Rodrigo:	**00:01:01**	All right.
Mike:	**00:01:01**	Happy Friday everybody, another week has gone by.
Rodrigo:	**00:01:06**	Just retweeting this out for everybody to go live. Sorry. Go for it.
Mike:	**00:01:10**	Cheers everybody. I'm doing Sober September, so I'm not drinking today which is difficult to understand. But Cheers. I don't like it either.
Adam:	**00:01:19**	Cheers.
Rodrigo:	**00:01:20**	Old Moscow Mule on my end.
Mike:	**00:01:22**	Oh, nice. I love the Mule.
Tom:	**00:01:25**	I've got tonic and lime here.
Adam:	**00:01:28**	Don't forget the zinc. You got it?
Tom:	**00:01:29**	Yeah. You got to put little capsule zinc in there, you get a little extra immunity protection.
Rodrigo:	**00:01:35**	You mean alcohol number one, quinine number two and a little bit of zinc, a little zinc capsule.
Tom:	**00:01:41**	I'm not sure. Not sure how they line out there in the priority. But they're all in the mixture so.
Mike:	**00:01:50**	I love it. And just a reminder that the four scoundrels on this call are neither doctors nor providing any kind of investment advice of any kind.
Tom:	**00:02:02**	Or medical advice.
Mike:	**00:02:03**	Yeah, or medical advice. This is purely for entertainment purposes only. You shouldn't be listening to four guys drinking on a Friday afternoon if you're looking for investment advice. Having said that, I think we got a pretty good guest today guys.
Adam:	**00:02:16**	Yeah.
Rodrigo:	**00:02:16**	We do.
Adam:	**00:02:17**	Extra special.

Mike: **00:02:17** Pretty top list individual. So where do we want to start? Tom, you want to just dive in and sort of start with your arc? The brief version maybe?

Tom: **00:02:30** Do you mean how I got from being born to where I am now.

Mike: **00:02:34** Yeah, something like that.

Backgrounder

Tom: **00:02:38** Okay well, my investment world started when I was 12 years old delivering papers. I made $10 a week so I bought a mutual fund. It was a Fidelity mutual fund actually, front end loaded, high cost, terrible investment. I learned a lot about markets going up and down. Went through 73, 74 bear market as the junior and senior years of college. So I got close up view of a market going down nearly 50% on the S&P, I think. And so I got out in the real world as a chemical engineer. Some guys at the table for lunch said hey, let's talk stocks, it's kind of fun. You can invest on the side now. So I started doing that and started a stock account. That was successful. I eventually said, if the stock market goes down like it did in 73, 74, this is not going to be pretty. How about if I learn how to trade commodities? So I started doing that. Took four years for that to get to breakeven, fifth year was profitable. That required a lot of patience and engineering background.

Mike: **00:03:43** How did you get through that patience of just four years of small losses, learning, what was it?

Tom: **00:03:49** It was a small account, so small losses, almost by definition because I didn't have a large account in those days. But what it ended up doing for me was I logged everything, being the good little engineer that I am. Log in where you got in, where you got out, your thoughts at the time, what indicators you used, try to learn from it. And I always called it, I just got through paying like $18,000 to get a chemical engineering degree. The *college of trading* has tuition too. I mean I figured I was just paying some of it. And every year I got closer to breakeven. So that was also a positive trend. I was losing less. So that was good. And that kind of bought me the patience to just keep pursuing and keep figuring it out and I always felt like I learned something and tried to improve and tried to improve, and I could see that it was helping, and it gave me the patience.

And then from there I started managing money on the side. I actually was, stayed as a chemical engineer, and actually there was friends that were asking me to manage their money, and you could do that back in the old days. I'm not sure it would ever happen today, but just the *start in your basement* story, and it gets to be big and I finally do the math and I said, hey, my two partners at the time I said, if I calculate this out, I'm making this with benefits. If I look at what our fee schedule is and all that, we could pay me the same amount I'm making now, I'll just go full time and I'll raise enough money for you guys to join me. And that's what we did.

Why Buy Mutual Funds?

Adam: **00:05:26** Can I back it up a little bit, because I'm actually dying to know. So you've got a paper route, you're earning 10 bucks a week. What triggered you to take that money and put it in into a mutual? I mean, that would have been right around the time when mutual funds were just becoming known. So how did that happen?

Tom: **00:05:52** A salesman came by to try to sell my father, the postman, this load fund, as his spiel of sales or whatever. My father listened, I decided since I had some savings that I would listen too. My father did not buy the mutual fund, I did.

Adam: **00:06:11** Amazing. And that would have been, from 66 to 73 was a reasonably good period in the market. So that would have been a time when everyone was feeling relatively optimistic about investing in stocks. And then you had the opportunity with a very small amount, very early on to learn this valuable lesson that markets don't always go up, which of course, anyone who's invested in markets in the last 10 years has yet to discover.

Tom: **00:06:46** These are gray hairs over here, what little there are of them.

Mike: **00:06:51** The ones that are left.

Tom: **00:06:51** The ones that are left, yeah. I've been through 73,74. I've been through of course, the 87 crash. That was a fun day. And then I did the 2008 real estate debacle, the tech bursting bubble, went through COVID last year. So I've had a lot of pretty major bear markets that I've had to live through, and still trading.

Navigating Crises

Adam: **00:07:19** As a manager of other people's money, in your experience, how valuable or how critically important is it to demonstrate an ability to successfully navigate those really acute types of crises, like the 1987 crash for example? If you're successful in that, to what extent would that have defined a career and really accelerated the trajectory do you think?

Tom: **00:07:44** It accelerates it but strangely I would argue that if you want to raise a lot of money quickly, the hot track record always seems to draw all the flies. They're out of the woodwork at you. And you'll lose it just as quick as you go into your next bear market and or next draw down on your equity curve. If you want a business like mine that lasted 28 years, you have to be interesting enough to be interesting but don't go beyond that because you want to be as stable as you can possibly be. You want to lull your clients to a comfort level that they're comfortable with, and as long as you're doing a positive return a lot of times you tend to hold on to the assets, but you start and I don't care what clients tell you, they'll say, I can take a 20% drawdown. Hell no, they can't take a 20% draw down. At 7%, 8% they're on the phone calling already, and all nervous about what goes on. I sure don't miss that now in retirement, I don't miss it at all.

I get a lot of new traders coming to me and say, I've had a great two three-year track record, I'm thinking of going in the money management business, and I immediately try to talk them out of it.

Mike: **00:09:02** Yeah, OPM.

Rodrigo: **00:09:04** Other people's money.

Tom: **00:09:05** Other people's money it is. The interesting thing about it that I've noticed over the years, and my first book was kind of an attempt to do something about that. It miserably failed, I think. But *Panic Proof Investing* was a goal. The goal of that book was to try to give it to a retail client in the effort that they could somehow learn more about being a good investor because in my opinion, the money manager is just an extension of what the investor.. The investor’s giving you the cash to manage or putting it in an account, so you use your power of attorney to manage it. So you're in charge of that money, but the ultimate power lies with the client. They can always pull it from you at the worst of times. At a drawdown, they'll miss the next run up.

You look at all these great money managers including *Trendstat*. I've made equity highs many, many, many times. If clients had just stayed with that, they would have enjoyed that whole curve, but they never do. They come and go. And you sit there and you calculate what's called *the dollar-weighted return*, which is the total dollars in versus the total dollars out. And these clients on average are losing money and yet I'm by law, presenting a time- weighted return which is required in my disclosure documents and all that, and I'm making new equity highs and doing just fine. And I'm one of my biggest clients at the end when I shut it down, and yet clients are coming and going and I'm making new equity highs and they're losing money. And it's just because they give you money at the top of your equity curve and they take it out at the bottom, which is really ridiculous.

Rodrigo: **00:10:44** What's the Magellan Fund story again? In terms of my weighted rate of return? Was it the Magellan Fund? I think Mike you've talked about this before? Or maybe Adam has.

Mike: **00:10:57** There's a few examples.

Tom: **00:11:00** Magellan did exactly, they did a study of their investors, and the actual investors had lost money, but Magellan was one of the top performing mutual funds over a 10 year period. And that was just in spades what I'm talking about it's, it's just kind of sad. So how do you get investors to do a better job of giving their money to money managers? That's what I attempted to do with *Panic Proof Investing*. I don't know. If people really read it and took it to heart, maybe it would help but.

Rodrigo: **00:11:31** I think the economy has taught us that even if you do know, you're still going to make them human mistakes. But I have an interesting observation when I look at trend followers, traders and their track records all the way back to the 70s to now. And the observation is that back then the volatility of the underlying strategies is running at 30 vol. And today we're running an 8 vol. And I wonder if that is learning from managing your own money trying to get those high returns, high volatility and over time realizing that people can handle the volatility and start targeting lower volatility strategies because you're managing other people's money. Do you transition from taking more risk to less risk when managing peoples' money?

Managing Other Peoples' Money

Tom: **00:12:13** Absolutely. I never really was super high but some of the early programs and futures for instance had plenty of sizzle when they wanted to sizzle. They were never going to be up there and the number one in the industry or anything in a good market. But there were times where I was pretty near the top in down markets where there was drawdowns going on in the industry, and I'm posting a positive return and there's other guys down 20. Yeah, I would attract a lot of attention then. But people didn't tend to pull the trigger still, because I'm on a drawdown or I'm not, I've got a boring return. One of the reasons I almost didn't make it into *New Market Wizards* back in the day is Jack looked at my track record and said, "I've looked at his track record, it's kind of boring". He wanted the sizzle to get the book, have a lot of stuff, flashy stories about traders that made gazillions of dollars. And in my story, from the outside looking in wasn't that compelling, but once he started talking to me, then he is wow, Tom's a little different from a lot of these other guys I've talked to. So it worked out in the end and it got in the book but...

Adam: **00:13:26** It's an age old challenge. As you say, you'd like, you attract your attention when you're putting up massive numbers, when you're the top of the boards in absurdly short timeframes. You had the best returns this quarter, or the best returns this month, or something absolutely ludicrous in terms of any sort of signal to noise on whether you've got skill. So you've got this phenomenon where you need to stand out. The way that you typically stand out is by being at the top of the boards. But in order to be at the top of the boards, you've got to run hot. And by running hot that also means that unless you've got an absurdly high Sharpe ratio like a three or four Sharpe ratio, then you're also going to be at the bottom of the boards on occasion and you're going to be in drawdown territory, which as you say, is going to send many investors running for the hills at precisely the wrong time. In your 28 years of running OPM, did you come close to converging on a solution to that?

Tom: 00:14:36 That was the book, I tried. The last solution that I did was an interesting story in itself. There was this gentleman that was running a mutual fund timing program out in California and he wanted to retire. So he had heard by way of one of his portfolio managers of this guy Tom Basso over in Scottsdale, that did timing, did it well, and was also doing futures and a lot of other things. And he was at a stage in his life where he might like to have a readymade fund to put in all of his different investment strategies. And so he and I talked, and it's called *Market Math*. I bought the firm and took all the clients over and we went through the agony of getting all the paperwork as we know from, or maybe we don't know, you guys are in the Caymans. So you may not have that burden. It's really just unbelievable. So we got all that done. And off we go.

So I'm running Market Math with about $16 million or so and I'm the largest investor in the fund. And so off we go, we've got a fee schedule that is 1 and 10 I think it was, where everybody else was 2 and 20. So I was like, dirt cheap, no excuse there to not buy the fund. I went in over the subsequent year and we were running, god, let me see if I can remember it well, two different currency programs, two different strategies and futures that were oriented towards me and another one that was for *Wizard Trading* that we had taken over and that we were just integrating, keeping their track record alive for him. And that was for Louis Luka, back in the days. And then I was doing some commodity options strategy and I was doing mutual fund sector timing, all within one fund.

And as you can imagine, all those strategies are going to balance each other out. You're going to get a little bit more of an all-weather type of thing where I don't care what the stock market's going up, mutual fund timing is doing well. If corn's doing well, maybe I've got a corn option on in the options strategy, and it just doesn't make any difference. So we had about an average of 15,14, 13%-ish type of return in the teens, fairly tame drawdowns of any kind. I went out and I tried to start talking to pool operators because I knew a lot of those from my futures days. And their answer was, well you got this mutual fund timing, and that's securities. We don't do that. I don't know. I don't want to get involved with having to deal with the SEC and all that stuff. So then I said, all right. Let's see how about if I do fund of funds. I'll go to New York City, there's a lot of those folks there. I would go from Scottsdale on a Sunday night and I would come back to Scottsdale on a Friday afternoon and I would do appointments from the time

		breakfast tip, all the way through dinner, and lunches and appointments in between. I counted 150 appointments I did, many of which I would take their own track record and Market Math's track record, and I would blend it in at 5% or something. And I say here's your return to risk before, you add this in, here's your return to risk after. It's improved. And they'd look at me, yeah, I hear ya, and I understand the math but we don't know what to do with you. We don't know which box to put you in and all that stuff.
Mike:	**00:18:16**	That's hitting close to home.
Rodrigo:	**00:18:18**	It's way too close. Can we stop this right now, it's actually becoming interesting.
Tom:	**00:18:22**	I know is it painful? You can have a sip of your drink. What ended up happening was after the 150 appointments, I raised are you ready?
Mike:	**00:18:33**	Oh no.
Tom:	**00:18:35**	I must be a terrible salesman, I don't know. I got nothing and I said okay, I'm spending 100,000 a year to comply with accounting and legal rules. I don't really need the money. Why am I still a money manager? I became a retired money manager and I've smiled ever since. Look, and these are institutional guys, you think they would understand the logic of it, but they don't.
Adam:	**00:19:13**	That is a really interesting point though. Like being in a box that allows institutions to slide you into a preconceived category is so important, and yet being confined to a box, necessarily reduces the amount of diversity of strategies and instruments and markets that you can bring to bear in the fund or in the whatever vehicle you're using. See, you're having a … substantially.
Tom:	**00:19:52**	Market Math was a partnership, limited partnership. People had a rough time with that, and you had to have a little bit of the partnership, you have the problem of transparency. People can get it sort of broken down inside the partnership when you get the accounting and all that. Actually, I don't know, you guys familiar with the Standpoint story?
Adam:	**00:20:13**	Yeah.
Tom:	**00:20:17**	I'm chairman of Standpoint Funds. And Eric came to me, I don't know, gosh, it had to be two and a half years ago, I lose track of time. And we have this lunch that lasts four hours. And he lays this all out of, how about if, I'm thinking of doing something where I take stocks on the one side and I'll just get that exposure using ETFs or something. And then I'll do the other side using global markets in everything from currencies to metals to energy to all this stuff. And I'll design something that's very tax efficient and very diversified, to be the one

of the most diversified funds you can imagine, but we're going to make it a mutual fund so it's a security and that makes it easy for everybody to use it, without having to deal with all of these moving parts. And I said, Eric, I tried to look at that back when I was still doing Market Math, but that that was going to cost me a half a million dollars to put the investment company of 40 Act together. And I mean, the lawyers that you use for that type of stuff, they're the $500 an hour guys. And he said, that's what I'm going to do.

When he outlined it all and he told me the investment strategy he was going to use. I said, you just invented Trendstat, my old firm, 2.0. That's what you just did, and I want to know what you're doing, I'm interested in this. So I'm now an investor in it and I raised about 98% of the capital to start the firm. I did it in five days with some phone calls and I had all the money raised that we needed.

Rodrigo: **00:22:06** You're officially an advisor for our firm. Stay tuned.

Tom: **00:22:12** I don't want to work. Did I tell you I'm retired?

Rodrigo: **00:22:19** I had a lot of conversations with Eric recently, about this shift from Longboard to Standpoint and the whole philosophy change and trying to provide an integrated solution. So yeah, I feel his journey.

Tom: **00:22:34** He's got two things going for him. We, I guess you could argue because I'm the chairman. But we have two things going for us I think versus Market Math and my beating my head against the wall, back in those days. One is that it's a security. So we spent the upfront money to get all the extensive, difficult, legal work done. I mean, it's massive. And the second thing is the whole tracking industry back in the days of Trendstat, my firm, were just trying to get into computerization and there was a lot of people faxing in their track records to these central depositories and trying to put out handwritten, printed newsletters that would go out in the mail once a month to various people. It wasn't this go on to the internet and slice and dice the industry 500 different ways.

So one of the advantages that I think Standpoint has these days is you can look at other globally diversified funds. I think Milburn's got one and there's a few others out there, and I know Milburn back in the days when we were just currency and commodity traders and they've gone on into adding a lot of security stuff too. But I think there's a lot more ability to pick benchmarks that match up with what you're doing better so that you can actually look good, at least when compared to other folks that are doing similar things. You don't have to compare yourself to the high tech stock jockey that found the penny stock that's just did 2000 percent return or something, and try to compete with that. So I think it's a little easier in that regard but still, starting from zero running up to 85 million now, yesterday I guess it was, they're rolling and I'm very proud of Eric and those guys. They've been doing a great job. Board meeting this next week, should be fun.

Rodrigo:	**00:24:43**	He's learned a lot of lessons from his previous gig, that at his age, I was like, at that level of his career and his age to realize what went wrong, what the audience wants and then do a complete shift and start from zero. I mean, I was thinking about him yesterday. I'm like, how did he convince his wife that he is doing this again?
Tom:	**00:25:09**	He's not married.
Rodrigo:	**00:25:11**	That's why. Okay, that's the trick. I got to divorce my wife.
Mike:	**00:25:23**	Check the door.
Rodrigo:	**00:25:24**	Kudos to him for putting something together the audience wants… approached him.
Tom:	**00:25:32**	He and I have also had a lot of in depth conversations about life, not just money management. And we love our lunches, they usually go on for two three hours because he's like maybe the son I never had or something, or a younger brother or something, and we get going and there's not too many people he can start throwing statistical terms like he can, with multi syllable words, that can understand what he's talking about, but I can. And so we both can speak at a very high level of math and investment technique and understand what each other is saying. But he has learned a lot of lessons and I've also thrown in my two cents on life and trying to structure what he does over a very strategic plan, and I think he's taking a lot of that to heart and is nailing it.
Rodrigo:	**00:26:27**	Yeah, well Tom, we just wrote a piece called *Stacking Returns* that deals exactly and that idea of multi asset securities and like layering CTAs and global macro on top, and I'll give it away, product four is the Standpoint BlendX Fund. So you should take a look, I actually sent it there to give us before publishing, to give us his opinion, but it's exactly addressing how do you give the world what they need, which is that 60-40? And how do you force them to stack some non-correlated alpha on top? Now you can do that, as you mentioned, there's a series of 40 Act funds that provide that level of capital efficiency that didn't exist two years ago. Now we can do that.
Tom:	**00:27:11**	And they have an NAV, it's just in the paper or on the pro screen, and people don't have to know that behind it is this multitude of like 75 different markets over here and something like three or four different ETFs that are covering the equity exposure and all these different strategies going on with both, and

rebalancing periodically, and all that is taken care of internally and you get one number at the end. And so your taxes are just, you bought, if you sold it, you got a capital gain, if there's a dividend and you get a 1099. It's easy. And I think that's finally where the success has come in Standpoint's business because of the fact that they packaged it right.

I think also, I was on the bleeding edge when I was doing my multi strategy single manager fund. There was maybe one other firm that was struggling and they didn't get anywhere either. And nowadays, it's a lot more common. So now people kind of know what to do. There is a box now for those folks. So I think I might have paved the way a little bit way back when, after they started hearing it for a decade, maybe they started thinking that maybe we ought to look at this finally. But I was long gone at that point smiling away into retirement. So I volunteered, I said, if you want me to on the board, or they said, hey, you raised most of the money. You know all the investors in the firm. We want you to be the chairman. So you can run the board meetings and all that. And so it's fun. It's a great way to be in a money management industry with not having to get up in the morning.

Adam: **00:28:55** It's like being a grandparent.

Tom: **00:28:57** Exactly. Another guy on the board and myself, we call the whole management team at Standpoint *the kids.* That's what we call them. That's their collective name. I wonder how the kids are dealing with this?

Adam: **00:29:13** Mike you had something you wanted to ask.

Mike: **00:29:16** Yeah.

Tom: **00:29:16** Some of them could be our grandchildren actually, they're that young.

Advice

Mike: **00:29:21** So I think we'll get into the sort of the more *do it yourself* stuff. I want to save that to the end, because you've gotten, enjoyed the ride and the programs you do there, and we can get into that. Some of the nuts and bolts of investing. But on the side of delegating some of the investment decisions, whether you're an allocator, an individual investor or a registered investment advisor, what are some of the tips that you would provide or some of the guidance that you would provide for those out there who are looking at a 60-40 portfolio, where 40% of the portfolios earning less than 1%, and the other 60% is equities which are going to have certain or discounted cash flow assets, could be highly valued, they probably are, will face some volatility over time. What do you look for in a manager, what kind of style do you look for? What are your thoughts there?

Tom: **00:30:15**

Well, right now with a long run up in the stock market, could it keep going? Sure. I mean, in a market, as my wife reminds me of saying all the time, the market will do what the market will do. And so all of these markets can do strange things. They could do it for years. But if you look at bonds in particular which is a critical part of the 60-40 mix that was so traditional with financial advisors over the years, that 40% now is yielding low single digits at best. And if it's a short maturity, maybe less than a half a percent or something, and yet, if you have interest rates go up at all, those bonds are going to get killed. So the return potential is like single digit, really low, and the risk of bonds, you could lose 10,20,30% on a long term bond before it recovers back. If you hold it to maturity and the company stays alive and everything, blah, blah, blah, you still might make your interest rate all the way through to maturity.

But if inflation were to fire up and it seems to be trying to, you don't want a 1% return locked in because that's going to be losing money to inflation. So bonds are a sucker's bet for the next decade or so in my mind, and I know Eric agrees with me on that one. And things like real estate, we're just building a huge bubble again, just like almost we did in 2008. Nobody seems to be noticing it. Some of the insanity I've seen around here, I've liquidated, I didn't liquidate, my wife was the real estate expert. Liquidated all of our rental properties that we owned just last year. So we're trading everything in the liquid markets now, not in the real estate. Now, whether or not that proves to be good timing or not, who knows? But you don't want to with real estate being such an illiquid asset, it's kind of hard to deal with rental properties and then they have moratoriums due to COVID and all that garbage, it really gets tough.

So look at other assets. I mean, stocks are going to go through their ups and downs, and we've seen in my lifetime, geez, if you take 20 something percent as your benchmark and worse, gosh, must be 5,6,7 times now I've seen that. And some of them, like tech stocks in the tech bubble went down 80%. That's a pretty big hit to take. And I don't think a lot of people who have lived through it or they just turn off the brain and don't study history, realize that that's kind of the risk you're taking on if you just buy and hold a strategy like that. And so for the advisors out there that are trying to give their clients something to think about, I have no problems with having a portion of a person's investment in stocks. I think I shy away from bonds these days, I just don't think it's going to add value over the long run. It might stabilize your money but I'd rather be in money markets if that were the case just to stabilize, but you're not going to get much of a return.

Beyond that, I think you got to attack risk. Over the year’s people have like my father, the postman, he thought I can't do the stock market, he didn't buy the mutual fund. Remember the story, right? I bought the mutual fund as the paper boy. He's the postman and a conservative father who's trying to provide for his family and paid off his house early and all those good things. He looked at stocks. He goes up and down all over the place, I can't take that. I need a conservative investment. So he put all of his life savings in CDs at a Savings and Loan. Guess what happened? Savings and Loan went all bankrupt. He got bailed out with, along with millions of other folks who had CDs and Savings and Loans when the Reagan era, the Federal Reserve ran it all up to about 20% on short term rates. The Savings and Loans had a upside down yield curve and just put them all out of business.

So what my father did, if you think about it, is he tried to avoid risk of market movement, and he took on without thinking it through, the institutional risk of a Savings and Loan. He didn't think it through. There's risks with everything you have out there. I was quoted once in the L.A. Times in an interview saying, there's risk with US Treasury Bills, which is considered the risk free rate when you do calculations and the math of Sharpe ratios and all the different things that you use risk free rate for. But there is no reason why Congress or the Treasury or something could one day come along and say, we're just going to go ahead, we're having a little rough time making all these payments, we're just going to forego paying the T bill interest this month, until we're going to use that money somewhere else.

Rodrigo: **00:35:27** Look, even the risk, it's just so deceiving to say risk free rate. I think that's the biggest error made because when you think about it, we maybe consider it a risk free rate from the perspective of a zero inflation government, but even if you have low inflation in your own government, if your purchasing power against other currencies goes down, you don't have to go to the 70s to see the US dollar lose 10, 15% against other currencies of the past. You can just show them, look, you lost 15% versus what somebody in Europe could purchase.

Tom: **00:36:05** I've talked about *net worth versus net wealth*, and everybody hears those words and goes, wow, that's different what do you mean? Net worth is your balance sheet, that's your assets minus liabilities, that's your net worth. Net wealth is what you can buy with that net worth. Well, what you're talking about, when the dollar drops by 15%, or something, if you made 15% on your net worth your net wealth stayed the same because the value of the dollars that it's all denominated in just declined by the same amount. So what you're talking about is exactly right and my advice would be, don't try to hide from risk, try to find risk and attack it, do something about it, trade some markets that could make a profit. Like in my own personal retirement account, and people think I'm retired, I'm doing this? I've got a position in a, like a Bitcoin future. I've got a position in NASDAQ index futures both long and short. So let's say we go through a 50% down in the stock market. Well, that strategy is going to slay it. Bitcoin, I don't even know, Bitcoin may go down in the down market, might go up in the down market. But one thing's for darn sure, it's two different things.

So I'm attacking risk by diversifying extensively and I'm putting in place models that will force me as a trader to be involved in that move. If it's a down move in stocks I'll have hedges on and my long's, I'll be in cash on my sector timing, I'll be cash on my momentum ETF investing, I'll be short the stock index futures. What else? Those are the types of things that are going to make me a lot of money on the downside, and I'll lose certain things here and there, but I'll be making it otherwise. But I'm attacking the risk, I'm not trying to avoid it. I think that's where a lot of people...Water finds its level, it's insidious, how water will somehow get through your roof, somehow get through your foundation, it's a nasty little animal that can just find its gravity, gets through everything. Risk is kind of the same thing. No matter what you do to try to push it away a little bit, you got to attack it, you got to like master it.

So things like buying puts against the stock portfolio to make some money on the downside. Things like trading global futures markets in both directions, trading currency markets both directions, those types of things can really help provide return streams to offset what are likely to be some stock market losses in a bear market. But what you also want is the stock market to perk up the portfolio when these other guys are not doing well. It's the point of diversification, you're spreading the risks. And that's what that's....

Mike: **00:39:13** Singing the song of *Stacking Returns* for sure. The paper we just we just have published, but how do you differentiate between sort of the similar and same type trades when you've got this array of trades on? How do you think about the beta risk that you might be experiencing and NASDAQ and its relationship to maybe even oil, or how do you kind of think through those similar trades in order to maximize the opportunity for diversification in the suite of trades you have on?

Tom: **00:39:47** Yeah, some of it is a little easier than others. It could be subtle, I think. If I'm looking at say putting on a trade and let me coin an example here. I'm going to buy corn in the US on a futures contract and at the same time I've got a trade going over to sell gold in the futures markets. So I'm going to go short. Would those two trades have very much to do with each other, logically? Just thinking it through, common sense would tell you probably not. Would crude oil really care what lean hogs were doing today? There might be a little energy usage on the farm to keep the hog pens warm in the winter or something. But no, there might be some tractor, you might have to buy fuel for your tractor to go out in the yard and go out on the farm and pull in some feed. But logically over the short run, they're such different markets, you're not going to see a lot of stuff. Now when you get into say NASDAQ versus say Russell 2000, that would be an example of where you have two different indices, and today I was noticing that the Russell was my worst performing stock indices to the downside and the

NASDAQ was actually the best performing at the same time. So there's a little difference there. And that flip flops up frequently.

And so the thing to do there is to not overload yourself with just equity. If you're going to, at least dial in a little bit of the different levels, like small cap and large cap could easily be different. Things like NASDAQ which is tech oriented versus say a broad index like Russell, are going to probably give you some amount of diversification. But let's face it, if the tech stocks went into a 50% dive, chances are the Russell index is going to be down 40,60,45,35, you're not going to have a good time. They're all going to kind of tie together a little bit. So that's why I'm a big fan of seeking out as much diversification as you can possibly do. And you can use correlation coefficients if you want and try to find examples of two things that you correlate with them. You can do that in an Excel spreadsheet and there's firms on the web that you can dial in and get free correlation coefficients on some markets. You basically want about zero, you don't want plus one because that's highly correlated, you don't want minus one, because now one of your investments is always going to be losing while the other one is making. You'd like them both to be profitable if they choose to be profitable. The only way you can do that is to have zero correlation. And those are very hard to find. But that's I guess the holy grail if you can figure it out.

Trading Evolution

Rodrigo: **00:42:54** That's what makes it interesting. So, Tom over the years as you've traded these many systems, I'm curious, I've heard both sides. I've heard, actually Eric said to me that the old fashioned trades that worked 30 years ago continue to work today, why would you do anything differently? Have you found over the years that there are certain ways of trading that just got ARB out and you can't do any more, and you evolve your trading, even during retirement?

Tom: **00:43:25** My trading is evolved in retirement quite a bit. For starters, I can take more risks than my clients can. I can live through a 15 or 20% drawdown, it doesn't affect me, I've been through lots of them. And so my average client, they'd be firing me. So that's one change right there. Second change is, you realize when you're an individual, even myself with fairly large zeros around the back of the account, that I still am nowhere near like a multibillion dollar money manager where you have to move $4 billion in and out of markets. And so, if I want to put one contract into a lumber trade, I can actually pull that off. That's an advantage that an individual investor like me has. And I would agree with Eric’s statement with respect to institutional money, and what he's doing with Standpoint is brilliant, because it's designed to handle billions of dollars efficiently.

And what I am doing personally has nothing whatsoever to do with what Eric's doing, and I appreciate the differences. And he's right from the institutional standpoint and moving those sizes of assets. What you basically come up with is a currency debt instrument stock index account. You might be able to throw in some precious metals or something but the volume is all in those markets. You could never trade a lumber. Lumber won't make the top 75 markets on liquidity measurements. So basically small investors if they want to get into some diversification have some advantages. And some of the old ways of trading that I've been doing since Trendstat days, still do work and I still have made some very nice returns. But I'm dealing with small amounts of money.

Adam: **00:45:23** I'd love to, because I want to go back to what you said a little earlier where you first had the conversation with Jack about the New Market Wizards book, and Jack remarked that your track record was kind of uninteresting.

Tom: **00:45:39** I think Jack said it's boring.

Attacking the Problem

Adam: **00:45:41** Boring, sure. And then you got started talking and he realized that you were actually really doing something different and really interesting. Maybe, would you mind going into that in a little more depth? How would you characterize the difference between how you attack the problem and how some of your contemporaries were doing it?

Tom: **00:46:04** All right, a lot of my contemporaries, all the way back, I came up with the turtles, for instance. So you had the Richard Dennis story and training the turtles and a lot of the turtles were my competitors. Jerry Parker and those guys. Susan Show, I think was one of them too, maybe. Anyway, what ended up happening is I was a chemical engineer and I went into the money management business. I never was on the floor, never worked for a brokerage firm, never was with another money manager. Straight from chemical engineering into running a money management firm. And Process Engineering 101 is your first chemical engineering class, and I'll sum it up this way. Chemicals come into the tank, you process the chemicals, you ship out the fluid on the other side of the tank. You ship it by rail, by car, or by pipe, whatever. That's Process Engineering 101. I look at the money management industry and I'm starting to get involved and I'm starting to automate, and I'm realizing that here I am bringing down satellite data off the dish, I'm processing it with my PCs and I'm shipping out orders.

And I realized that while everybody in the world seems to think of me, thanks to New Market Wizards and Jack Schwager and all the different things, that I have interviews. I've done it, everything. As a trader, I never thought of myself as a trader. I thought of myself as a businessman running a trading operation. And what can I do to make it more efficient? How can I get better data? How can I cross check the data? How can I speed these programs up so we can get our afternoon runs done quicker? How can I provide my clients better transparency so they can come in anytime they want on my website and sign in with their password and get an immediate reaction on where their account is that moment even, everything real time. And my competitors did not have that kind of mentality. Their attitude was, I come in, leave me alone, I got to trade for these many hours, I can't talk to the clients during that period because I got to focus. And so it was very different animal and I approached it as a businessman. And that's really where the big difference was.

And just like any businessman would, you would ask yourself, what are your clients looking for? Are they looking for this flashy Paul Tudor Jones type of story, which Paul was one of my competitors as well? And he's done very well for himself. But I'm not Paul Tudor Jones. I don't want to wake up in the middle of the night and worry about where cotton is, or anything like that. I had competitors that would have quote machines down on their side of the bed so they wouldn't wake up their wife. They can wake up in the middle of night when they go to the bathroom and look down to the quote machine and see where the Euro was. I get eight hours of night sleep every night. I don't ever get up in the middle of the night and worry about anything.

So I think Jack finally figured out. Jack is sort of a caffeinated New Yorker kind of type mentality, a couple of cups of coffee and he's raring to go and that's good for him. There's a lot of people like that, seems like in New York, as I've been there over the years. But that type of mentality where you want to be hard charging and just keep pushing the envelopes and all that, it leads to the other side too. It leads to the emotional crash when things don't work out or you have the markets are just doing insane stupid stuff and you're looking at the red painted all over your screen and wishing you are somewhere else. And in my case, those red numbers tend to be mixed with green numbers and I'm more worried about the overall and it smooths it out a lot and it keeps you smooth. I think Jack envied the fact that I could be labeled a trader, and yet still have a lifestyle that most people would say is pretty good.

Rodrigo: **00:50:18** So can I pull on that a bit?

Tom: **00:50:20** Yep.

Rodrigo: **00:50:20** It sounds like a lot of quants. Everything you described about process, about working on the business and getting the right data improving, putting the process together and focusing on the process. Were you more of a quant back then? You talked about Excel sheets and computers, were you programming as a as an engineer back then?

Tom:	**00:50:43**	I bought a Trash 80 from RadioShack and put it together myself and I had the first PC from IBM coming out. I had it. I bought an IBM AT when they came out, this was all through the early 80s and the 1980 was my PC that I bought. And yeah, I pushed those things as fast as I could and as hard as I could and tried to automate at minimum, like moving average type things and simple things that wouldn't overpower a little PC with five megs of total memory or something on their disk drive. I mean, it was insane, what we have today and my laptop that I take with me everywhere I go and it dwarfs all of the computers at Trendstat and all 40 of them put together, one machine.
Adam:	**00:51:36**	Or the computers in your headset are more powerful than the computers that we were running in the 80's for sure.
Tom:	**00:51:43**	Yeah, exactly. Your phone can do far more than minicomputer from Digital Equipment back in the days that took up a whole room, had air conditioning and had five meg removable disks that were this big and about that thick, and were heavy to lift. And we went and spent the money for the optional replacement disk, so you can have 10 meg's of memory. You couldn't have a mini computer at the time. You had to have one or the other. But if you were smart at partitioning your data, you could actually have a little bit more but...
Adam:	**00:52:20**	Sounds like alpha in your squats. So you can rapidly switch your discs when the time came.
Tom:	**00:52:28**	We always ran backups. We'd *disaster days*, that was well known. Some of our clients thought that was humorous that we would do that. But we would operate Trendstat from basically my house, which was the backup facility, and certain people would bring computers and other people would go to their houses and we would do everything by phones and try to get our data and then try to send out our orders. And meanwhile, a skeleton crew would be back at Trendstat, running the normal operations. So the client was protected. But we were attempting to do everything on an off site location just to test ourselves and see if we can do it.
Rodrigo:	**00:53:05**	And after recovery when it wasn't required by the regulator. Good on you.
Tom:	**00:53:08**	Exactly.
Rodrigo:	**00:53:09**	So Tom, I guess the contrast was the traders that were your contemporaries, they were more like clicking mouse's, picking up the phone, doing trades, looking at charts, visually making those trades and you're …
Tom:	**00:53:25**	How's the floor? What's the floor say?

Rodrigo: **00:53:30** Right. So actually like what one envisions as a trader being and you were back then already automating a lot of trading and operations. Wow. Okay. Certainly makes a difference, right?

Tom: **00:53:41** You know, in the late years, I'd say in the 90s, zero decisions were made discretionarily. The only discretionary decisions were what went into the strategies and systems and all the computers. That took my entire intellectual capability, and our research staff would sit there in long meetings brainstorming about do we head this way, do we head that way? What's the advantages? What would be more robust? How can we statistically determine whether this approach is going to be better than that approach? But once it went through testing and was approved and we got everything ready to go into production, we turned it on and that was that it, we ran it.

Degrees of Restriction

Adam: **00:54:21** Were you using any unusual indicators that were not very common back when you were running with your capabilities?

Tom: **00:54:32** I won't be able to explain this at all because even to people who understand what I'm doing, it kind of comes out convoluted, but I started out so far before computers came in, that I was on point and figure charts, if you know what those are?

Mike: **00:54:53** Very familiar.

Tom: **00:54:54** And I tried all sorts of different ways to use point and figures, and I had a problem with them because there's the size of the box, is one variable. So in Jack Schwager's term, *degrees of restriction*, which I'm very proud of him for coming up with that one, because I think I've used it a lot. The more parameters you put in anything, the less robust it is. With point and figure, you've got these squares, and you got to have the number of reversal square. So your X is going up, up, making new highs, and then how many squares do we need to go down before it will start a row of zeros, and a back and forth you go. And then people have gotten into pattern recognition, all sorts of stuff. But even if you just use simple breakouts, which is the simplest of all things, you still have these parameters that are fixed.

And I always looked at the market and I said, jeez, I could certainly go back over the last three years and optimize it and said, no, that it should have been a four box reversal and a 0.75 box size, just by running lots of tests. But that won't be the optimal for the next year, almost assuredly. So you need a way of being able to make this flexible. So, and I started looking at bar charts, started coming in, computers started coming in, people started putting, with websites and even with software, you now have fancy graphs with bars on the screen and color, green for up red for down. And we started looking at that, we said, wow, that's all the information, there's nothing preventing you from knowing what's going on. And I see those same top of the X's and bottom of the O's and the top of the X's and bottom of the O's. I wonder if I could apply sort of point and figure to bar charting. And I did. I created what we call the *Trendstat PF Bar,* Point and Figure Bar. And trying to explain all the little nuances of it would be a little bit more than we want to cover in a cocktail hour.

But it did work fairly well. It was a little more flexible. It always would get me in on every major move, always. Never miss one. It would whipsaw me, yes. All trend following models do have their whipsaws. I ran I figure about 33% reliable over my lifetime. So 1/3 of the time I'm running a profit, two thirds of the time those trades are losers. So you cut your losses short, you let your gains run. You're running, on our shorter term program, we are running about a three to one return to risk on the average, profit to loss. And on the Max Trend, I think was a lot longer term, there was times we were up in the almost sevens. The reliability wasn't 33 there. In Max Trend the reliability would drop down to like 28 or so. And we'd have like 7.5 to one return to risk ratios. We nailed it really, really well. And one of those gains pay for the whole year.

Mike: **00:58:12** I think it's so behaviorally counter intuitive. That's probably the largest barrier to entry or edge if you will, even for many institutional managers, some of which, the whole structure doesn't really allow for you to take eight tries to get the one try that actually hits all the returns. So it's interesting because as we were talking, what's the edge? Well, that's definitely one of them. There's a behavioral edge here that most people listening, just may not understand that you will put on more trades that are losers than are winners, in an absolute sense. That doesn't mean your profit's not there. It just means that you're going to take a lot of these losses, they're going to be small, in order to find the one where the trend change is truly going to make a big profit.

Tom: **00:59:08** A great way to think of it is, and I've said this a million times too, is every trade, the new traders get in they're going to do their first trade and they're really excited and theirs is it going to be a winner, is it going to be a loser and all that stuff. I like to think of it as, I know that at least historically I've been running 33% and 67% winners and losers. I need to do 1000 trades to make those statistics come out. So this trade is just one in the next 999 trades to get to my 1000 so that I can get to my 33% of my 67% of my three to one or whatever return to the risks, on the average returns to risk. It's a statistical game and it's not, you don't want to get excited about a trade. You don't want to get down on a trade, it's just one more data point.

Rodrigo: **01:00:03**

What's been fascinating for me in the last year is, this crypto group chat. And so when crypto went to the moon, somebody suggested you got to listen to these guys, they always get it right. These traders are doing technical analysis, whatever. So I started listening to them on the side as I'm doing work in the mornings. And of course during the boom market they're talking about how they were almost poor. A couple of the guys had met when they were down the dumps, and they found crypto in March, and then they learned to trade and read all the books. They probably read your book. And now they're like veteran traders. And you got to listen to me because the guy's called the Sniper. And so it goes like 12 months in a row. And this guy just can't lose. Everything he says turns to gold.

And when the market started going down, I started watching him again, and you could just see the desperation in these guys' faces, week after week, loss after loss. Everything that they said just did not work out for two or three months. They ended up going from publishing every single day on YouTube to once a week. They didn't even know what was going on. They couldn't understand it. They completely gave up. And of course yes, you're going to be a massive trader if you are born in a bull market. Everybody gets lucky. But you got to go through that experience because indeed especially in crypto, you're just losing, losing, losing, losing, losing and then August, you're making all the money.

Skill and Luck

Mike: **01:01:31**

Yeah. It's interesting because I want to come back Tom to your four years in development. And one of the things that I thought was, were you lucky because you had to work so hard for four years and because it didn't work, because differentiating between just as Rodrigo said, someone has a viewpoint or a set of skills that they're going to convey to the market. And the market just happens to be harmonizing with that set of skills. And then they're mistaking what is a coincidental sine wave of their skill set and the markets personality as skill, when it's simply luck. And I'm wondering, in those four years, did you think about giving up? How were you able to come to the conclusion in fact that, hey, my skill is actually building here. Because it's really hard not to either give up because the four years of getting punched in the face, or getting overconfident because you make a foray for several years and you happen to be in a bull market and you have a bullish bias, or the other way around. You're in a bear market and you have a bearish bias.

Tom: **01:02:46**

I think I was a pretty good student of history. So for starters, that helped me. I think a lot of people confuse bull markets with brains, because they are just looking at whatever historical data it happens to be on their quote platform. Which is the last six months or last year or whatever? And yeah, I could have done here and here and here and look all the money I would have made, but they never go back to 73,74. That doesn't exist on the quote machine. And I think that that's one thing. Second thing, I'm a data cruncher so I can see all those old bear markets and I see them on the chart, I see a drawdown or anything on a chart, that's where I'm spending my time doing my research. How did that drawdown get created? Which markets contributed to it? Was it increasing volatility, was a decreasing volatility? Was it sideways action? Was it any particular one trade? Maybe the data is flawed, you know, I've seen that happen. You got one big down thing and you go into the data and goes, well, that's a stupid. The low on this day here or the open is lower than the low. That can't happen. The open's got to be inside the high low, stuff like that. I've seen it all. And so that's one thing.

The second thing is I would log in on my trades back in those days, everything was by paper. And so I'd say, okay, I think I should buy corn or buy hogs or whatever it is I'm doing, and here's why. The point and figure chart is doing this and this, I'm going to buy this breakout here and I'm going to put my stop there. And of course, I'm way over leveraged because I don't have enough capital in my account. I'm making every rookie mistake which then I realized when I do the math, it would be a lot better if I had more assets in my account. So I started working real hard as a chemical engineer and I got lots of promotions and lots of raises and I poured money into my accounts and got them bigger, so that I can handle better diversification by market, better position sizing which I wrote the book on a couple years ago.

Position Sizing

Mike: **01:04:50** Let's dig into that too. On position sizing. How do you position size?

Tom: **01:04:56** To finish what we're doing, I'll give that in a second. The last thing was that I was constantly, seems like every year, getting less loss. So the combination of studying history, the combination of learning tricks along the way that made me think, this is really important, and I can see mathematically where it would be important. And finally, actually seeing it come out in improving results even though they were still losers. I was getting closer to it. And with a small account I can afford the loss. And by the time I started trading the 100,000 plus type accounts, I was well down the learning curve and successful.

Now on the position sizing question you bring up, I always think about a full trading strategy as three things at least. You could probably fine tune it into more if you wanted. But in simple terms you need to have a buy/sell engine of some sort. You got to say, if the following X number of things happen, I'm going to buy at this point. That's the first thing. If you don't have that, then you're I guess Paul Tudor Jones discretionary. It looks like cotton is going up let's go buy cotton. I'm sure he has some things that are a little bit more systematized than that. But in essence, you don't just wake up in the morning with no idea what the world's doing, and then all of a sudden look at a quote machine of some sort and say, I think I'll buy lumber today. It looks like it was going up the last two days, I'll just jump on that. You can do that but it's going to be very randomized performance and you're going to have a lot of stressors thrown your way, it's not going to be a fun ride at all.

Position sizing comes down as the second part of the puzzle. So it's where do we buy and sell? Buy and sell engine. How much do we buy or sell? And in all the studies I've ever done, that is more important than where do we buy or sell. You could flip a coin, do great position sizing, trail your stops, randomize across 20 different markets for 20 years of data, run Monte Carlo simulations and you will tend to make money, why? Every time you flip a coin and in the afternoon I'm flat, flip a coin heads I buy at the open, tails I sell at the open. You will always get, sooner or later, every major move that you want to be in on. As long as you trail the stop, you're going to exploit a lot of that move. That's going to pay for a lot of your mistakes and you're ahead of the game. Not, I would never trade that strategy. It's stupid. You could do better than that.

But the point you make with doing that is, just by watching your position sizing and making sure Larry Hite at *Mint* back in the day, and he was in the first Market Wizards book. Brilliant mind, love Larry, he was the one that made the statement, *we try to make sure our bet size is the same every time*. And when you start thinking about that in math terms, because I have the math background being an engineer, I read what he said a little different than a lot of people. A lot of people might say, well, he always does 100 shares of everything. No, I thought it different than that. I said what he's doing is taking his risk of that trade first. So the buy/sell engine, knowing where he's going to buy, where he's going to sell. He knows the risk. How much do I buy to make my bet size on that trade the same as the next one, which has a completely different risk. I might buy less of that one, more of this one and more in low volatility periods, less in high volatility periods. By doing that you make every day the same and you create serenity. That's where the name comes from probably, because every day is sort of, I've always got the same bet size on. So does Larry.

The third area and the most important of all, beats the other two, is what we talked about throughout a lot of this discussion today, is the mental side. If you don't have your mental side screwed on straight you are going to find a way to completely screw up those first two. You'll override it, you'll ignore it, you'll talk yourself into taking the profit too early, you'll get emotional, you'll get anxious, fearful, greedy, impetuous, whatever, and you will mess it up. So I've always said if I could be a young trader talking to myself, or talking myself now as if I was a young trader, I would say, work on your own mind, work on your awareness, work on your discipline, work on understanding the strategic plan that you have to have to try to live through with all this day to day stuff, and then go into position sizing. Then worry about your buy/sell engine. Everybody does it the opposite way, including me.

Mike: **01:09:58** Knowing … are a little bit different.

Tom: **01:10:01** I'll tell you, I did three webinars just for a test. We got webinar, get a Zoom account and everything. And we're in, there's nothing going on COVID, my wife loves to be the technician over here on the other computer. So I do one webinar, it's *called Vital Engines*. We had to increase our Zoom account up to 130 from the 100 that I signed up for, there was so much demand for it. I then did a second one. It was called *How to Size Your Positions*. We got about 45 people I believe it was. Last one was going to be on the mental side of trading, *Dealing With Investment Psychology*. We got 20.

Mike: **01:10:49** Wow. I guess that tells you everything.

Tom: **01:10:54** That tells you everything right there. So all these people they want a buy/sell engine secret, don't realize that they could almost, not quite flip a coin, and do just as well in there.

Rodrigo: **01:11:07** Well, that's why Bob Axelrod has his psychologist in house, right? Bobby Axelrod of *Billions*. Come on.

Adam: **01:11:15** I don't think that is something that can be taught though. I think that's something you need to learn. You can be taught, once you realize that the mental game is important, you can be taught how to bring a better mental game. But I don't think you can be told in advance that the mental game is of utmost importance without living through those experiences of being in large loss positions, being over leveraged, being in the trenches with the bullets flying and experiencing the emotion and the pain of that. You can't know that the emotional game is that important until you lose because of a bad emotional game.

Tom: **01:12:03** Yeah, I suppose. You could also though learn from mentors or read books and Market Wizards and hear stories like the ones we're talking about. And I think you can learn from that and say, wow, he's really making a big point of this. I wonder how I can increase my awareness of what my mind goes through, because awareness leads to discipline. If you don't know you're deviating from your strategy because you're getting greedy, if you're unaware that you're that way, you're a caffeinated New Yorker just running hard and man, the screen does this, I do that, man. Just keep going, no thought. If you're not aware that you're making an impulsive decision, then you will have a hard time correcting that back to the strategy and getting back on plan. If you're trying to diet and lose some weight or something and you see the chocolate cake and you just snarf it down because it tastes so good you can't do anything else, well, you're going to have an awareness. Wait, I'm keto. That's not keto, that's not going to work.

So you got to have that awareness. And there's lots of books on awareness, that it helps you in all sorts of life. It's not just trading, awareness would be useful to understand how you are dealing with the environment around you at least the waking hours, I don't know if that would be very useful while you are sleeping.

Mike:	**01:13:28**	I think meditation is one of the key points of that. To meditate you're helping yourself be aware of what your mindset is, but go ahead.
Tom:	**01:13:39**	A lot of people, in particular, I had a guy once from some Transcendental Meditation place in Iowa, he lived in a town that was all TM guys. And he asked me whether I'd ever done meditation. And I said to him, very interesting. And he was profoundly floored by it. I said, I try to be aware of what I'm doing all the time, and when I'm doing stuff, I have more stimulus to be aware of. When I go to try to meditate, I'm in a quiet spot. There's really, I'm blanking my mind out. Yes, stuff bubbles up into my mind. But I'm not really hitting myself with potential stressor like you would if you got the quote thing in front of you, and your markets are red, green and all over the place. If you can then meditate or be aware of what's going on with your brain then, you got lots and lots of examples to think about and control and think about how can I deal with this? How am I aware of this? What is the corrective action? Those types of things. If you go into a closet, someplace dark closet and there's no stimulus, I have a hard time increasing my awareness.
Rodrigo:	**01:14:54**	I've been a lifelong meditator and I think it's a big misconception that meditation is about trying be as quiet as possible. Like if somebody comes in and bothers you during meditation you get pissed off, you're not meditating, you haven't learned a thing. In fact, open awareness for traders I think would be the best. It really is. Meditation should be taught in open loud places, and the goal being to be completely separated from your emotions and your thoughts. You're just watching things happen.
Tom:	**01:15:27**	You're watching the movie of your life. You're not doing anything, you're just watching a movie.
Rodrigo:	**01:15:32**	If you're taught that meditation is not the 10 minutes that you're doing in the morning, but rather a practice that you need to be aware of all the time, like you said, you're constantly aware of your surroundings, I think we're doing a disservice with people saying, find a quiet spot, go to your room, close your door and do 10 minutes of just silence, it's not going to help at all. The other thing

that I see you do, and I know some of our traders do as well, and I've done my whole life, is journaling. That's a stoic practice, right. So stoicism I think, go hand in hand with awareness and meditation. Because stoicism is about, before you go to bed, you journal what you did and how well you did and what you could do better, and then what you're going to do tomorrow. And by doing that, it's a natural practice of understanding and improving and watching yourself do the things that you do. And as a trader, if you're not doing those things at the very least, journaling is so important that if you're not doing that, then you're missing out on an opportunity to learn.

So back to your statement Adam, this idea that people need to live it. I've played poker half my life. I know a lot of people that have been in the trenches playing every single day, continue to play and just bleed money. They've never learned. So they've been under the stressors, they continue to get stressed out, just being under that is not enough for you to become a good poker player. None of them read books, watch themselves, watch the tape afterward, talk to me about why they did well, what they did poorly. It requires both. Certainly a person that has read all the books and done all the meditation but never played poker, is not going to be as good as a person that's read all the books and then all the awareness and played poker. You need both, but certainly one without the other is unlikely to breed success in my opinion.

Mike: **01:17:22** Well, we've had you for more than an hour and I think you have a golf game to get to as well.

Tom: **01:17:27** We're reasonably flexible.

Mike: **01:17:29** Oh okay, great. So do you when you run your seminars, I think are you still running sort of your trading …

Tom: **01:17:42** The seminar. COVID's been tough on us there. But Laurens Bensdorp, who is a very interesting guy, and he loves wine. He could do a wine one with you. He's out of Brazil these days. And he runs a thing called *The Trading Mastery School*. And he went through the *Tharp Super Trader Program*. He's learned a lot. He's come from knowing nothing about trading really and didn't even graduate high school, and went through the typical teen years and 20 years doing all sorts of things that were fun, but not necessarily career building. And of course, he's matured in his older years. He and I got together and I said, you know, your book on *multiple systems trading* is still what I recommend to people to read. It's such an easy to read book on automating your stock portfolio or whatever he called that book. It's available on Amazon. And I said, that plus the way you teach at Trading Mastery School, the profiling of all the different aspects of your life. Like how much time are you going to spend developing a strategy? How much time each day are you going to spend executing your strategy? How much money do you have? What skills do you have? Blah, blah, blah, long list.

I said those two things alone are masterful parts of the trading puzzle. I bring with it the book on *position sizing*. I can certainly explain buy and sell engines. I can get into the mental side as good as anybody because everybody knows me as Mr. Serenity. And we could both wrap it up with some kind of an action plan, so we can almost do two days of a great seminar and have a lot of fun doing it, because he and I are friends, we get together, have some wine while we go out to dinner and see each other for a weekend. And we always travel to beautiful places. The last one was in Miami at the Mandarin Oriental which is right on the water, gorgeous place looking over downtown Miami's lights. This next one coming up is going to be in Scottsdale, my hometown. And it's going to be at the beautiful Phoenician. And we have such a beautiful venue on that one. Dinner is going to be in the Sunset Room looking out on an Arizona sunset. It is going to be a lot of fun, and so he and I have a lot of fun doing these. But we find that by keeping the group to 12 or less, we get to know everybody's names, they open up, they sit next to me at lunch and ask me more personal questions.

So it works that way and we don't see it as everything, any anything that we would want to go Zoom and have 100 people there or something. That would never work the same. But we don't consider it work. For us, it's kind of like we get to see each other and we have fun talking about trading for two days. And it pays for itself, covers all the costs, and we get a very nice vacation for a couple days.

Mike: **01:20:42** Nice. You're certainly not doing it for the money I would imagine.

Tom: **01:20:45** No, I don't need the money.

Mike: **01:20:48** Out of passion.

Tom: **01:20:50** And sometimes it's a tie frankly, between Laurens' busy schedule and mine. Sometimes it's a little difficult to figure out when we're going to have the next one. So we don't do them every other day or anything that's for sure.

Mike: **01:21:05** Is the one in November sold out?

Tom: **01:21:07** We got six seats taken and six to go. Did I just put out a social media post yesterday and I send out emails last night. So I haven't seen anything come in today so far, but haven't really been looking lately.

Mike: **01:21:24** Listeners, there you go. Get on that.

Rodrigo:	**01:21:28**	So you're retired now, I'm curious. A lot of people would want to do what you do. But you're a veteran, you can probably do a lot more, how often are you trading on the daily?
Tom:	**01:21:40**	I have 53 or four positions last I looked. Seven different strategies, and it takes me exactly half an hour roughly to get through it.
Rodrigo:	**01:21:54**	You wake up in the morning you do the thing and then you...
Tom:	**01:21:57**	No, I do it in the afternoon after the markets close. I put the orders in for the evening session and the next day, and I'm good for 24 hours.
Rodrigo:	**01:22:06**	So this is for somebody that has the time, you can teach people that enjoy their days and actually make it profitable for themselves. So they do it right on, once daily. That's interesting.
Tom:	**01:22:20**	Yeah, once daily is enough. I always think of all that price data as noise and information and your job is to get rid of the noise and ignore it, and to get the information. So from a trend followers view, to be simple, markets going sideways, this is noise, we don't want to even do anything. But if it gets above here we want to buy it, and when it gets below there we want to sell it. You can go to cash, go short, whatever you want to do. Each strategy is different. You can design them all sorts of different ways. And you can do this noise over the next hour. They could be the next week, next month, daily, lots of different time periods, lots of different markets. But the same concept holds true so, a computer can look at that and apply various math's to it to say, okay, here's normal range. And the normal range could be going this way too, off the page or this way on the screen. So it's varying but it's varying on an incline. But you still want to ignore all that nonsense, or you just going to be whipsawed a lot. So I'm just trying to make it easy on myself and I don't do a lot of trades. I'd say on a typical day like today perhaps. I think I saw a cotton trade go over earlier. Might have had an options trade, a spread trade go on, I might have done three or four trades out of the 50 something positions. And a lot of those trades might be just reversing from long to short or short to long.
Rodrigo:	**01:23:55**	In the 50 strategies that you're running, are they all trend based or are you adding other things like mean reversion, seasonality?
Tom:	**01:24:04**	I would say that I've got longer term, say 21 days and beyond would be some of my sector timing with ETFs and some of my futures trading, the bulk of my stuff. Then I've got about five strategies that would to a lot of people. Well, no, say one, two, three strategies that I think would be to a lot of people it might look

counter trend, but what I'm really doing is trend following in a very short term timeframe. So I'm nine days or less. So I'm picking up some of the noise but I'm getting trends and exploiting those. And then there's probably two that I think I would consider largely counter trends. But even there, I'm sort of looking for a condition, overbought/oversold, and then kind of going the other direction out of it. So you could argue that that might even be trend following, but it acts a little bit more like counter trend trading.

Adam:	**01:25:09**	So what happens if you're golfing at four o'clock and you'd rather not leave to go and put the trades in? Do you have somebody that you can call on to ex the markets for you?
Tom:	**01:25:24**	The markets give me, from in this time, zone one o'clock in the afternoon, all the way to 6:30 in the next morning is when a lot of the markets really truly open and start moving. And some of the commodities don't even open them.
Adam:	**01:25:40**	So you trade in the morning than the afternoon.
Tom:	**01:25:43**	They're all stops. Afternoon, I put the stops and they're good till cancel. So if I'm out of commission for any time in the next 24 hours, I'm still good all the way through to the next close. I've got everything covered. So there's really nothing for me to do. I might as well go out and golf, or work on the landscaping or cook dinner or go work out?
Mike:	**01:26:09**	What is a realistic expectation for long term returns in these types of ventures? Is that, I know that's a really hard question to answer.
Adam:	**01:26:20**	How much … ?
Tom:	**01:26:21**	It's really depends on how much your position sizing is. For instance, on risk on my futures trading, I'm down at this point to a half of 1% of my total equity is what I have in any one position. And that's by risk. So that's from where I'm getting it to where the stop is, and then I measure my volatility by a 21-day average true range. So that's the volatility of that market. And there, I'm starting my positions at 0.2% volatility. And that still gives me returns where I got days where it swings 1% 2%, 0.5, 0.6, 0.7 up or down, I can lose that much too. That's still moving pretty fast for most people, but I'm down in very low risk range and I've got a whole bunch of other strategies that are fighting. So this one's losing, that one's making. They're getting me towards zero and all I'm trying to do is to create sort of a straight line up the page, try to keep things stable.

Risk Appetites

Mike:	**01:27:35**	So is that current sort of risk appetite a function of your personality and stage in life? Or is this you and your view on the markets at the moment, or a combination of the two?
Tom:	**01:27:51**	It's a combination of a little different than what you said. I would say it's my stage in life. I don't really need to make a whole lot more money. I'm very comfortable. Secondly, I'd like to cover inflation and increase my net worth, I'm not idiotic that way either. So I don't want to put it in money markets or something and sit there and lose to inflation. Long term, I'd be in trouble. So my goal is to try to make money, beat inflation, increase my net worth, add wealth, but at the same time, the other side of it is a concept of the geometric nature of drawdowns. If you draw down 10% you have to make 11% and to get back to break even. If you're down 50, you got to get 100% to get back to breakeven. So the closer I can keep it to zero drawdown all the time while still pushing my portfolio with the markets upward, the better off I am. I get my returns to keep me in touch with inflation, but I don't have to compound to get back out of a hole that I've dug myself in if I get too much risk involved in it. So keeping the rest low and just keep posting some good numbers day after day is the trick I believe. That's the way that I like to look at it.
Rodrigo:	**01:29:11**	Preaching to the choir.
Tom:	**01:29:13**	I think Eric would agree with me at Standpoint, too. I think he's of the same mentality. If you watch the returns of that fund it’s pretty stable.
Rodrigo:	**01:29:24**	All right.
Adam:	**01:29:27**	Ninety minutes in, ready to let you go to your nine holes and...
Tom:	**01:29:31**	Yeah, we're going to go and play nine holes in beautiful weather up in the mountains of Arizona.
Mike:	**01:29:36**	I love it. Well Tom, before we go first of all everybody who's out there and you made it to the end hit that Like Button. Make sure you're sharing this trading wisdom with the rest of the world and Tom, where can we find you? I know you're enjoying the ride.
Tom:	**01:29:50**	Enjoytheride.world right after my name there, is the website. You can find a lot of different connections there. And there's all sorts of free interviews there, lists of my recommended reading books that include some of my own books, but some other people's books that I really liked over the years on trading. My hedging technique is outlined as an example of what you can do to pull together

an idea, and I just go ahead and show people how to do that as an example, so they can maybe start inventing their own.

The seminar is there if you want to sign up, I'd love to see you in Scottsdale. So everything Tom Basso is on there, but I'm also on Facebook, Twitter, MeWe, Parler, LinkedIn. Instagram, I hardly ever go on but I'm on there. So you can find me a lot of different places.

Mike:	**01:30:43**	Love it.
Adam:	**01:30:45**	Well, thank you so much Tom. Really appreciate your generosity of time and also the generosity and sharing your knowledge. And I know you do that all over the place and it's pretty incredible.
Tom:	**01:30:57**	I have fun doing it. I meet new friends and talk about a topic I dearly love. So it's all good.
Rodrigo:	**01:31:05**	Fantastic Tom, thanks for joining us today.
Tom:	**01:31:06**	All right. Thanks.
Mike:	**01:31:08**	Cue the music honey.