friends don't have, they don't have anyone to commiserate with, and what were the major challenges that you found? Even though you took the steps to communicate, what were some of the feedback loops that you still found were challenging? I think that'll be very helpful for the advisors out there that are listening

**Phil:** **00:33:15**

Yeah, I think a few things come to mind. I think one hurdle, particularly, would be cost, especially given the way that we manage money in the stock and bond sleeves of our portfolios, where we very much lean into index funds and factor based strategies. Like we don't really utilize any traditional stock picking type strategy strategies. So, clients are just -- they've been accustomed to us using very, very low cost funds in the stock and bond sleeves. And so I think that kind of stuck out for clients. They would see the expense ratio alternatives, which are inherently higher.

And so I think, finding ways to communicate, just because something's higher expense doesn't mean it's not worthwhile. It doesn't mean you should just blindly pay whatever, and that there's no strategy so good that a high enough fee can't erode it. But at the same time, I think if you're strictly limiting yourself to the Vanguard and iShares expense type ratios out there, then you're effectively cutting off an entire universe of strategies where there just aren't those types of rock bottom expense options.

So, I think cost is one thing where we need to kind of contextualize it in terms of like, when is it appropriate to pay up a little bit? And thinking about overall portfolio cost, not necessarily individual line item costs, and also like, what are we getting in exchange for that added cost in terms of diversification benefits and things like that? So, cost was a common thing that would come up. Obviously, the more line items you have in a portfolio, the more likely it is that you're going to have one thing sticking out in a given period of time that isn't doing well. So, there's that line item risk that comes up. And so it's like, it's this notion of trying to coach clients to focus on the portfolio as a whole, as opposed to the individual holdings, which of course, is easier said than done. But trying to communicate in a way like sports analogies tend to work well.

So, whether it's football and you say, okay, if your stocks are your offense and your bonds are defense, think of alts as kind of special teams. Or if you want to go the basketball route, it's think about opening the newspaper and looking at the stat sheet from the prior night's game, and how did all these players do. And you could focus solely on the point scored column, and you can look down and see this player, oh, they had two points. Oh, man, they must not have had a great game. Well, did they have five steals, did they have 12 rebounds? And so it's like, there's other ways for assets to contribute to an outcome than just the highest returns. And so I think understanding, much like every sports team has players that play a different role, each component of the portfolio plays a different role. And so you shouldn't expect some of these to outperform stocks long-term, but that's not necessarily why we own them.

I also think you got to set proper expectations for clients ahead of time, because if absent, that they're going to start to develop their own expectations. And particularly for something they're not accustomed to, or familiar with, they could be wildly off from reality and they could give it a short leash. So, it's incumbent on the advisor to really take that front end time to educate and find ways to help them frame and understand, like, here's how we're thinking, here's where we're carving it from, here's how we're sizing it, here's what we have, in terms of our longer term, risk and return expectations. Here's a type of environment, you might expect this to do poorly. Here's a type of environment you might expect this to do well.

And just be honest, and say, like, look, these alts, they're not a silver bullet, they're not a panacea, like this is … It'd be great if we found the one magical asset class that just worked in every single environment, and its own a very consistent non-volatile fashion, but that's not reality. So, everything in the portfolio has got its flaws. But when you blend them together, the idea is that the whole is bigger than the sum of the parts. So, yeah, it's an ongoing effort to get people on board. But I think over the years, we've certainly made a great deal of progress there.

**Mike:** **00:37:19** And in an ongoing effort, what's the cadence that you like there? Is it monthly communication, is it quarterly communication? How do you go about sort of stressing all of these points that you've made about good behavior from the standpoint of holding this balanced portfolio? Is it just every -- what's the cadence?

**Phil:** **00:37:42** Yeah. I mean, a lot -- It's interesting, because me and my team, we're the investment research arm for *Savant*, and we're a centralized resource for the entire firm, and all the 70 plus advisors that work for us. And so they can lean on us in any which way to help them in their client prospect conversations. And so, it varies. I mean, we produce a lot of content internally. So, a number of different resources that advisors can tap into to share with clients or walk them through different things. They can bring us into meetings, if they want to help retain clients, help close business, if they think it'll be valuable to, kind of have one of the key investment people in the conversation.

So, we're just kind of there, and we try to, like check in with them quite a bit, check in with advisory leadership, like get our finger on the pulse of what's going on in client meetings? What are the topics that are coming up? How can we use that feedback to inform where we spend our time and effort in building talking points and collateral and different forms of content? So, it's a constant feedback loop between the investment and advisory teams in the firm.

**Adam:** **00:38:54** I want to maybe give a nod to some of the questions. So, Jim Carroll's asking what the most unusual alt asset is that you have placed in client portfolios.

**Phil:** **00:39:08** Okay. Hello, Jim. Good to hear from you. Yeah, it's hard to -- yeah, I guess, it's in the eye of the beholder. But in terms of like, kind of our core alts mix, I guess the one that's probably least familiar would be that catastrophe reinsurance asset class. It's just, I think, for some clients will introduce it, it's just, like, "Oh, like this exists?" Whereas other things, like other things are very tangible. People understand credit, like private credit because they've had public credit in their portfolio for many years, or like, just like something like real assets like, infrastructure, farmland, timberland like people get that, it's familiar to them. So, there's less of an education hurdle there. Whereas, so -- I don't know if -- Nothing we do is too exotic, I would say, but hopefully …

**Adam:** **00:40:06** We're looking into like, class action legal claims, or -- That's another asset class that I think has a lot of really interesting qualities to it and has an inflation component to it, which we've sort of at the periphery began to kick the tires on. Have you looked at that at all?

**Phil:** **00:40:26** Not closely at all. No, no. We're always looking at stuff. But we also want to make sure that anything that we're looking at has generally, like broad applicability to our client base. So, we tend to stay in our lane for the most part in terms of mutual funds, ETFs, and interval funds, just because we can plug those easier into the model portfolios. But we're also spending time in other areas where it might be more client specific and less broad based across the firm. But we look at various types of niche credit strategies and private equity stuff, digital assets. We're spending time in all those areas internally, whether or not it ultimately manifests into something that we roll out as a service offering, TBD. But yeah, we're constantly looking.

**Mike:** **00:41:18** What are some of the things that you look at to make that sort of discernment or decision on, oh, yeah, this is something that we can get into at this time, right?

We're early. Digital assets being one or as Adam pointed out the litigation side of things. Like, is there a framework that you have there that you go through? Is it more sort of nuanced? Like, how do you make the decision and do you tend to go with larger managers that are more sort of embedded in the space? Do you tend to skew to sort of smaller managers that are on the uptick? Any insights in there on how you actually kind of bridge that decision making gap?

**Phil:** **00:42:08** Yeah. I mean, it definitely varies. We have a combination of probably lesser known, call it boutiques, but also very large, well-known kind of brand name managers. So, it might just be dependent on the strategy. I think we also have to be mindful that we're a big RA. And so any allocations we make, like, we need to be mindful of fund size and capacity issues, just because it's hard to believe. But when we merged with Savant, I want to say it was like, we combined at the time, this is not, barely like a year and a half ago, I think it was like eight and a half billion.

Our Huber side was about a billion and a half. But we've closed three deals this year, and just market growth and new client additions. We're actually, I think, once this most recent one closes, like 14 billion, roughly. So, it's a lot of money to, especially when it's like largely model portfolio based. Like, we need to be comfortable and confident that we can plug it in, without any unintended consequences.

**Mike:** **00:43:11** Right. So, you … capacity constraints, for sure make a difference. And you got to think about that in the context of a $14 billion RA. Sorry, Rod, go ahead.

**Rodrigo:** **00:43:20** No, I'm just thinking with regards to capacity for, you know, it's interesting when you think about trying to find the right alternative manager. And an alternative manager that's way too big, is probably something that's not great because it might be constrained as to what he or she can trade. And therefore, you want to find a niche-er alternative managers, but on this smaller side, you … 25% of their AUM, right? So, there's a lower bound of the fund that you want to invest in, and there's an upper bound too. There's like a nice little sweet spot for an $8 billion organization that you need that kind of -- it must whittle down, at least it makes it easier for you, right? To be …

**Phil:** **00:44:03** Well, in some cases too it's like, in some cases there aren't many choices. Like, some of the research just starts with the asset class itself. Like, oh, this looks interesting, now who actually does this and who can we talk to? Like the reinsurance example, there's like a very small handful of players there in the 40-Act base. So, it's not like you're compared to something like managed futures, where there's at least a dozen plus 40-Act funds, so it's a wider universe of managers to diligence and vet. So, some of that plays into it as well.

**Rodrigo:** **00:44:38** So, I'm just curious, talking a lot about the 60/40 and what we're going to see in the future and there's a lot of talk by alternative investment managers that you

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| | | know, people will see. Once the next decade comes, we're going to have a low return, 60/40 will be dead, we're talking about that all the time. What we forget is that the 60/40 was dead, right? Like, from 2000 to 2010 it was dead on arrival. They had 250 -- Well, I guess 60/40 would have had a 35-40% drawdown in one or two of those drops. And yet it didn't die. Right? So, you've been able to kind of transition out of that, your firm, your alternatives. Nearly every … continues to be purely 60/40, was your alternative. I did a presentation with 75 FAs yesterday. And the first question I asked, how many of you have more than a percent allocation of alternatives, and 75% of them said that they don't have any allocation to alternate investments. |
| **Phil:** | **00:45:33** | Recency bias is a hell of a thing. And if you think of the modern investing like zeitgeist, it's all about how can we get costs as low as possible? And so I think that also is a key factor as to why there's such a focus on things like 60/40, because you can do it super simply with a couple of funds. And I think there's a large subset of advisors that are weary of moving away from simplicity, because they don't view the cost benefit analysis as being worthwhile for them or for some. Like, the juice isn't worth the squeeze. Like, why should I put all this effort into understanding all these different asset classes that I've never used before? And then the extra work I've got to go into educating clients when, hey, I've got this really simple portfolio that's … |
| **Mike:** | **00:46:23** | Let me just say, if you're going to call yourself a fiduciary, that you're triggering me, Phil. I'm trying to maintain my control right now. |
| **Adam:** | **00:46:34** | I'm just going to back away a little bit here. |
| **Mike:** | **00:46:37** | Yeah. Someone talked about … |
| **Phil:** | **00:46:38** | We got to get you a refill on your cocktail there. |
| **Mike:** | **00:46:41** | Yeah, yeah, the idea, the audacity to suggest that I'm going to smother myself in the blanket of simplicity and low cost, but call myself a fiduciary is an outrage. Like as a fiduciary, what you are at that point is your low-cost Vanguard, Blackrock salesman. That's what you are. |
| **Rodrigo:** | **00:47:04** | Can I defend those fiduciaries for a second, just -- and then get back to my point? Because I think … |
| **Mike:** | **00:47:08** | You can try. |
| **Rodrigo:** | **00:47:09** | I get it, right. At the end of the day … |
| **Adam:** | **00:47:14** | This is the 20 minutes where the ReSolve boys argue with one another. |
| **Phil:** | **00:47:17** | This is the content I'm here for. This is why I signed up. I want to see the *battle royale* take place. |
| **Mike:** | **00:47:23** | I did say I was triggered. So … |

**Rodrigo:** **00:47:24**

Yeah, that's fine. But I think, again, look, everybody invest, everybody chooses a fiduciary, or most of these guys are … We can talk about what a fiduciary actually means and what it is in our business. But these are relationship managers that are trying to do the best job for the investors. And the truth is that just as unsophisticated as the investment managers may be, their clients are that unsophisticated. And if we want them to stick to something, a 60/40 portfolio for the vast majority of the American population may be just right. And in fact, it's a fiduciary. If they're going to stick to a 60/40 portfolio over something else that has a lower amount, and they're absolutely killing it. As they apply their fiduciary responsibility, Mr. Philbrick. They will take 35% …

**Phil:** **00:48:08**

And I sympathize with them in that the advisor's job is also to be a behavioral coach and get the -- whatever portfolio they're in, whether it's 60/40, or something else, they got to get people to stick with it. So, they feel that they have a better chance of getting someone to stick with something a little bit more simpler. Like, I understand that feeling of, hey, not to mention, there's a, you know, you guys remember, like there was a huge push for liquid alts post GFC of course. Like, not a year before the big crash after the horse was already out of the barn door. Then everybody wanted diversification when equities were about to go on their big huge bull run.

And so that early 2010 period, saw a ton of liquid alt issuance and it was just like a land grab. And so I think advisors, like it was a sexy story. They were like, okay, I'm going to test this out. But they were doing like very initial kind of due diligence, but there was like, oh, this alternative in the name sure. I don't care if it's long/short equity, or managed futures or global macro, or blah, blah, blah, like, it's got alternative. It's got a cool, it's got a good track record over the last year, like, good enough for me. And so I think there's a lot of firms launching products that probably didn't belong in the alt business, but they saw an opportunity just to gather AUM.

And I think a lot of advisors got burned and didn't have a good experience, not necessarily -- in some cases because the funds they chose didn't work out well. In other cases, it was because they set expectations too high. They thought okay, like this is the panacea. So, I think when equities continue to march higher, they just were like why do we continue to own these? So, I think it's hard once you've had one bad experience and then you've moved away from it to then revisit that again.

**Mike:** **00:49:53**

I totally agree. And it's easy to sell what's worked best in the last decade. And it's easy to sell what people understand, i.e. low fees and stocks and bonds. Note the language is sell each time, the role of a fiduciary is not to sell. The role of a fiduciary is to understand these concepts and products deeply, and to allocate on behalf of a less educated client, because the client can't be educated enough to understand these concepts. Come on, like, honestly. Now I get it, it's true that they may be able to stick with it. And in the fiduciaries' responsibility if they're, and this is what makes it hard, because you're truly not a fiduciary when you're beholden to the whims of the client. So, it's tough.

This is why it's gone to best interests, rather than a fiduciary standard, which is a much better standard. So, in the best interest of the client, that more conceptually grasp the idea that there are some behavioral vulnerabilities that the client has, and I do accept that so I don't …

**Rodrigo:** **00:51:03** Yeah. Speaking of selling I just, for any live advisors out there, that is 60/40 that are watching right now, please know that I do care about you, and I get why you need to sell. I need to sell and Mike's killing my sales right now. I think I want to bring you into this world through -- without judgment, and making sure that you get an opportunity to read Phil's book just to bring you into our world slowly but surely, help educate yourself so that you can have the stick- to-it-iveness to help your clients and so that they could have stick-to-it-iveness. So, on that Phil …

**Phil:** **00:51:37** Yeah. Having a portfolio that looks a lot different than your peers, like there's pure risk, there's career risk to that. And I think it takes a certain degree of courage and a willingness to be independent, to move forward with something like this. So, that's really what I was trying to aim for with the book was just look, I know, not everybody's going to adapt to this type of mindset, and that's fine. Like, not everybody has to do the same. But for those that are curious and want to do the best by their clients and want to be more comfortable with the space so that they can start to make those incremental changes, that they hopefully view this as a good resource to help them along that journey.

**Rodrigo:** **00:52:20** Well, that chapter 12, *Cultivating the client experience through courage and communication*, I think promotes courage and communication. It requires courage on all sides. It requires courage for you, the adviser, to actually do something different that you know is correct. To say that you don't know the future, to be able to add something that's going to zig when everything else zags. And then the courage of your client to put their trust in you, because they're not going to understand it, as Mike alluded to. It's your job to understand it and make sure that they're comfortable with it. So, I think that chapter really hit the nail on the head for me, in terms of I think, the most important chapter out of all them, is that, is how are you going to get to …

**Mike:** **00:53:02** Oh, yeah. And honestly, you hit on it earlier, Phil, like in the absence of value, we negotiate price, and it's really hard to discern value, right? It's really hard to discern the value that a non-correlated differentiated asset class brings to a portfolio over a full market cycle.

**Adam:** **00:53:23** But you've only seen half the cycle.

**Mike:** **00:53:24** Yeah, … are new. Right? So, I'm …

**Phil:** **00:53:27** Especially when the first part of the cycle just keeps going and going.

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| **Adam:** | **00:53:30** | Yeah, yeah, yeah. |
| **Rodrigo:** | **00:53:32** | … by 1000 cuts. |
| **Mike:** | **00:53:33** | This is so hard. I'm not trying to sort of diminish the difficulty of the task, right? I'm not, it's a really hard task. So, I just think that you really, if you're just focusing on fees, and stocks and bonds, I mean that it's fair share of vulnerabilities as well, is all I'm saying. |
| **Phil:** | **00:53:52** | Oh, absolutely. Yeah. I mean, it's like you said, there's a lot -- big difference between price and value. |
| **Rodrigo:** | **00:53:59** | So, speaking of -- You mentioned that it's really hard to go against your peers and what everybody else is doing. What's been interesting, you mentioned how AQR brought you into the fold and that was kind of the beginning stuff, so you understanding alternatives. I think DFA was the first group to really say, okay, you're not alone. There's a small wolf pack here. We're going to bring you into the fold and we're going to indoctrinate you and this is your church and its religion. And I have yet to this day been able to convert a DFA advisor, okay, ever. It's incredible the job that these guys have done to move away from your peers being 60/40 and you're actually, small peer group being 100% DFA. And I think AQR has done a great job of that as well. And I wonder if you're seeing a shift toward a new group of advisor groups that that really bring in the alternative space and you know, have found a pack that they can lean on for that strength and courage that you need. |
| **Phil:** | **00:55:03** | Yeah, I think because we, full disclosure, we're a partner with *Dimensional* and they've been a great partner for us for many years now. And it's a large relationship, but we're not a 100% DFA firm. What I have found is relative to maybe 10 years ago, you don't see as many DFA only shops these days. I think more and more advisors are -- They certainly value the partnership and think, hey, there's various spots in the portfolio we want to plug them in. And they can be a great way to access whatever asset class it might be. But just this idea, like, hey, there's a lot of great solutions out there, great managers, want to just be open-minded.<br><br>And again, I think there's a risk to a business as well, of being just a vehicle for access to a particular fund family. And so, especially now they have ETFs. So, anyone in the world who wants DFA funds, … So, yeah, I mean, I have the utmost respect for them ,and they do a great job. But I think you are starting to see, like you said, a smaller wolf pack. I think of folks like Larry and the others at Buckingham, like, a lot of similarities with what we're doing, and then what they're doing. And so, like I keep Jared over there, Kaiser, he and I touch base frequently and kind of check in and share ideas. And so there's a number of other RAs, I think, are kind of doing similar things that you can have that kind of |

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| | | core part of your portfolio that you do have an emphasis on low cost and tax efficiency and factor tilts and the like.<br><br>But there's this kind of third pillar where if you're willing to get off that hump of not everything has to be low cost, and not everything has to be daily liquid, you can start to really open up a menu of choices that gives you a little more colors to paint with, so to speak. So, I am getting more and more, you're seeing a trend in that direction is that it can be a bit of a barbell approach, I guess. |
| **Adam:** | **00:57:04** | Corey was asking what you've changed your mind about the most, with respect to investing at all. So, anything come to mind in terms of things that you … Yeah, it's a good question. |
| **Mike:** | **00:57:14** | I love this question. Like, as you were investigating and writing the book and reading all the research, was there anything that you had a 180 on or an epiphany or just changed your mind about? |
| **Phil:** | **00:57:30** | I would say -- You said Corey asked that question? |
| **Adam:** | **00:57:34** | Yeah, if it goes well, I'm taking credit if not, it's Corey's. |
| **Phil:** | **00:57:37** | Is he live right now? |
| **Mike:** | **00:57:39** | Yeah. He's online. |
| **Phil:** | **00:57:40** | He couldn't join us on camera? |
| **Mike:** | **00:57:43** | I'm sure he can. |
| **Rodrigo:** | **00:57:45** | I want him to tell me that to my face. |
| **Phil:** | **00:57:48** | He didn't want to be the fifth best looking guy on the screen. |
| **Mike:** | **00:57:54** | With his shirt off, the best looking guy … |
| **Phil:** | **00:57:56** | Yeah, doing push ups in the background or something. |
| **Mike:** | **00:57:58** | Corey with his frickin' shredded bodies out that nobody, like that anymore. |
| **Phil:** | **00:58:09** | No, I think like in terms of one, and this is actually an area that Corey and I have discussed is just this notion of as different assets become more financialized that their prior characteristics can and will change over time. And so I think it's not a 180, I would say. I would just, like have a higher degree of expectation, that just because there's been a certain diversification property in the past that you can't always expect that to continue in the future. And I think the parallel will probably, to gold and commodities will eventually be crypto in terms of it just becoming more -- … Yeah, becoming more intertwined in the system. |
| **Adam:** | **00:58:51** | One of the things that Cliff raised in the intro and which I also noticed as I went through the book was that you gave more credence to privates than I might be inclined to. Just maybe what's like, because it does seem like private equity, |

private credit has just been -- has had the same tailwinds perhaps even to a greater extent than public equities over the last decade or so, arguably over the last couple of decades, and has seen the same outsized returns. And so why are we not -- Why don't we have the same expectation of kind of mean reversion or muted returns in private equity private credit over the next cycle that we have for public equities? I wonder if you have any color there.

**Phil:** **00:59:45** I think there may be. I mean, I have a number of folks, like Dan Rasmussen of *Verdad* and others have written at length about just the elevated multiples in PE relative to prior years and that just the amount of growth of the asset class and constant institutional presence in that, you probably have to ratchet down return expectations there. I think what, and maybe this ties back to the 180 thing, what I've come around to a little more is like, also like a flip flop on this notion of an illiquidity premium in the sense that it's almost the inverse, in that like something like private equity that eliminates your ability to get in your own way over a decade plus long time horizon is a good thing, behaviorally.

And so we don't do a ton of private equity stuff with clients. And that was probably the area I was sort of least educated on and going into, writing the book. So, I spent a fair amount of time there. But by no means am I, the be all, end all expert within PE. But I think there can be a role. I just don't really view it as an alternative. I think of it much differently than a lot of the other assets that we've discussed on the call, in terms of something that can provide a truly uncorrelated return stream. Whereas I would just view it as an extension of an equity allocation, that if someone's got the time horizon and the ability to withstand that type of liquidity and the patience, then it could be a good thing for them to own, it could be complementary to their public market bucket. And so I think they're -- for the right client, if they're large enough to access the space and have an interest, I think there's certainly a potential role in the portfolio there.

**Adam:** **01:01:29** What about tail hedging? You know, we certainly over the last three, four years have observed a lot more market behavior that you could definitely categorize that sort of tail events, right? Another way to say that is that the kind of kurtosis of the market has been increasing through time. And so I'm just wondering, do you have anything in the book that deals specifically with this kind of shift in market character? Or maybe just how do you think about this in general? Is there a role for these types of strategies in the portfolio? And if so, what is it?

**Phil:** **01:02:05** I didn't go there much. I wish -- it's funny. I'm not sure I want to commit to doing a second book. But I think it would be interesting, maybe in a few years to do like a second edition of this kind of an update. Because it was just funny, like your guys paper with Corey on return stacking, like, when you guys put that out, I'm like, oh, damnit. I wish I would have included more on this idea of return stacking in the book, because that's a great -- I think that concept paired super well with alternatives. So, I was like, okay, well, if ever, it's a version tool, I'll make sure there's a **…**

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| **Rodrigo:** | **01:02:32** | I'll talk to your publisher, … stop the printing. |
| **Mike:** | **01:02:34** | … everyone's doing a mini book. We'll just do a mini book. |
| **Phil:** | **01:02:39** | Yeah. So, I think things like tail hedging, that's not my background or expertise. I think there's vague mention in one of the chapters of just volatilities and asset class, both as a seller of volatility to capture a variance risk premium or a long volatility approach where there might be some carry costs, but obviously, much greater diversification benefits. So, I spoke a little bit to just the different forms of volatility strategies that are out there, but didn't really dive too deep into that concept. |
| **Adam:** | **01:03:12** | What do you think of -- Sorry, I know, I'm taking over again, … but what do you think of the potential for overcrowding in the alt space? It's funny, two years ago, there was a reason to be concerned about overcrowding. And I mean, it seems like alts kind of went through this nuclear winter for two or three years, and have seen somewhat of a revival over the last 18 months or so. But I still think it's an interesting question to contemplate, sort of who's left on the other side of the trade? And then have you given any thought to some of the dynamics that are involved in Mike Greene's thesis about the rise of passive and the role of passive flows in creating sort of divergence in stock portfolios that will perpetuate some of these anti-factor programs? Just wondering if you've sort of given any thought to that and whether that might impact your view on how to position alternatives going forward? |
| **Phil:** | **01:04:27** | Yeah, I think especially for a lot of the alternative risk premia stuff, I think crowding has been a concern, and maybe not as much today just given that there have been a few lean years and so a lot of people have probably exited the space that were in it. And so I think that there might have been an area that I think I included a quote from you guys from one of your articles where, for whether it be like the value factor or some of these other alternative risk premia, once they get discovered, a lot of those early returns get compressed and then they maybe even have a really bad few negative years. But then as capital exits that can kind of get to a more longer term level where there is still compensation for the risk premium, but not to the degree that it had been in its earlier years before it was documented, and a lot of people were tracking it. So, I think as long as there's that intuitive in a risk premium story behind it, I think you should still expect something to be there long-term, but it will require patience, and you probably need to be humble and modest about whatever size it is. It's not going to be like it was in the heyday. |
| **Mike:** | **01:05:37** | I have sort of a follow-on question. |
| **Rodrigo:** | **01:05:39** | Temper your expectations, right? |

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| **Phil:** | **01:05:40** | Right, like a new baseline, effectively. |
| **Rodrigo:** | **01:05:43** | Yeah, a new baseline and it's still non-correlated, it has an okay Sharpe ratio, the non-correlation with an okay Sharpe ratio raises a Sharpe ratio … |
| **Phil:** | **01:05:50** | Yeah, just not going to be a non-correlation with a phenomenal Sharpe ratio anymore. |
| **Mike:** | **01:05:54** | So, I have a follow-on question and it's actually written down, and I'm glad you've gone in this direction, Adam. As an allocator, as a person in charge of sort of stewarding the $14 billion of mindset, have you encountered a scenario where you're targeting a certain factor, and you want the transparency. And so you're getting a provider that's giving you the transparency and the factor exposure. But all of a sudden, they've become too successful and there's so much money following this, and it's so transparent that now there's other folks running that group. Have you encountered it? If the answer is yes or no, it doesn't really matter. When you encounter it, what would you do about it as a manager in this space who's allocating to portfolios like this? Or how would you might detect it, etc.? |
| **Phil:** | **01:06:47** | Are you thinking more in like the long only space or in alternative … |
| **Mike:** | **01:06:52** | You can do both like if you're long/short, long only, right. Someone has come up with a factor portfolio, but they've clearly delineated, you know, they've given transparency, they've got low cost, but they've also now had an avalanche of money coming. And so with an avalanche of money comes a challenge, where if everybody knows what you're doing before you're doing it, because you've clearly defined how you're doing it, it can now get front run by others. And this has happened in a few scenarios within various ETFs and funds. But I don't know if you've experienced that yet. And if you haven't, you probably will. So, how might you handle it? How much … that as the head of someone who's setting up these alt strategies? |
| **Phil:** | **01:07:33** | Yeah. I think we haven't necessarily experienced it firsthand that I can think of a good example that would fall under that. But I think it's something you just want to be mindful of. You want to be mindful of just overall asset growth, like, it's great as an asset manager to have good flows and be taking in money, but there's always the risk of growing too fast too soon, and size being the enemy of performance at times. So, that's always a consideration of just like, wanting to just have continual dialogue with the manager on what they think appropriate levels of capacity might be if there are any considerations around hard or soft closes, things of that nature. So, it's something we want to keep in mind, and just be aware of. But in terms of like kind of who might be front running in that, and I don't know if there's a great answer to how we would identify that and avoid … |
| **Adam:** | **01:08:29** | Spoiler alert, it's us. |

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| **Phil:** | **01:08:31** | It is? All right. We could do that video again with the FOMO and time for another commercial. |
| **Adam:** | **01:08:39** | That's right, exactly. Just kidding. One of the interesting things about, including, like a reasonable slug of alts in a portfolio, I mean, it's hard enough to come up with reasonable capital market expectations for stuff like retirement planning, when you're dealing with traditional assets that have very long histories. But then how do you incorporate alts into portfolios and then try to set capital market expectations for the purpose of planning? |
| **Phil:** | **01:09:09** | Yeah. It's something we have to do for obvious reasons. And so we would do, try to for each asset we own in our models, is we use 20-year expected return numbers, so we're not on the seven to 10 year range, like a GMO or what have you. So, we kind of use a blend for most traditional assets of like, here's an expectation over the next seven to 10 years, here's a longer term expectation where you account for a little bit more mean reversion to historical levels. And so the timing of the 20 year numbers work. I mean, obviously, it's a very -- there's no hard science to it. You know, it's going to be wrong in some direction.<br><br>But I think, given the time horizons of the plans of the folks that we work with, like, we can't build the portfolio return assumptions for their 30-year retirement based on what do you think's going to happen over the next five years. To your question Adam, for the stuff that's not got as long of data, it's tougher. Yeah, I mean, obviously, if you've got a hundred years of data to use for an asset class, you can get a lot higher degree of confidence, I think and just historical realized returns and risk.<br><br>Where it's something where maybe it's 20 years of data, and then particularly for things that are long/short, and then you've got to obviously, like, implement that and practice with a fund as opposed to an index and account for additional trading costs. Like, that can be a lot tougher to come up with, like, what is the actual number, we should be assuming here? So, I think, like with anything, it's -- we know it's not a perfect science, but we just try to be what we think is fairly conservative and what those assumptions are. I think that's probably the best you can do is you account for some decay from those historical numbers, and you just try to be conservative about it. But … |
| **Adam:** | **01:11:01** | Yeah, that's a hard problem. You're not going to have the perfect answer but yeah, we obviously struggled with the same thing. And it's a hard problem, and I think erring on the side of being conservative is probably the right direction to err. But recognizing that there's a wide range of potential outcomes is probably the most productive way to view it. |
| **Mike:** | **01:11:22** | It's a challenge though, too. I mean, there is a challenge with being too conservative. |
| **Adam:** | **01:11:29** | Oh, for sure. Yeah. You're sacrificing consumption too by being conservative. |

**Phil:** **01:11:34** That's why I think like the -- I have a lot of respect for GMO, but I think I feel if you were to take their super pessimistic asset class assumptions and start putting those into Money Guide Pro, or whatever financial planning software you're using for someone's retirement plan, like, I think you're being too bearish there. And that's got a really negative effect as well. And so again, like there's a delicate balance to try to strike with all this stuff because that's not a great outcome either. If someone's not willing to spend the money that they've spent their whole life accruing and earning in their retirement because they're too afraid of running out for it, because we've put this like assumption of like zero returns or whatever.

**Rodrigo:** **01:12:18** Well, this is the thing about …

**Adam:** **01:12:19** Well it ends up being a mini max regret optimization, instead of like a max utility optimization. But anyways, sorry, Rodrigo. Go.

## Planning a Plan

**Rodrigo:** **01:12:26** I'm just -- With all these assumptions, I mean, we're not dealing with a pension plan that has to have a certain amount of distribution every year, and they have these expenses that you need to liability match. When we talk about human beings and private wealth, the only choice is to iterate year in, year out. And then I think you spend most of your time asking people to spend their own money. I mean, people that have made it far enough to invest with us and save their money with us, are generally at a point where they're going to leave some money behind. And you can be as conservative as you want, but you got to push them to spend, and then within that, every year you see something new happens.

**Phil:** **01:13:09** They ask for your permission. Like hey, can I do this? We're like, yeah, you can do this and you should do this because this is what this is all for, you know.

**Rodrigo:** **01:13:15** That's exactly right. And it's just human nature to want to be more conservative. And also, the other thing that just doesn't jive is that every year there's something new that happens; an expense, or a windfall or somebody in your family dies and you got some money coming your way, or you end up working 10 years longer, or you end up … it's so individual. The idea of creating a financial plan that's 54 pages, incredibly precise, that gives you what you're going -- how you're going to spend your money over the next 30 years seems a little absurd.

**Phil:** **01:13:47** That's how that's how it used to work. And I love to use the word iterate, because that's what you have to do. The days of printing off that big document and saying, okay, let's talk in a few years, like no. That's why -- and I think our advisors do such a wonderful job here is there is that frequency of meetings, and you're always just updating and staying in touch and like, hey, what's changed? What hasn't? What's new? Like, you have to -- That's why they call it planning and not a plan. Like, it's an exercise, an ongoing exercise that you have to account for. So, I think as long as the advisors are doing that … we're a financial plan organization.

**Mike:** **01:14:30** Financial plan …

**Phil:** **01:14:31** Oh, you want a … No, I'm sorry, this is a one and done exer--

**Mike:** **01:14:35** Your planned. You're done.

**Rodrigo:** **01:14:38** Can I ask, I just want to talk about structure a little bit. One of the most interesting areas for me that I have yet to fully wrap my mind around is these *interval funds*. I cannot tell you the amount of time that people and advisors come up to me and are like, oh man, … would be perfect in an interval fund. And I can't seem to understand why. So, can you give me a use case, like what are interval funds? Why are they useful? And specifically, what alternatives fit better in that structure?

**Phil:** **01:15:07** Yeah. They become useful when -- So, you guys, I think you're aware that like the 40-Act regulations for a mutual fund, you can only have up to what, 15% in securities that are deemed to be illiquid. And so something like the interval fund does not have those restrictions because it doesn't have to offer daily redemption ability. And so the interval funds offer to repurchase, typically up to 5% of outstanding shares, quarterly, so up to 20% a year. But that's not without risk in the sense that there can be gates that get imposed. So, if more investors are looking to redeem on a particular quarterly window then that 5%, then essentially each person gets prorated, and then gates can stay up for quite some time. So, I think, within interval funds it's not -- again, there's no perfect structure out there. I think there's a benefit to it because it does allow for things that are not quite liquid.

But for clients that don't want to get into LP-type structures and have that true illiquidity of like a 10-year lockup period or what have you, like, I think there's a nice middle ground that you can get here, where you're still getting some of those investor protections that come from the 40-Act, and you've got daily NAV and 1099 tax reporting. And so a lot of the comforts and familiarities that advisors and clients like about mutual funds and ETFs, you get a lot of those same benefits in an interval fund structure. There's just that key difference around liquidity. And that can be both a positive and a negative. The positive is that most normal times, like if you need to get $100 out, you can get $100 out of that quarterly window.

But then there's the off chance that the insurance, like security space, is a good example, where there's been a few rough years and losses in that asset class. And people that thought they were long-term investors in the space became very non-long-term, once they had a couple down years and wanted out, and gates were imposed, and it's an ongoing process. And so even though there are those quarterly windows, you have to really communicate the structure as more long-term than just hey, we can get out quarterly. No, you have to assume that something like this will happen at some point, even if it doesn't, because you got to be prepared for what happens if you're going to have to have at least some portion of your money in this fund for a several year period. You can still get periodic liquidity but there's a chance it can get prorated over an extended period of time. So, that is a risk.

But at the same time, it's opened up the doors a little bit for, you know, the areas that have probably seen the most success with the structure have been private credit and private real estate and real assets, and insurance then would be kind of the third. So, those are the three areas I think that have seen the most adoption and use for that particular structure. You're also starting to see a number of registered private market funds, like private equity come to market. Those have tended to be more in the tender offer fund structure, which is very, very close to an interval fund. I think the difference there, at least my understanding is it's really kind of board discretion, those quarterly repurchase windows. So, there's less of an obligation of an exact amount they have to commit to repurchasing. So, it's kind of again, most quarters, it'll probably be pretty seamless, but they've got a little more flexibility to cap that if they need to.

**Rodrigo:** 01:18:40 And are they allowed to charge performance fees underlying? Is that one of the advantages for the managers as well, the private equity managers, or are they still on the flat fee?

**Phil:** 01:18:50 I believe if you, if there's a performance fee levied it has to be limited to accredited investors only. So, most general funds do not have performance fees. And thus they, you know, essentially they can be accessed by any investor regardless of their accreditation status.

**Rodrigo:** 01:19:10 Right. Okay. And do you see any traditional hedge funds that may have like a monthly liquidity came and mastered putting their funds in a structure like this? Or is it mainly those four categories that you described?

**Phil:** 01:19:26 I'm sure there's a couple. I don't think I've personally encountered a lot of like hedge fund type strategies in the interval structure. I mean, it could be a good vehicle for it. It just hasn't seemed to be an area that's seeing a lot of growth and adoption with the structure, but it could work.

**Rodrigo:** 01:19:45 Interesting. On the fee side, just one -- Sorry, just one last thing. On the fee side Phil, so you talk about alternatives and all this. Like, how do you feel about compensation structure in the alternative space? Do you find yourself gravitating towards kind of liquid alts and things that are flat fee? Or are there reasons to really allocate and worth allocating to two and 20s, zero and 30 structures that are out there?

**Phil:** 01:20:12 I prefer three and 40 structures.

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| **Rodrigo:** | **01:20:15** | Three and 40 is your favorite, they're just going up? |
| **Phil:** | **01:20:17** | Yeah, because then you know you're getting the top tier. I'm like must be good if they're charging that much. |
| **Adam:** | **01:20:26** | Say you're an early investor in Medallion without saying you're an early investor … |
| **Phil:** | **01:20:31** | I don't want to brag, but I was a day one Medallion investor. No, I mean most of what we do, is that kind of flat fee approach. And I think that largely again, given most of what we're allocating to tends to be sort of systematic quantitative approaches, I think it just lends itself more to the flat management fee structure. But yeah, there can be a time and a place where performance fees make sense. I'm not completely anti that as a compensation structure, but it's just not a lot of what we do. |
| **Rodrigo:** | **01:21:08** | Got it. |
| **Adam:** | **01:21:09** | So, we're at an hour 20. I just want to make sure, are there any elements of the book that we didn't touch on, that you think really stand out, relative to other books in the category that you want to -- that we should chat about? |
| **Phil:** | **01:21:26** | I think it's funny, like, there aren't as many books about broad alternative investments as you would expect, especially to the audience that I'm writing to. So, that's where I -- I've got a handful on my bookshelf. But most of the things I've encountered over the years, focused on the alt space have tended to be really, like, technical, dense, like 600 pages, and probably not something that your average advisor is going to pick up. And so I wanted to make this really approachable, and it's not exclusively for advisors, but that's the core audience.<br><br>But ultimately, anyone who's involved in the allocation process, whether it be at the institutional or the individual investor level, I think can get value from it. So, it could be people involved, like people in my seat, people in different analyst or portfolio management roles at wealth management companies, but also advisors too. And so I would say that like any -- you've written a book, it's hard to pick a favorite chapter. They're all kind of your baby, but -- |
| **Adam:** | **01:22:28** | I hate them all now, actually. |
| **Mike:** | **01:22:32** | I think Phil, as you said, the magic here is not getting bogged down in the mathematics, but keeping the commercial realities of an advisor or allocator, who's actually got to make decisions in the categories and consider the real life challenges, not just the sort of, here's the mathematical Sharpe ratio, of course, you should do it. This is not robotic. There's a lot more nuance to it. So, there's definitely that. |
| **Phil:** | **01:23:04** | Yes. And I think I tried to do it in a way that you can read it front to back, and that's how it progresses in terms of the format of the book. But at the same |

time, you don't have to read this chapter into this chapter, you can float around if you want. Or even after reading, my dream was like this was the advisor's … reference book for alternatives that they kept on their bookshelf in their office when they needed to bone up on a particular area, or they just needed to refresh themselves on a certain topic that they could pull it out like that.

One thing I'll mention is like, each chapter has a section at the end of the chapter called *The Allocators Cheat Sheet*. And that was really just meant to be, it's like five to seven bullet points summarizing the key takeaways from that chapter. So, if you really want to skim read the book, then you can just go right to those. But I think if you were just using it as a reference guide, and wanted to quickly kind of look at something, it's nice at the end of the chapters to kind of reaffirm what you've just read, but I think also just if someone wants to quickly peek at something, they can do that too.

So, yeah, that's -- I just felt like this was -- I hadn't seen a book done like this with this audience and that was this sort of comprehensive across the alternative spectrum. And so I viewed that as my opportunity. And I'm excited to be at the finishing line here.

**Adam:** 01:24:24 Great job. Yeah, I really enjoyed it and I think it's a worthwhile read, for sure.

**Phil:** 01:24:28 Thank you very much.

**Rodrigo:** 01:24:28 100%. So, what's next? Where is the roadshow taking you next?

**Phil:** 01:24:31 I got a little -- I'm taking next week off for Thanksgiving week and just spend time with the family. We're going to go see my in-laws and so it'll be back. So, then the following week is the actual release date, the Tuesday after Thanksgiving. So, 11:30 is the day the book comes out. And so a few more podcasts that week and the next week, but so I've just been -- Yeah, I've been busy talking to …

**Rodrigo:** 01:24:54 I remember when we published our book and I went to Thanksgiving dinner, that my family with a bunch of books for me to sign. And let me tell you what you shouldn't do to a bunch of lay people that don't care about what you do or your book, sit down at a table and be like, who's first? Let me sign that book for you. All of them or look at it. Like what is wrong with you?

**Phil:** 01:25:20 Yeah, I don't know if I'll just be like, .. copies to like all family. But I will say it was cool about a week ago, like my grandparents are in their 90s and we went and visited them just to kind of bring them dinner and visit. We hadn't seen them in a while and I was excited to bring them a copy. They knew it was done and like I showed my grandma the acknowledgement section where I gave her and my grandpa a mention and she cheered up. It was a very cool moment. She was super proud. So, that made it all worth it for me.

**Adam:** 01:25:50 That boy, Phil, you know I never thought he'd amount too much. And … look at what he's done.

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| **Rodrigo:** | **01:25:57** | … that type of appreciation. None of my brothers -- in fact, I spoke to them today. We had lunch with my father once a week. And I asked them, by the way, have any of you read my book, the book that we published? None of them. None of them read it. |
| **Phil:** | **01:26:10** | The other book I signed was for my brothers. My brother is almost about a year older than me. And like any brothers, we bust each other's balls a lot. So, he's not a reader, like at all. So, I wrote, like the inscription I go, I'm happy that the first book you'll ever read is the one that I wrote. |
| **Rodrigo:** | **01:26:29** | Joke's on you. |
| **Adam:** | **01:26:31** | That's good trolling. That's good trolling. |
| **Mike:** | **01:26:33** | He'll never read either the signature in there or the book, so … I don't know who that joke's on. |
| **Rodrigo:** | **01:26:40** | That's right. |
| **Adam:** | **01:26:41** | So, I waited this whole session to ask you what the best pizza is in Chicago. So, let's hear it. When I'm in Chicago, where do you -- Well, I'm trying to put him on the spot. Where do we go, where in Chicago? |
| **Phil:** | **01:26:52** | So, I am a suburbanite now so my days of like, knowing that the best place for anything is gone. Like, we don't go to the city as often for dining. But in terms -- So, there's probably some new places I'm not aware of pizza, but in terms of like the classic ones I always liked, like Pequod's I would say**,** and there's a place called Piece Pizza. It was always good. P-I-E-C-E, Bucktown. |
| **Adam:** | **01:27:20** | Like a piece of pizza. |
| **Phil:** | **01:27:23** | Yeah. But they had like a peace symbol as their logo. So, that was a good spot. |
| **Rodrigo:** | **01:27:28** | I hear pizza prices are going up. |
| **Mike:** | **01:27:30** | … Chicago pizza place that we should go to, put it in the comments for us. Pequod's is number one. |
| **Phil:** | **01:27:34** | Well, it's funny, it's weird because like I … |
| **Mike:** | **01:27:36** | If … Pequod's put it in there. |
| **Adam:** | **01:27:38** | Well, I know that Portnoy is not listening anymore else he would have been right in there. |
| **Mike:** | **01:27:42** | Well, he's not listening. Portnoy, get in there. |
| **Phil:** | **01:27:43** | This is blasphemy as a Chicagoan but I'm not a huge deep dish person. |
| **Rodrigo:** | **01:27:49** | I agree. Just because you live in Chicago doesn't mean you need to defend that terrible pizza, like honest. |

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| **Mike:** | **01:27:55** | What do you mean terrible pizza? What -- |
| **Rodrigo:** | **01:27:57** | You heard. |
| **Phil:** | **01:27:58** | I like it on rare occasions, but it's not something that I crave on a frequent basis. I will say I was in New York last night and I went out to grab a bite with Michael Batnick. And he took me to a place called John's on Bleecker for pizza and he claimed it was the best pizza in New York and I am not a New York Pizza expert, but it was phenomenal. I loved it. |
| **Mike:** | **01:28:20** | Love that. |
| **Adam:** | **01:28:21** | John's pizza. Okay. |
| **Phil:** | **01:28:24** | John's on Bleecker in New York yeah. |
| **Adam:** | **01:28:25** | John's on Bleecker. |
| **Phil:** | **01:28:27** | You asked for the best pizza in Chicago and I gave you in New York. |
| **Adam:** | **01:28:33** | The bait and switch, man. |
| **Mike:** | **01:28:34** | … like who cares? Pizza is just the best food group ever. |
| **Rodrigo:** | **01:28:37** | Pizza is the best, generally. But it is sad that New York slice pizzas that have been at $1 for generations are now having to up their prices because of the inflation that we're seeing these days. It's a sad day. |
| **Phil:** | **01:28:51** | That's why they say pizza is like sex, even a bad one is good. |
| **Rodrigo:** | **01:28:54** | That's right. That's right. |
| **Mike:** | **01:28:55** | Exactly. Exactly. And most of the time when you eat it, you're alone. |
| **Rodrigo:** | **01:29:06** | On that note, exactly. All right, Phil. What an awesome book you've written. Good luck and Happy Thanksgiving to you and your family. |
| **Phil:** | **01:29:13** | Likewise to you guys. |
| **Mike:** | **01:29:14** | Last thing. So, just -- I didn't do this claim at the beginning. So, everything we've talked about is not investment advice at all. It's just four guys having drinks on a Friday so don't take your investment advice from us. And, cue the music… |
| **Adam:** | **01:29:25** | I did it, by the way and I did a better job than you just did, by the way. |
| **Mike:** | **01:29:28** | Oh, you did it? |
| **Rodrigo:** | **01:29:28** | Yeah. So, you weren't even paying attention but that's fine. It's good that we do it twice. Your job is to ask people to smash the Like button and all that stuff. |
| **Mike:** | **01:29:34** | I did that. |

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| **Rodrigo:** | **01:29:36** | Do it again. Smash it, smash it. Like and Share, share the love and stick around for the full five minute commercial that's coming up, guys. |
| **Adam:** | **01:29:47** | Hold on, hold on. Wait. Where can we find Phil? |
| **Phil:** | **01:29:49** | Oh it's -- So, you can find -- And first of all, thank you guys for having me. This was a lot of fun. You guys are a blast to talk to, so appreciate you inviting me on. But you can find me on Twitter a lot @BpsandPieces is my handle, same is my blog BpsandPieces.com. That's B-P-S. You can also find me at our company website, SavantWealth.com. And then the book is available at Amazon and everywhere else books are sold for pre-orders. And it comes out next, or not next, Tuesday 11:30. And it's called *The Allocator's Edge*. So … |
| **Adam:** | **01:30:22** | You also write a regular report too. What's the name of that and where can we find that? |
| **Phil:** | **01:30:27** | Yeah. Oh, *The Paper Trail*? |
| **Adam:** | **01:30:28** | Yeah, Paper Trail. I love that, actually. |
| **Phil:** | **01:30:31** | Yeah, it's on the blog. So, on BpsandPieces. But every month I do a compilation of just kind of the best research on white papers I've come across that past month, across the investment landscape. And so that's a fun -- that's my version of a curated link fest. Every blogger has got to have their own link fest, and so that one's mine. |
| **Adam:** | **01:30:49** | And they're sort of off the beaten path papers too, which I like. It's stuff that you maybe don't stumble on all the time. So, … recommend it. |
| **Phil:** | **01:30:56** | Thank you very much. |
| **Adam:** | **01:30:59** | Awesome. Thanks, guys. And now I guess you can roll the credits. See you guys. |
| **Mike:** | **01:31:03** | Happy Friday, everyone. |