Mike:	**00:01:01**	Well, can you believe it's another Friday? Fantastic. These are rolling by.
Robert:	**00:01:08**	Groovy opening tune there. My God.
Mike:	**00:01:09**	Yeah. Cheers all.
Rodrigo:	**00:01:13**	Cheers, happy Friday.
Mike:	**00:01:14**	Cheers for the happy hour and a long weekend Friday happy hour.
Rodrigo:	**00:01:19**	It's a long weekend in the US.
Mike:	**00:01:20**	Yeah, Memorial Day this weekend.
Robert:	**00:01:25**	I found a gluten free beer. It is possible.
Rodrigo:	**00:01:28**	Is it any good?
Mike:	**00:01:26**	Wow.
Adam:	**00:01:30**	Is it flavor free too?
Robert:	**00:01:31**	I can't quite tell, but the second beer has gluten in it. So I don't know if it really counts drinking a gluten free one before it. So goes.
Adam:	**00:01:41**	I do feel like that may defeat the purpose.
Mike:	**00:01:44**	Put off the intestinal discomfort for one beer. Sounds reasonable? So just before we get started, I want to make sure that everyone understands. We have lots of wide ranging conversations on this particular video broadcast and nothing that you're going to hear from these four scallywags is advice. It is purely financial entertainment. So make sure you keep that in mind, and that should get us started. Robert, welcome to the show. I think to get started, you might be a slightly less known guest for everyone on, that tunes into the show. So I'd love you to give us your history, where you're at, what you're doing, how you got there, and give us a sense of who we're talking to. And then we're going to pepper you with all kinds of fun things, questions and whatnot. Hit us with it.

Backgrounder

Robert:	**00:02:37**	Happy to, and appreciate you guys for bringing me with you. My investment career started coming out of school, I got into it through the institutional side. So I worked at a private equity firm, Elevation Partners for about six years or so. That firm took a little bit of unique approach and they said, we're going to take

guys out of private equity, and we're going to take guys that are operators, and we're going to put them together, they're going to be equal partners running a private equity firm, and we're specifically going to go and invest in media companies whose business models are being upended by the web.

And the original idea was, well, let's take really big brands like Forbes, so we bought half of Forbes, and then let's turn them from a legacy magazine company into the number one online destination for everything financial and business news. That turned out to be an incredibly difficult investment thesis to actually execute. But while we were doing that, we learned that there were a number of new media business models forming around the web and we could just invest in these pure play new businesses as opposed to trying to turn the old ones around. So we ended up investing in companies like Yelp, we were early investors in Facebook and that ended up being a very good outcome for the firm.

After that, I spent a couple of years at a long/short hedge fund. What was cool is a lot of the companies we've been studying privately at Elevation were then coming into the public market. So that was, the first half of my career was everything was institutionally related. After that, one of the early insights I had was I was sort of envious of the operating partners at Elevation. You had guys from Apple, from Electronic Arts, Bono fromU2, who is as good of a businessman as he is a singer. And I looked at that and said, well, gosh, how can I get the operator experience so I can be both the investor and the operator sitting at that table one day.

And I was fortunate where a good friend and colleague of mine from Elevation, Michael Preysman started this company Everlane. This was back in 2010. This was before even Instagram was acquired by Facebook, to give you some sense of where the early DTC, direct consumer brands were starting to think about how to position themselves. So when Everlane was founded, e-commerce on the web was already really efficient. You had Amazon, you had eBay or Craigslist. So if you knew what you were going to buy, there was a low price and fast shipping available to get it. But if you didn't know what you were going to buy, that more curated boutique experience of going into premium stores, this works particularly well in fashion retail, that part hadn't yet really been figured out online. So Everlane was formed with the concept of how do we create a store that is inspiring where we help people find the products that they're going to buy, that they didn't even necessarily have an intention of purchasing when they came in here.

And along the way, we ended up building really the modern version of J.Crew. And the reason we were able to do that was because Gap and J.Crew were sitting there with thousands of stores, with tons of debt, and they were treating the internet like an outlet store and we did the opposite. We said hold on, the website is the very first place customers are interacting with you. That should be your most premium product, your most premium customer experience, not an afterthought liquidation channel for all the stores that you're operating. And so we were able to build this brand Everlane completely online and a couple 100 million dollars in revenue later, the brand was then big enough to start opening physical stores. So we radically had completed the full circle. And so I stepped away there a couple of years ago and in finding my way back into investment management I was really curious about finding an opportunity to build a company, as opposed to an opportunity simply to manage money. And this I'm sure we'll speak a good bit about.

Mutual Funds vs ETFs

But I was really fascinated by this question of why hasn't every single mutual fund converted it's fund into an ETF. It's more liquid, it's more tax efficient and they can probably charge a lower price to all their investors. And if all of them should be doing it, but none of them are doing I,. something's going on. And what I've found so far is that the average mutual fund has seven or eight different share classes attached to it. Each one of those share classes has a different price or fee structure. And they're able to discriminate, based off of the investor they're selling that fund into whether it's a school, an individual, a financial advisor, and charge them a different fee. And that price discrimination gets them that extra 20 bips or so of margin that flows through their income statement and drives their operating margins. Because if they were to take that fund and make that same fund available as an ETF and they'd have to price it the lowest common denominator, well, all those investors would just say, what do I need this exotic mutual fund class for, I can just pull the ETF version of this and we'd all be better.

So I was seeing the Gap, J.Crew story play out all over again, where they're not treating the modern vehicle as the premium vehicle. And what that does is it creates a vacuum in the marketplace for new brands to form. And so that's what I'm trying to do with Upholdings, which is really to be a pure play actively managed ETF company. And we've only got one today, Compound Kings, and we're only going to have one for the foreseeable future because we're a small company. So all of our resources that we poured into picking the best stocks and managing that portfolio really well. I don't believe we're going to be the only folks doing this. Other people are going to come just like we saw in the direct consumer expansion over the last decade on the, in fashion lifestyle. But I'm excited to hopefully play a big part of that tidal wave and renaissance of actively managed product over the next decade.

Rodrigo: __**00:08:52**__ Rob, just before we get into the product, and how you think about concentration and all that fun stuff. I want to ask you a question about the cost of an ETF. You said something that has always been curious for me, this idea that ETFs cost less to run than a mutual fund. It doesn't seem to me that it should in any way. We've looked at structures before, running an ETF is pretty expensive, and it seems to be just as expensive as mutual funds. The only difference is that for some reason from doing what has been done in the past, mutual funds charge more than ETFs. And if you run an ETF you can't charge more than 60 bips. Why is it cheaper if in fact it is, or is it just pricing cheaper for culture?

Robert: 00:09:42

Well, I think it's scale. Look, if you're going to run smaller fund strategies that have caps on them, but I completely understand why you use a mutual fund or an interval fund to do that because you can keep the capital capped and as you pointed out, it's easier to be more exotic and potentially manager aligned, with the fee structure. But at scale, my profit from having worked with all the potential investors. So I was running a hedge fund for a couple of years and I'll give a little background of how I got here and then I'll get to the answer of what do I see on the operating expense side for an ETF or mutual fund.

After I left Everlane a couple of nice friends said, Robert, that was that was really cool how you helped allocate capital for a young growth company, you've invested in other companies in the past, can you do cool investing stuff for us. And the easiest and lowest cost way to start managing money for other people is to open a hedge fund. It's unregulated, it's very relatively low overhead from a legal standpoint, the challenge is you can only have accredited investors. So everyone's got to be rich already. And so this was something I started doing, I was doing it for five to 10 people. Right after I got past person number 10 I took the same 30-page subscription agreement, I took the 50 page LLC operating agreement, I put the pages in front of the investor and I said, these are all the things you're supposed to read here, the things that are really important. And they're like, Robert, I'm not going to read any of this. I'd like to just invest with you. And I was, that was one of my moments where I was like, you know what, they're absolutely right. We have the internet, why is this the process?

So that's what started me down the trail of there's opportunities to register this as a 40 Act fund. And I can do it as a mutual fund, I can do it as an interval fund, I could do it as an ETF. And so I talked to the intermediaries that you'd have to talk to register it as a mutual fund and distribute as such. And if you look at the gross margin structures of Artisan or T. Rowe, these are all public companies today, they have 60 to 70% gross margin where they run their funds. And the math that I was getting from quotes of the service providers that as we scale kind of showed me the same thing, where as I grow my long term gross margin would get to mid 60s or something like that. Starting around the time you get to about a billion dollars in capital under management.

And now on the ETF side, a brief sort of side story, and again, I'm sure this is well trod and precise research for a lot of your community, is a lot of a lot of the pioneers and the cowboys, five to 10 years ago opened up their first ETFs. And I'll use the guys at Alpha Architect that even introduced all of us, they were cowboys. Coming out with ETFs before it was known, that could be a way to really grow assets under management. And they did a great job. They got there with a handful of funds that they have, and they got to a certain size and they said, we can keep growing our funds or hang on a second, we have this regulatory infrastructure that we built that would allow someone else to run their ETF on our original investment.

And I think one of the big differences in the ETF world versus the mutual fund world is this army of cowboys that have gone out there and built these very robust regulatory operations and trading platforms, are competing with each other, they're experiencing their own economies of scale. And when I look at building the same ETF and getting to that magical billion dollars of assets under management, the gross margin is like 80 to 90%.

So you're looking at 10 to 15 bips of pickup from operating an ETF at scale. Presumably there continues to be improvements to that scale as the whole industry continues to evolve. And if you're pitching that up against a mutual fund as we talked about at the beginning, the challenge of the mutual funds hedge is they are price discriminating to get themselves closer to 80 bips and I look at that and say, well, I can charge 60 bips and still ultimately get to a 15 to 20 point operating margin long term, knowing how much leverage there is at the gross margin level. We're getting a little into the income statement here, but that's my experience so far.

Rodrigo: **00:14:16** No, that's useful.

Upholdings and Compound Kings

Mike: **00:14:20** And so Compound Kings, I guess is then an ETF by Upholdings. Could you explain that, since we're in the structure rabbit hole? Because it's a little bit confusing for me. Let's just tie that down that quick?

Robert: **00:14:48** Upholdings, we're a federally registered investment advisor. I'm sure much like ReSolve. Upholdings is the brand. Upholdings is the powerhouse of doing enormous amounts of research and picking individual stocks that we think can outperform the S&P 500. That's what Upholdings' responsibility is. Compound Kings is today, the sole vehicle through which to access the stock picking and research of the Upholdings house.

Mike: **00:15:23** Got it.

Robert: **00:15:25** As you pointed out, I'm the young entrepreneur that's sitting here banging the ETF drum crazily, and it's possible that I'm going to get in this business and 10 years later I'm going to have a private fund, ETF, a mutual fund, an interval fund. I'd like to believe that everything can be done with ETFs, but I'm not so closed minded to know that I'm going to learn a bunch of things along the way.

Mike: **00:15:48** I wonder if at some point that's all going to move to some blockchain type fund management as well.

Robert: **00:15:57** Hopefully. We're talking, you talk about being liquid. Right now, every ETF it's constrained to a country, it's constrained to market hours, I would love my fund to be unconstrained to hours, unconstrained to geography. I guarantee you, every CFO of a publicly listed company would love to have themselves globally listed at anytime. You talk about improving your liquidity. That would be something. Look what's happening right now between China and the US and these Chinese listed securities that are like, I don't know, the US has been confusing, let's do a listing in Hong Kong, let's do a listing in Shanghai and we'll do a listing in London. That stuff is absolutely going to be relics when securities are trading on blockchain.

Mike: **00:16:43** Yeah, agreed. I'm not going to go down that rabbit hole anymore because I want to jump into, I want to get into the investing nuts and bolts of the Cantwell brain. The concentration versus diversity, the reason for it, why it's so important today, why it's much more important today than in the past and how you view that and maybe how you are walking through the screening process to boil those ideas that boil the ocean down to a reasonable set of ideas, that you think are meaningful.

Robert: **00:17:19** Yep, sure. I'll start with the simplest stuff, which is you want to pick industries that have some good secular tailwinds behind them, in which you see companies grabbing large chunks of market share. Going very far back, there's a very high correlation between the amount of market share you have and the level of operating margins you're able to sustain over long periods of time. So I'd say at a high level we start there. And so what that means is you're looking at businesses that have very large end markets, and there's a lot of companies in the US that serve both the US and the rest of the world, and there's a lot of companies in China that serve primarily China and do a little bit outside of there. But those are the two largest end markets that we currently seem to have access to. And sometimes we'll take a peek at growth companies in South Korea or in South America. But usually we fail to see those technologies do well outside of their own borders. So they're a little bit less interesting to us because it's constrained, it's not unconstrained.

Beneath that, you then want to know that you've got a business model that can generate cash. And when you're investing in companies sometimes that are pre public, but late stage private or recently public, it's a very dynamic time for a business. Often, they'll be profitable, certainly profitable growth, usually profitable after subtracting their marketing expenses. But after you take out R&D, and … and everything else, sometimes these companies are unprofitable while they're still in higher stages of growth.

So I would say we focus on companies that are near generating positive cash flow, or are already generating positive cash flow. And then the second feature of that is, do they have things to do with that money? Because, we have an investment horizon where we want these companies to be putting this capital to work for us as opposed to sending it back or buying back shares or anything like that. So those are the really the two core features of Compound Kings, is it or can it make money? And then when it makes that money, does it have good places to put it?

Adam: **00:19:37** How do you source those ideas? Like what kind of technical or social infrastructure do you lean on in order to narrow that down, but also ensure that you've got, you're talking about opportunities in China and in South Korea.

Digital Marketing

Robert: **00:19:54** It's pretty good question. As I mentioned, where we like to start with the industry. And so you start with an industry that you like. And you put the key players in it and you take a look at what's happening to market share within that industry. So we'll pick on digital advertising for a second. Google has obviously built a very strong competitive mode for very many reasons. But then you had social media advertising come along and then you had the rise of TikTok, and YouTube is having a renaissance where creators are getting paid. So within this digital advertising universe, there are kind of three segments of money spend. You've got search advertising, you've got performance advertising on social media, and then you've got brand advertising and the YouTubes and the TikToks of the world. And what's happened here is Amazon has entered the game. And Amazon said, hold on a second, we have a ton of organic traffic to our site, why are people going on Google searching something, clicking a Google ad and then coming to Amazon to purchase from us?

And so over the last five or seven years, you've seen pretty significant deterioration in Google's online advertising market share. You've seen Amazon take a lot of that market share. You've seen Facebook miraculously hold share that entire way. So that's what's happening at the majors. And then you look, what about the companies that weren't public yet. So Pinterest, not too long ago was a private company. They were starting to gain share, the second tier you had Twitter, and you had LinkedIn, and then the third tier of Snapchat and Pinterest.

And we're paying very close attention to how is it that market share gains are happening at different sort of sizes within the digital advertising ecosystem. And for a period of time, Pinterest was showing some pretty tremendous growth and was available at a pretty darn cheap price in the public market. And there was a time a year ago where Pinterest was a phenomenal stock for us to have. That got caught up in the hullabaloo of all the stocks that got carried to insane valuations back in December and January. And so we had to get rid of it. But Facebook continued to out deliver, continued to sustain its market share position, and was available at a better price than it's been in the past handful of years. And so now Facebook is obviously a more attractive investment to us. So, the screening, as I mentioned it kind of starts at the industry level, we're willing to invest in anywhere from the majors to the *emergents,* but we're really stubborn about the price that we're willing to pay and whether or not those companies are gaining share within their industries holding it flat or losing it altogether.

Adam: **00:22:36**

So, let me be a little clearer because I'm interested in what software databases, social connection networks or infrastructure are you using because I'm thinking GICS, there's 60 odd GICS sub industries, and we haven't done sub industries in a long time. But there's a lot of data here. So where do you start from a data standpoint? How do you drill in to make sure that you're...because there's like, this type one error, this type two error. Type one error you're zeroing in on an industry that seems interesting, turns out it isn't. Type two error, you're ignoring an industry that is actually really interesting but just didn't show up on your radar. So how do you manage that trade off from a process standpoint and what infrastructure do you use to optimize that?

Managing and Optimizing Tradeoffs

Robert: **00:23:40**

Yep. I'll answer the last part first, and then I'll talk about the specific tools and pieces of software that are we actually use. I think this is a little bit of a strength but also a weakness of Compound Kings is that, as the portfolio manager, Compound Kings is going to be a bit limited to industries in which I have some amount of expertise, which is advertising, commerce, enterprise software, and a little bit of payments. I'll say, thesis-wise as active management goes, I believe that anyone can make money in any category that they're an expert in. However, the investment strategy that you run needs to be appropriate for the types of opportunities that those industries afford you. So if I was an energy investor, I'd kind of have to be a long/short investor that runs a neutral portfolio because there's so much turmoil taking place over the losers versus who are the new winners going to be, and it's difficult to just invest in the compounders or invest in the winners.

So I think industries can have different investment strategies attached to them. So I'm a bit beholding to the industries that I know, as we get bigger over time we need to find more opportunities. I think it's about hiring experts within those areas to then skewer through and come up with whether or not there are attractive investment opportunities. To talk about specific tools, it's as simple, it's not as simple. But I've mentioned we like to start with operating statistics. But when we don't use operating statistics and we potentially start with market stats on how things are traded and we screen for how stocks have traded relative to one another. I'm running Excel with Cap IQ plugins. And we've got long lists of the operating stats we follow. A stat that I really like is gross profit minus marketing. As I previewed earlier, companies that will likely become cash generators in the future, but may not yet today are typically growing their gross profit minus marketing very quickly. So that is like one specific screen that like we'll track pretty closely.

Sometimes when we're relying on things like share prices. In our Friday recap earlier today, I shared, talked about the S&P 500 has been up 14% since the beginning of the year. If you were to take the basket of cloud services stocks that do infrastructure, that do business as an operating system, like a Workday or ServiceNow, or you take the individual application providers like a DocuSign, or …, that entire bucket of businesses is down 20% or so since the start of the year. So you have basically a whole category of businesses whose fundamentals are going to grow faster than the S&P 500, whose valuations have pulled back 30% from where the S&P has performed, that now is an area where we're going to spend a lot more time figuring out if we're allocated enough into the category. Does that get more into this specific screening setting?

Adam: __00:26:47__ I think if I could distill the salient thrust of your point there, you have a certain expertise that's largely a function of your background and you're going to lean on that fairly heavily. And the prior there is this category is a growth category and therefore you're looking for long opportunities, you're looking for long tail outcomes, and you know what the investment style is and you know what your expertise is and you're looking for where that Venn diagram overlaps.

Robert: __00:27:28__ That was a much cleaner way of saying it.

Adam: __00:27:35__ My understanding, one of the things we talked about pre- show was that you have strong conviction in the view that a concentrated style is (a) well positioned for the ETF structure, the active ETF structure because I think that's potentially not the same sort of ARK concentrated ETF investing, is sort of almost anathema. So you're almost inventing a new category here. But how do you overcome some of the rules, like some of the concentration regulatory rules around concentrated positions in mutual funds and ETFs. And then (b), once we get past that I'd love to understand how you manage a portfolio of concentrated positions, because it's a totally different way of thinking about the problem than what we're typically used to. Start with why the mutual fund structure is useful for your style.

Robert: **00:28:45** It's a big topic. Let's get the easiest part out of the way first, which is the legal requirements and what are the concentration rules and limits and stuff like that. So the minimum is the IRS has a rule that says, any position that is 5% or greater, no more than 50% of the fund can be made up of positions that large. So as the lawyers like to say it, that means in a concentrated fund you can have two quarters or 10 nickels, depending on how you want to concentrate at the top. So that's the IRS requirement. The SEC actually takes it a step further and says, no more than 75% of the fund can look like that, no excuse me, 25%. And so under the SEC's designation, we are technically a non-diversified fund. Under the IRS rules, we are a diversified fund and you don't want to trip the IRS rule because if you do, then you then they call you a company and then that fund is paying taxes at the corporate level just like it's a company as opposed to a fund holding stocks in other businesses. So those are the legal rules.

Now, speaking to an investment strategy. For us, where everything is heavily researched base, it's about finding what we believe are disjointed opportunities in the market. Alibaba at 15% of our portfolio, we are putting our money where our mouth is saying that that security is undervalued relative to the size and intrinsic value of the business. Actually, this is where the ETFs have an enormous advantage over the mutual fund, is that that pricing discrepancy exists today. Alibaba could rally 50% over the next 12 months. Their fundamentals could deteriorate. There's no way I'd want to be holding a 20% position in Alibaba with deteriorating fundamentals and the ETF allows me to exchange those shares for another business' shares, without doing what the mutual fund did, which is well to do that you'd have to actually sell the shares outright, pass that capital game down to your fund investors, and they'd be paying taxes along the way as you move between those positions. So if your intention is a highly concentrated performance strategy, I don't know of any other vehicle that allows me to do that so seamlessly.

Adam: **00:31:20** So just so I can pull on that a little bit. The implication there was that because you're running, or the intention is to run a relatively concentrated strategy, that aligns with the imperative of being able to be nimble. And when you want to be nimble, you don't want the tax tail to wag the investment strategy dog, right? So the active ETF allows you to be nimble without having to be driven by or motivated by the tax consequences of those moves.

Robert:	**00:32:02**	Exactly.
Mike:	**00:32:03**	On the other hand, how do you feel about the disclosure requirements. Giving away the portfolio holdings in such a rapid way which is avoided in the more traditional mutual fund stance?
Robert:	**00:32:19**	So far, I like it.
Mike:	**00:32:23**	Yeah, transparency is something you've prided yourself on.
Robert:	**00:32:28**	It's helped Cathie, hasn't it? I would think. It's now like Bloomberg breaking news when she makes a rotation in her portfolio. If it happens during the day, gets reported at the end of the day. It's interesting. The other folks that manage ETFs that I've had conversations with about this when I talked to a couple of mutual fund people originally, they're like, you're going to have to share your portfolio and you're going to get front-runned when you're trying to build positions. I went to an ETF conference and I asked every single person I could find there if they'd ever been front-runned. I wasn't hearing the theoretical problem that was laid out by a lot of the traditionally active guys. So until it's a problem, again, there's a non-transparent ETF option that's available. It's not switching a flip, flipping a switch, I screwed that up, didn't I?
Rodrigo:	**00:33:35**	I never understood that until now.
Mike:	**00:33:39**	Sometimes I get my merds wixed up too.
Robert:	**00:33:43**	But within three months, we could work with the SEC and we could flip back to a non-transparent fund. I would say my stance on it is, be as customer friendly as possible unless the market really prevents that from being feasible. And if it's going to be better for our clients ultimately to run it non- transparent, because we start running into stuff like that. We can always turn it on by default until it actually becomes a problem. I think it's silly to solve for that.
Adam:	**00:34:09**	Well, also, if you're primarily holding ultra large caps. If you're holding Alibaba and Facebook, then you're unlikely to run into any sort of flows issues. Like the underlying liquidity is sufficient.
Robert:	**00:34:29**	We'll see. I don't want to sound too much like a trader here. But it's been a very volatile market in the past 12 months. Six months ago, Pinterest, Airbnb, and Etsy were our three largest positions. And those are great stocks to own and we own them in much smaller positions today because their valuations don't warrant a lot. But it's because I think those large conglomerates are so undervalued in the current market, and that's why they're up there. But if we think that there's a similar mispricing taking place and other securities most

things feel more fairly valued, I aspire not to be shy about moving a portfolio there.

Mike: **00:35:09** Do you have the opportunity and I guess proclivity to go down the cap spectrum? Is that something that you would be interested in into mid-caps or small caps even? Or is that something you're more...

Robert: **00:35:24** Big time, but I actually think whereas you just laid it out, I think the market that we're in right now, the big caps have the below average multiples, the mid-caps have above average multiples, and the small caps have nosebleed multiples. We almost need to see a little bit of a reversal there for the portfolio to start reconstituting around. And people ask us because Airbnb was a private investment for us. One other cool feature about 40 Act funds is up to 15% of the fund can go into private companies. And now that Airbnb is public and investors have been like Robert, can you like make another private company investment for us? And its shit. Like the rise of the SPAX, the volume of IPOs that had happened, there's no good ones left. You gotta wait for the next class.

Adam: **00:36:21** The multiples on modern vintages for PE in virtually every sector have just been...

Robert: **00:36:28** Yeah, it's untouchable.

Adam: **00:36:29** It is untouchable. Yeah, for sure. I can see you're absolutely bursting at the seams to talk about your true passion, which is clearly this extraordinary research process. This deep research, this like heavily involved. So let's hear it now. What's goes into this process?

The Research Process

Robert: **00:36:55** It's a good way to ask the question. Other investors, a lot of other active investors sometimes they have really well honed answers to that question. A couple of buddies of mine had a large hedge fund. They always say, the number one most important thing to us when making an investment is we talked to the five people that know more about this company than anybody else. I've always thought that was like a really cool approach because it sounds very simple, but it's very difficult to execute. You have to figure out who those people might be, you have to get them to talk to you, and you have to attempt to understand they have decades of context and they're explaining it to you, and you have months of context. And so you may not even be understanding the profundity of the things that they're even sharing with you. But I respect the simplicity approach.

So I mentioned that because speaking to people in and around the companies that you want to participate in is really important. And we usually start with customers. We want the products to be highly valued by the customers themselves whether it's enterprise software, whether it's Amazon retail, whether it's Netflix shows and this and that. As you start with the customers, then we'll usually speak to people that have worked at the company. And so that's on more of the qualitative human to human side.

On the financial modeling side, I think there's some funny quotes somewhere, I don't remember, terrible at remembering quotes, but they always say, the best alpha that you can have is a longer time horizon than the market or than the current participants in the market. And so anytime that we're valuing a business, we're valuing the business off of its share count, free cash flow generation in five years, 2026. So every company that we're looking at in our portfolio, we're looking at, how is that company valued relative to our best guess or our range of outcomes of what it's going to be worth five years from now.

And that way, we know when stocks trade. So they talked a little bit about some of these Cloud Services companies trading down a little bit and like valuations off 30%, but they missed revenue targets by like one and a half or 2%. Those are the sorts of opportunities that the market presents to you where if you're just focusing on managing your portfolio off of 2026 numbers, you care enough about the quarters to track what's happening competitively with these companies, but we don't care so much about the precision of the growth rates to be trading your position too aggressively. So you talk to the people, you get your own numbers right and then I think the last piece of the process is, that's the portfolio manager's sizing responsibility, which is how big is the market the company is in? That can usually be a big position. How attractive is the price relative to what you think the thing is going to be valued at in five years. And those two elements usually drive how big of a weighting you're usually willing to give to a single position in the portfolio?

Adam: **<u>00:40:18</u>** So, dig into that five year cash flow forecast a little bit for me because obviously you've been around long enough to understand, but for the benefit of people listening, obviously prices of equities, prices of any asset are a function of the current expectations of investors, the average of current expectations of investors. So if you think an asset is undervalued or overvalued, it means you've got a variant perception. Your view is different than the market's. I guess I'm curious, what do you feel are the sources of your variant perceptions? What insights are you trying to bring to the research process that allow you to see into the future in a way that the average market participant isn't?

<u>Seeing the Future</u>

Robert: **<u>00:41:21</u>** There's two pieces there. So I'm going to separate the philosophy of seeing things that *"the market may not see"* and then separately again before we talk about some of the tools and other things that we think about in getting to that year five number. So for me, it's less about having a variant perception to the market. The best way I can sum it up so far is that the market demonstrates fear around different categories at different moments in time. And if you've built a company for long enough, you know that every company faces all sorts of weird things over the duration of its life. It is not a smooth straight line up to success. And if you've done your work to know that the quality of the business is high enough, you don't get too scared about rapid gyrations in valuation. Honestly, the best example of this is Airbnb with a pandemic.

A little bit of history on Airbnb, Airbnb raised a ton of money in private markets. In 2015, there was a little bit of bubble happening in private markets, they hadn't really gone public yet. Once some of these companies started going public, their valuations got totally crapped on. So Airbnb was stagnated at this 40 ish billion dollar valuation from 2015. It was clearly overvalued. All the way up into 2018, the businesses fundamentals had started to grow into that number. But it lost all the attraction of the venture investors that were grinding up the price of that business over time. Early investors were getting really tired, because they said, normally when we invest in a company that's successful, there's been some sort of realization event that's happened already. So Airbnb as a private company, essentially became less liquid, the bigger that it got. And the irony is that the underlying business actually grew up into that valuation. So the first time we bought private shares is a $40 billion company. And we kept buying a little bit, we bought a little bit more at 45.

And then Corona happened, and everyone was afraid that no one would ever travel again. Airbnb's price I think, Silverlake like did a deal at $18 billion or something like that with warrants. And even in the private liquidity that was happening in the private markets we were able to go in there shortly after Silverlake and buy more Airbnb at $25 billion. Because if you're focusing on the five year or the seven year or the 10 year number for a business like that, whose market share position didn't change during certainly the beginning of the onset of the pandemic, there was simply an exogenous industry shock that happened. As the investor you're like, well, I can never predict what's going to happen at the industry level, presumably that's going to be boom and bust or whatever.

But now all of a sudden, I'm getting this asset at $25 billion. It took a very short number of months for them to become public in the market to say, dear God, that wasn't the right price, look at how quickly this company has recovered. They're coming back, they're booking levels far faster than we thought. It traded up to 100 to $120 billion, it's back at around 80. It's probably a little bit overpriced now. I wish it was a $50 billion company and I could own more but you don't get to pick, the market picks. So I share that experience because I don't know at which moment in there was quite the variant perception to what the market was giving because my approach is, do I like the thing and is the price better now than it was before?

Adam: **00:45:08** That's a totally fair point actually. I may have painted you into a corner where there's actually no corner. I mean, the reality is there's, you've got a list of companies, you've got a cash flow forecast, the growth rate is reasonably stable. They have quasi monopolistic qualities like Airbnb, for example, or Alibaba, like a lot of the companies that you've mentioned have quasi monopolistic qualities in their segment. So if you understand the size of their potential market and you can observe the growth rate and draw some error terms around the trajectory of revenue growth, and acknowledge some hiccups along the way like a global pandemic, then you've got a reasonable band of where you'd like to own the stock. And then it becomes this waiting game where like, I love the stock here, it's trading here. I'm going to stink bid, maybe not like systematically stink bid, but I am waiting on the sidelines with capital to capture this opportunity when it comes along, when there is a liquidity event or whatever.

Robert: **00:46:35** I want Snowflake. I want to own Snowflake so badly but I can't buy it yet.

Adam: **00:46:41** Yeah. So you're profiting off the volatility of the market. There's events in the market that have almost nothing to do with fundamentals most of the time, that cause the valuations to fluctuate dramatically, and you want to be there to capture those major drops and accumulate when you're presented with those opportunities. So it's less about having better forecasts and more maybe about being more flexible in your investment approach. So you're waiting for the ball to hit you in the strike zone, rather than swinging at every pitch. Is that a reasonable kind of way to? So how do you manage AUM? You got OPM, and you're waiting for fat pitches and you just happen to be in a six to 12-month period where there's capital flowing in, but there's no fat pitches? How do you manage that excess cash? Or how do you manage the strategy in that type of environment?

Managing Excess Cash

Robert: **00:47:54** Yeah. Again, this is where I have been... I didn't even know the ETF could do all of these things, until I started managing one publicly, but I've been very pleasantly surprised to know that it actually offers you a couple of tools and options with that. So the default for most ETFs are, money comes in, you get some creation units, that then buys everything in your fund in exactly the proportion that your fund currently owns it. So it usually doesn't go to cash, it usually goes to buying all these shares at current prices. As we talked about, sometimes even things in our own portfolio, our prices, we don't really want to own more of them. And one of the cool things about the ETF is you can say, hey, in lieu of, I'll key pick it on Airbnb, because they're really expensive for a while, in lieu of Airbnb, when a new investor buys the ETF, go ahead, let them buy all the shares that are in there but for that Airbnb piece, I want their cash instead. What that does is that prevents that new investor and by extension the whole group of fund investors, from having to share in a very expensive share price acquisition.

And now the follow up part of your question of what do I do with that cash? It's very heavily dependent on what's currently out there, what's currently available. I shared a little bit earlier about how Cloud Services are a little bit cheaper. So those are like two and a half percent positions for us that we're pushing up to three to three and a half percent with prices where they are. So it's heavily dependent on what's going on. We'll either leave it in cash, we'll put it in a high cash yielding BDC if we think the credits really good, or we'll use it to buy more of our other stocks in the portfolio accordingly.

Adam: **00:49:47** That raises a few interesting things to deal with. It's a transparent ETF, you could conceive of a situation where investors are observing that they're paying your fee with 35 or 50% of that portfolio is in cash. Because there's no opportunities, right? That is a legitimate value. You're adding value by keeping this in cash because the cash is really a call option on the ability to buy the stocks you want at cheaper prices. But optically, it may be unpalatable. Do you foresee that? How do you foresee managing around that?

Robert: **00:50:30** You guys are good, you're getting in on the good ones. So with the SEC, we said in our prospectus that we would seek to not have more than a 10% cash position under regular market circumstances. Technically, we have the ability to move the whole portfolio to cash if we wanted to. Again, borrowing from my buddy that runs a hedge fund, there's this analysis that they always share because hedge funds are always trying to keep their investors in their funds, and there's some stat where a very small fraction of days or weeks of market performance drive 80% plus of eventual market returns. So if you're swinging in and out of the market that violently, there is a very high chance, you're increasing the odds that you're going to miss the small fraction of days that drive 80% of the eventual upside that exists in the market.

So first off, I don't believe in being that active because I don't think anyone can be that...I just don't think the odds and the probability stacks up really well in your favor in light of that. So for us with like managing a cash position, I think of it as in at the beginning of this year, we did have a pretty high cash position as a result of those Airbnb flows we were getting, and we were getting kind of high, we're in that eight to 12% range and we were looking, I'd say, as a manager for the analysis I just shared, I definitely felt pressure to allocate that money. But on the other hand, I didn't get pushback from any investors that said, hey, what the hell you have our money? Go put it to work. I think as you very eloquently laid out, it's like, hey, but you've articulated that you have this strategy of owning these good businesses you like, and then along the way you need to have some of that optionality, cash powder to be able to grab them when something happens to the price.

Adam: **00:52:45** Yeah. And I guess the positions that you have in the portfolio, just based on names that you've mentioned even though you may have a large cash position, the overall beta of the portfolio is going to be well over one, even with that. In other words, that sort of market timing element is less of an issue because you've got some nice implicit leverage like beta style leverage on the underlying positions. So even if you've got a 20 or 25% cash position you're probably got a beta to the market greater than one.

Robert: **00:53:27** Well, we only have a two and a half percent cash position right now. So we're definitely not pushing the cash flow. In fact, I'm going to take this so far, it's too practical to talk about things that don't exist yet. But the conversation I'm having with the guys at Alpha Architect that I work with right now, is this portfolio relative to the S&P is cheaper than it's been. Not on an absolute value basis but on a relative value basis. And I look at that and say, what about gearing up the fund a little bit? As opposed to having a 2% cash position what would it look like to take on five to 8% debt to get a little bit of gearing in the portfolio to drive a little bit of excess return as well? I don't know if that's something that you guys have explored in other strategies.

Mike: **00:54:12** Oh, yeah.

Rodrigo: **00:54:12** I mean, we're in the futures space, most of it. There's plenty of leverage, but we are highly diversified with…

Mike: **00:54:24** Only 8% is the only words I have to say to you.

Rodrigo: **00:54:28** Now speaking of that, the ETF allows you to use or whatever regulatory framework, the ETF, a transparent ETF allows you to use it as much as 150% leverage I think. Did I get that right?

Robert: **00:54:44** I don't know the answer to that yet.

Mike: **00:54:52** I think it was 30 but it's somewhere in there.

Robert: **00:54:57** But a lot of that's going to depend on how expensive is that debt, because presumably it gets more expensive, the more and more of your assets that you encumber. And then this also gets to ETF volatility where this is a publicly traded fund, assets can evaporate out of that thing. You got to be real careful about how much you're borrowing against that because that's how fund blows up, is borrowing money it can't pay back.

Mike: **00:55:20** Well, you'll pay it back, it's just not going to have a nice effect on the other securities that are going to be liquidated at an inopportune time to pay it back.

Adam: **00:55:28** If you're unwilling take on leverage in this environment, you're unlikely to want to take on leverage in any environment. Cost of capital has never been cheaper.

Robert: **00:55:40** Exactly. Well, by the way, I got to get into the inflation thing, but people just kept peppering us with what do you do about inflation? What do you do about inflation? And I've always said, the best thing you can do with inflation is borrow money. Long term, low cost money. So if that's the best thing you can do in inflation, how is that something I will be able to reflect at the fund level? So that's where my head's been at.

Inflation and Macro

Adam: **00:56:06** Yeah, let's get into inflation. We chatted before the show and you clearly have an interest in macro. So where are you? How do you think about macro? Where do you think we are in the macro cycle? And how are you navigating?

Robert: **00:56:23** I liked what Carl Icahn said the other day, where he was basically like, *make no mistake it's here*. And no one has ever been able to forecast anything with a high level of accuracy. So having the Fed sitting there saying transitory, or saying it's coming back down? Well, why would they even take the risk of screwing that up? Why don't they say we don't know what's going to happen? It's obviously happening but if it happens for a persistently long enough amount of time, then we will take action. That to me is like the correct long term oriented, like let's align people around, as the data comes we will make decisions, as opposed to no, it's going to be different in the future.

Rodrigo: **00:57:14** Well, I think that comes from the from the realization that inflation is not just a number, it's fueled by individuals and what they believe that future inflation is going to be. So if the Fed comes out and says we have no idea, look at that runaway number, it might be runaway or it might be just a couple more months. If they say it might be runaway then individuals will act that way, and I can tell you from South America, I'm from Peru. I've seen runaway inflation get worse when the wrong words come out of the leadership. So I think their only choice is to always say that it's transitory inflation. When will you hear them say this isn't transitory, this one's legit, we're going to have massive inflation in the next couple of years? They're never going to say that.

Mike: **00:58:09**

It's been complemented by the fact that they have been so successful at jawboning the market. And this may be another step in them just jawboning the market with respect to no it's not, we know better than you, will save you at any price. All the number of times through the last more than a decade now where we've seen central banks actually state things that they will do or see or say, and they have not needed to even do anything about them because the jawboning in and of itself has accomplished the goal from a market stability perspective. So I think that part of it which is a very dangerous situation, it does set the stage for the system itself to reach a position of criticality where it's deny, deny, deny, and a sudden realization of a new paradigm.

So it's a really interesting game that's being played, of chicken if you will, between the central banks and in the markets themselves, I think.

Robert: **00:59:17**

That's pretty convincing man, the Fed’s only shot at keeping inflation low is trying to keep expectations low. You're absolutely right. I mean, that's the textbook thing, which is inflation is an expectations driven result.

Adam: **00:59:31**

It is but also you've got a massive fiscal shock. So we know there's a demand shock because we've got deficits in the public sector which materialize as credits in the private sector. A chunk of that flows through the economy. So that is a major demand shock. And they've already said that they're going to blow this demand through the economy through infrastructure spending. So there will be a massive uptick in demand. The question I'm struggling with is, when we do see inflation the Treasury still needs to finance its deficits. So will the Fed play chicken with the Treasury? Like is the Fed going to say I'm no longer going to buy these treasury bonds in order to help fund these deficits? I don't think so. So the Treasury will continue that to have implicit permission to firehose funds through the economy, and then the only policy response is through taxation.

The taxation channel is the only potential moderating channel and we have a wealth distribution that is such that those at the very top with zero marginal propensity to spend and who are capturing the excess profits in the economy, have an ability to modify tax policy through regulatory capture, that wasn't present in other episodes like the one that we're currently in. Like in the 1920s, the capital classes had been neutered by the Great Depression. So their ability to engage in regulatory capture and alter tax policy was massively moderated. They just didn't have the resources to do it. Now those at the top of the food chain have the resources to manage the laws in whatever direction they want.

So the tax channel is vulnerable to regulatory capture. The Fed is not going to play chicken or not going to blink in a game of chicken with the Treasury. So how exactly are we going to moderate the inflation impulse?

The Flawed Government Business Model

Robert: **01:02:04** You're taking me down another path here which is, I think the business model of the United States government is very flawed and requires some pretty significant restructuring. And I think in a democracy, it's going to take a very long time to restructure it. So this ties back to the inflation stuff a little bit.

Adam: **01:02:34** Go on.

Mike: **01:02:35** This is a free form conversation, organic stuff, it always takes an hour to get to the good stuff.

Robert: **01:02:47** So, 90% plus of government receipts, federal government receipts are tied to salaries, whether that's payroll taxes that employers are paying, whether that is income taxes that individuals are paying on their base salaries and bonuses and everything else. And the issue with this is that anyone that's made money or become wealthy or whatever in the past few decades has done so building a business building equity, not paying themselves a penny of salary because that's one of the worst. If you're the CFO in a business you're looking at as being like, how can I incentivize all my employees long term with equity, pay them as little cash today because the company doesn't have any cash to pay them yet. And that way, we grow the company as much as possible, we build equity for everybody and that's also very tax efficient because they're only paying 15% long term capital gains, etc.

By the way, there's lots of other rules out there, like qualified small business income that prevents business builders from having to pay any taxes at all, on the first $10 million in equity that they generate for themselves. So those are great things to have for the incentives of building businesses and making America competitive. But for a government that only gets money off of salaries for the most part, it is at an enormous disadvantage to, I'm going to pull in our friends across the Pacific here of China. If you look at tax receipts at the Chinese government, they've got income taxes as 30 or 40% of their receipts. They've got VAT, that magical European thing where suppliers are having to you know pay taxes along supply chains.

Adam: **01:04:30** That obscene regressive tax policy, exactly yes.

Robert: **01:04:35** Name it for what it is. They do not yet have but are talking about introducing your property tax at the federal level, or at least distributing it at the state level. A lot of what they're doing is stealing from things that have worked really well in the US, and they're just frankly a bit faster at implementing them. And then they have consumption taxes, and then of course, there's capital gains and other traditional things like that. And so if you look at their pie chart of government receipts and that, government is a diversified holding company. And if one of those segments sucks, they've got three other segments doing other things to help them. And so this is my issue and concern with the US government business model, is that they're heavily exposed to one source of cash and that one source of cash is not anywhere where anyone that is deploying capital is trying to deploy more.

You hear the circular argument of salaries haven't grown in however many years, but the government only collects money off of salaries and they're talking about they're going to raise taxes on salaries, and I'm just like, it's not going to fix the problem. So I think it is an extremely, it's obviously a very political problem to solve. But I think unquestionably for the US to either maintain our number one position or be competitive over the next 50 years, I think that pie chart has got to change from 90%, salaries to less than 50% salaries and 50% other shit.

Adam: **01:06:05** … simplicity of.

Mike: **01:06:07** Yeah. But that's only going to be accomplished through crisis. It's a crisis necessity change type scenario.

Adam: **01:06:18** A crisis maybe just, we've seen an escalation and these emergent crises like the storming of the Capitol type phenomena, and Occupy Wall Street. And so these types of phenomena are accelerating in their frequency. And as the wealth distribution continues to get steeper and steeper, these types of crises are likely to explode more frequently and more violently. And though, that might be the type of urgency or crisis that that you're referring to.

Mike: **01:07:02** Agreed. But does it lead to a more socialist state, less competitive state, rather than the emergence of some reaction that is more entrepreneurial in some way? So when you see the transition of societies over time, there seems to be that the US dominance followed by, or the UK's dominance followed by them falling to the next leader, the US may be falling to China. Do you think that the US has what it takes? Even in that crisis? What choice are they going to make? Are they going to make the choice to placate the uprising with more socialistic driven programs which maybe are not going to drive the kind of entrepreneurial fervor that's required?

Robert: **01:07:57** I think the economics professors, let's leave aside capital gains for a second because that's clearly the hot one, that people are deciding whether or not should be taxed a little bit more heavily or close loopholes or whatever. At a minimum on the salary versus consumption side. There's the theory that says you should be taxing more aggressively at the consumption level than at the salary level to have a more prosperous society. And purely from an efficiency game and diversifying government revenues and all those things, you could certainly start to see how, hey, how do we figure out how to, salaries aren't even growing so dear God, why are we taxing those anymore? They're only ironically making it less attractive to then continue to use salaries as an incentive tool. And instead start to pull on things like consumption tax or something else like that.

Mike: **01:08:55** Well, it certainly puts the taxation back into the consumers hands. You get to choose on a consumption tax, how much tax you'd like to pay.

Adam: **01:09:04** Really, is that right?

Mike: **01:09:11** Well, let me let me qualify that. When we say a luxury tax or a consumption tax, what I mean is more of at some level of spending that ticks up to be rather onerous. So if you would like to own a Lambo instead of a Honda Civic, you are going to pay a much larger tax on that particular item. So that the consumption tax is more tilted towards the higher net worth or higher income folks who are spending that money because it's as you say, you want to keep the lower end of the socio- economic strata relatively tax free or neutral or in this in the sense of a consumption tax. But as you go up the consumption stack, you're going to tax it more. I don't know how you do that. But it seems to me to make sense because then you're allowing, you're putting taxation into the hands of the consumer. You would like to consume, how much would you like to consume? Here's your tax bill. If you'd like to save that money, sure. I'm sorry, I'm not to suggesting it's *the* way, please propose another way.

Adam: **01:10:13** Well, no, what's missing in that is that you're not taxing away that portion of a person's income and or wealth that was gained through community support through pure luck or happenstance, through lucky timing of birth or...

Mike: **01:10:38** Hold on a second, let's say I'm sitting there, I have a million dollars, it's a windfall or $10 million, I can do a couple things with it. One, I can invest it, if I invest it, that actually is not a horrible thing for the economy and for those around me. I can also spend it. And if you do have a consumption tax at higher levels of consumption you will push more of that to investment I would suppose because if I'm consumer and say, okay now, maybe I will drive a Honda Civic rather than Lambo because the Lambo is not 10X it's 30X because there's a 20X tax.

Adam: **01:11:14** And if we continue down this path, what will happen is that Jeff Bezos will own 99% of all wealth. And therefore, we don't need to worry about a consumption tax because there's going to be no one else earning any income.

Mike: **01:11:24** Sure.

Adam: **01:11:25** So this is just purely a function of the Pareto mechanics of wealth accumulation.

Mike:	**01:11:36**	Well, no, but there is an uprising. there's a Matrix Moment that comes.
Rodrigo:	**01:11:44**	I think at the end of the day the way to do a lot of this in the redistribution is the estate tax. We're talking about this in the past, the fact that you've mentioned it just briefly, but the idea that the problem is this very American ideal that you work hard, you get, you do the right thing. You have a meritocracy, you reach the American dream, you don't get lucky, you work hard and that's why you become a billionaire. Where in fact, I think very few that are at the top, will not recognize that they've gotten really incredibly lucky. Timing my business, a little bit of smarts and little bit of gumption, sure. But a large portion of that money is pure luck that should be redistributed to society. Now, it seems like the right thing to do and it seems like something that even...
Mike:	**01:12:32**	Seems like a terrible idea. Let's take the money from the people that are smarter, just throw it away to the society.
Rodrigo:	**01:12:40**	Right. So this is because nobody believes that there's any luck involved. But the problem with trying to convince the rich to do that is that, let's assume that I'm going to be okay at death, my family is going to get, 80% goes back to the government. What is the government going to do with that? And more specifically, is there any link between taxation and government spending right now in the United States?
Adam:	**01:12:59**	No, There is no reason for it to go to the government, you can cancel the wealth. It’s literally just canceled. It's ones and zeros that is removed from the financial system. Because we're managing the total amount of money in the system in order to target a certain level of consumption relative to the ability of the economy to produce.
Rodrigo:	**01:13:24**	You're burning tokens.
Adam:	**01:13:24**	If the amount of consumption available exceeds what the economy can produce, that creates inflation. If the amount that the economy can produce exceeds what can be consumed, that's deflation. So the idea is you want to create enough money and put it in the hands of the right mix of people, so that your spending matches your productivity, and you want to expand the money supply at the rate of productivity growth. To Mike's point, you get more productivity growth through investment. So that is a fair point. But there's a large amount of capital that was earned but was just earned through luck, and that correlation between the ability of a person who was able to earn money through one segment of their life in a certain way, and their ability to turn around and then compound capital at a similar rate, or even an above average rate in a different context, is pretty well near zero.

Mike: **01:14:31** It's not like we don't have examples of this though. The UK does this. The UK has substantial inheritance taxes in the 30 to 50% range. So it's not like this experiment isn't being done. And I'm not sure the UK is a shining…

Adam: **01:14:48** No, no, I agree. The challenge is always jurisdictional arbitrage anyway. There is a property tax or an estate tax that nobody pays except those of them in the middle income bracket.

Mike: **01:14:55** In the UK it's paid. There's very few ways to escape it as I understand it in the UK system.

Adam: **01:15:04** But the UK system is a lot flatter than the US system.

Rodrigo: **01:15:08** A And ultimately, I think the reason there's not going to be any buy in from the billionaires is because they would argue as I would possibly, this is a good argument is that, you can give the money, nobody's going to burn the money. So I'm just going to put that idea to the side. But instead of giving it to the government who uses inefficiently, you have the Gates Foundation that is using their money to actually do good outside of the United States and globally with the vaccines and whatnot. They're more efficient, they've run a business, they've run their foundations like a business that can do a better job. Similar thing that Bezos is doing, and in a way Elon Musk. So, the utility of those billionaire dollars might be seen as being more efficient than any government can pull off by estate tax. That's the argument I would make if I were when I become ...

Mike: **01:16:00** There's concerns I have about the perversions that happen when that money gets into government and all of the kickback scenarios and the money will shift a power dimension to government in a way that I'm not sure how that works out. I'm actually interested...

Adam: **01:16:14** Hold on. What I want to know is what would Bono say?

Mike: **01:16:18** Yeah, that's what I was going to say…

Robert: **01:16:27** I'm going to first say that I have a lot of respect that the three you work together and work together so well, because in that bit that we just heard, those were three very different prioritization of values, three different opinions about the way to fix it. And I'm very impressed because it is not very common in our country at the moment to have that many differences of views still smiling and laughing with each other at the end.

Adam: **01:16:58** That's what puts a smile on our face, man, that's what makes ReSolve go around I can tell you.

Robert: **01:17:02** That was a very cool thing to see.

Mike: **01:17:05** Jump in with your thoughts. Give us your thoughts.

Robert: **01:17:08** I'll say that, I believe I have all the ability to point out the problems, I am wildly incapable at knowing any of the solutions. But I like the way you posed the question, which is what would Bono do? You know, one of the funniest things about his business is things his product and things are really good. This one time we were in a meeting, and, god this guy, there was some promoters trying to sell us some kind of rip off American Idol show and they're like, it's so valuable, we just need $300 million to make the first two seasons, you get to own it forever, it's going to be amazing. And they didn't have any sort of direction over how to differentiate or what market it was tapping into, those really big ,and Bono would do the same because he'd normally wear sunglasses.

And sometimes if he really wanted people to pay attention to them, he'd take off the sunglasses and set them on the table, and he has really pale blue eyes, and I can't do an Irish accent. But he'd say, like, the dirty secret about U2, is that we were the world's most successful Christian rock band. But we never ever told our fans that. We let them create the illusions, we let them create the mantra, you can't put it in their faces like that, that was that was our version of going after the biggest market in the goddamn world, Christianity.

Adam: **01:18:44** Amazing.

Robert: **01:18:44** It was really funny and sweet and beautiful. Anyway, he had he had all sorts of little sayings and things like that. Now, the other thing about him, I think that he gets a lot of credit for, is that he has been as successful with both getting both liberals and conservatives to open up their wallets for causes that he can get, that he can kind of unite people around. I mean, Apple is still selling red products today, I think that's likely to go away at some point in the near future, that deal existed because of that guy. So I think he had a very unique ability at not overly joining one side and finding issue, or call it solutions specific enough that he could get people to join with him, and there didn't have to be any sort of like party line debate about it. So that's something that I often think about, sort of conflict resolution and things like that is how do we narrow the issue to something so specific, that everyone can agree enough to move forward on it in some way or the other?

Mike: **01:19:55** That's brilliant, actually. That's the way change has been done if you think about certain circumstances there's always one pinpoint of agreement. And then it grows from there.

Adam: **01:20:09** Yes, foot in the door.

Mike:	**01:20:09**	Yeah. It's a mind blowing insight actually. It's odd. It's mind blowing, because it's so obvious when you think about how change occurs and how waves of those, that sort of the Overton window of public discourse on a topic, how that happens, it's usually from one thing that everyone can agree on and then that agreement sort of grows.
Adam:	**01:20:38**	So what are we? What is that policy plank that can bring people together at the moment? Does anyone have any insight? Reese's Peanut Butter Cups are better than Mars Bars?
Robert:	**01:20:51**	I think they're getting there on infrastructure, I think they're getting there. You just move their number up, it will take some time with it, it feels like it's just like it's starting to happen. Like, I'm getting politics less in my Facebook, Instagram, Drudge Report, Huff Post, it's all kind of cooling off a little bit.
Adam:	**01:21:11**	You know what? That's so true and once the pandemic news kind of rolls off over the next year or so, what are we going to do with all our spare time, right? Like we spent four years obsessing over Trump.
Robert:	**01:21:25**	We're going to go inside out.
Adam:	**01:21:29**	Exactly. Like, go play with your kids, go swing a baseball bat, go kick a soccer ball, go hit a tennis ball. But it'll be kind of nice just to go back to normal.
Rodrigo:	**01:21:39**	I mean, the quote that Richard actually sent us through Slack yesterday, I think works here. *Convincing someone to change their mind is really the process of convincing someone to change their tribe. If they abandon their beliefs, they run the risk of losing social ties, you can't expect someone to change your mind if you take away their community too. You have to give them somewhere to go. Nobody wants their worldview torn apart if loneliness is the outcome.* So I think if you're trying to do a wholesale change, and like your tribe is wrong, come to my tribe. Or just, your tribe is wrong and they don't have a tribe, that people that they've known they've communicated with, they've texted with Twitter, Reddit, whatever you want. And then all of a sudden you break their brain, then it's not going to work. And I like the idea of finding a single point of commonality and working through that, and then slowly but surely one at a time, hopefully creating either a new tribe or neutralizing the extremes.
Adam:	**01:22:37**	Yeah, totally.
Mike:	**01:22:39**	I don't know what you guys I'm going to be listening to every single U2 song now through the lens of Christianity.
Rodrigo:	**01:22:48**	Sunday, Bloody Sunday.

Mike:	**01:22:52**	I feel like what was the movie, set when they where the kid's dead through the whole thing? The Sixth Sense, of at the end of the movie, you have to realize, Jesus.
Rodrigo:	**01:23:03**	Bono is the architect of The Matrix.
Robert:	**01:23:07**	Amazing.
Adam:	**01:23:09**	So anyways, this has been great. Robert, I honestly had no idea what to expect coming on, because I had not done very much homework. But this has actually been really interesting. And I thank you so much for volunteering your time on a Friday afternoon to come out and chat with. We can off road quite a bit as you've seen, and it's often hard to know where the conversation goes.
Robert:	**01:23:38**	Yeah. Adam, as casual and as interesting as advertised. Very cool. Thank you for letting me...
Rodrigo:	**01:23:45**	Good luck man with the highly concentrated portfolio approach. We're big fans of that and it's a battle out there. But you got the right guys at Alpha Architect there.
Adam:	**01:23:56**	Where can our audience find you?
Robert:	**01:23:58**	That's a good question. We've been very pleasantly surprised. Every Friday, we release a short little video, it's three minutes long, put on YouTube and Twitter and LinkedIn. And in it, we basically condense the research or the insight from the week. We're doing all sorts of, we talked about that research stuff we're doing before. And the idea is on Friday, what's the one largest takeaway that we had as an investment team from the week, and that's something that we share publicly and a lot of early investors have been thanking us for it and encouraging us to keep doing it. So I'm going to use that as the as the first place to experience us but yeah, we're just Upholdings on Twitter, YouTube. That's the easiest place to find us.
Adam:	**01:24:44**	@upholdings.
Robert:	**01:24:47**	Yeah.
Mike:	**01:24:49**	Two things on that. What were the insights for the week this week in 30 seconds or less? And because I've seen you also talk about what are you the top questions coming from the field, your top company, their clients or in your research meeting. So two-part question which is a terrible thing to ask. But one, what did you cover this weekend? What are the top questions coming from the field for you?

Robert:	**01:25:13**	Yeah, it's like quarterly earnings calls, equity analysts just jamming them all in. The quick insight from today was about, the S&P 500 has had a killer start to the year and it hasn't been in the FANG stocks which were historically the largest driver of S&P returns over the last five to 10 years. So it has been about some of the valuation dislocation that we've seen, we sort of pick the Cloud Services segment specifically because the cloud infrastructure providers, the enterprise software makers and the specific application developers have all traded down like 20, 30% since the beginning of the year, while the S&P is up 15%. So when you see a 35% valuation dislocation between one basket of securities and another, and this Cloud Services segment, by the way, their customers are mostly the S&P 500. So if the companies in the S&P 500 are doing well, and these guys are growing their revenue 30% plus over here, that means that they are in effect extracting cash from the successful businesses in the S&P 500. So that was the thing that we kind of talked about today and starting to look at some of the valuations of those businesses for potential investment. And the second part of the question is, what is the most common question you would get? These are ridiculous. Technically the answer to this question, it's either should I buy Bitcoin or I don't understand ARK? Can you explain it to me? Those are the two most common questions. We don't always answer them because they're not...go ask Ark if you want to know what Ark is. We're not a commodity fund. So go ask a commodity investor if you want to know what to do with Bitcoin. But technically, those are our two most asked questions.
Mike:	**01:27:17**	Very cool. All right.
Rodrigo:	**01:27:20**	Well, we'll have to head over those in the next round.
Mike:	**01:27:22**	Yeah. I had a couple of questions that I didn't get to ask, but we're more past the time and that will leave some questions for next time. So there we go, I'm going to leave him hanging before the commercial. And as always, all of you who are listening, hit that Like button, share, share these with friends, family, share them, proliferate them everywhere so that we can get more great guests like Robert on. And Robert, thanks again for coming and joining us and we look forward to seeing you in the future.
Adam:	**01:27:52**	Yeah, thanks a lot man. Have a great weekend. Have a great long weekend.
Rodrigo:	**01:27:57**	Yes, indeed.
Adam:	**01:27:58**	And to all of you listening, have a great weekend and join us again next week.