

Adam: 00:00:58 Happy Friday. Welcome.

Richard: 00:01:00 Happy Friday, boys.

Adam: 00:01:03 Guys, we've got Tom Morgan on the horn here today. Tom, welcome.

Tom: 00:01:07 Thank you very much, guys. Thanks for having me.

Adam: 00:01:09 It's a pleasure. So, Tom, what is it that you do, and who do you do it with?

Mike: 00:01:15 Whoa, wait. Hold on, Tom, before you jump in there like that. ...

Richard: 00:01:19 Adam, come on.

Mike: 00:01:21 Happy Friday. Happy Friday.

Richard: 00:01:22 Compliance, we have to lead with compliance.

Mike: 00:01:23 I just want to make sure that we set the table to have a very open and honest -- There we go. I love it. I love it. Poor Tom is nursing a, what is it, a four week old?

Tom: 00:01:34 Four week, yeah.

Mike: 00:01:35 I guess you're not nursing it, but you're ...

Adam: 00:01:37 I wanted to explore that.

Tom: 00:01:41 ...

Backgrounder

Mike: 00:01:42 Yeah. So, you know, don't take investment advice from four dudes on YouTube, where one is sleep deprived from raising a four-week-old child. Definitely don't do that. We're going to have a good conversation. And Tom's got some amazing ideas and viewpoints on the world. So, this is going to be fun. Tom, yeah, tell us who you are, what you do, what you do there, and where you are?

Tom: 00:02:04 Yeah. So, I'm currently the Director of Communications and Content for the KCP Group. We're a large wealth manager based out of Indianapolis. We manage money for families, endowments, ultra high net worth individuals. And I don't really know what I do, which is why my job is so amazing. I describe myself as a *Curiosity Sherpa*. My official title is Director of Communications and Content, which I think makes me sound a bit like I'm in PR, which I'm not. And I guess the sort of one to two sentence description and explanation is that there's just way, way, way too much information out there. And people I don't think have necessarily realized quite yet that if you want to get into people's workflow, you

have to have a reason to get in there. Or you have to be saying something that's of value.

And I spent like 15 years on the sell side before that. So, sort of the hard training, easy combat of continuously trying to get into people's workflow who didn't want to hear from you. And I realized that if you're not saving people time or making the money, there's really nothing that you have to add. And so I've been trying to bring that approach to our client base who are very, very curious, and I think, quite sophisticated. And I try and just put stuff in front of them that I think is of perennial importance, rather than just necessarily what's going on right at this exact moment.

- Mike:** 00:03:37 How do you define *save time or make money*?
- Tom:** 00:03:41 Trial and error, Mike.
- Mike:** 00:03:44 Good for you.
- Richard:** 00:03:46 Give us a bit on your background, Tom, if you wouldn't mind, like the journey that took you to where you are now and how you think that helps inform your thoughts and how you view the world of finance and the broader picture.
- Tom:** 00:03:59 Oh, yeah. I'm actually in an incredibly good position to talk about what I talk about, because I've made so many catastrophic errors in my career. And I'm probably still going to make them. But I spent, as I said, just under 15 years on the sell side selling research and data. And basically, it started off very early as *here's a collection of insights from our research team*. And after writing a summary email for the buy side for a decade, it became more of here's how all these insights get tied together. And here's why you should care about those things. And then it became a reciprocal relationship with the people that I spoke to when I learned how to use that time in a more judicious way. And so they started giving me good stuff. And I just started becoming like a nexus of information, which is what I still am on the buy side, just because I've got so many wonderful people that I interact with and get so much value from.

And then everything fell apart. I decided I didn't want to do it anymore. I left. I had like a full blown nervous breakdown, I spent three years wandering the professional desert, no idea what to do. And through a series of events, I ended up getting spotted by Tom Pence, the P of KCP. And you know, the guys there realized that maybe I could do something in terms of synthesis. And so rather than the individual pieces of information that I started off with, I now synthesize all the stuff that I've learned over the last 10-15 years, into hopefully, something that's relatively coherent, but it's often just a collection of other people's insights and how they fit together in a way that I think is interesting.

Filtering Patterns

Adam: 00:05:47

Actually, so the threads are starting to come together for me, because just sort of going back to your sell side work. I worked in a role like that for a few years. And it's astonishing the amount of bottom-up research that comes across the desk, right. And there is such an important role in almost finding the first few principal components of that information array, right? You've got all this information hitting, but there's a synthesis of theme that is missing if you just sort of list all the research pieces today, where there's a real opportunity to kind of say, well, you here you have a bunch of analysts, who are experts approaching the problem from slightly different angles. I can take the decomposition of those and sort of -- and tease out the top two or three themes.

But it's not sort of a top-down -- you're not forming a narrative by sort of looking at the big muscle movements. But rather, you're watching the picture emerge from the bottom-up, right. And I find that that carries through having sort of read through a lot of your work. That's a core theme of your work, right? It's the synthesis, this bottom-up, this emergent type of phenomenon that seems to inform your, not just the way your brain works, but your approach to the world and the things that you'd like to explore. Would that be an accurate characterization?

Tom: 00:07:27

Totally, totally. And I don't mean this insight to be self-serving, but I think one thing that's really interesting. So, Jim O'Shaughnessy and Brian Romley recommended a book to me that's, I think, entered my top three quite quickly, that's called *The User Illusion*. And it's a very, very simple concept in it, which is, the value of information is derived from the volume of information discarded to create it. So, basically, if I've read 100 pieces of research that morning, which often is what we would produce, and here is the one to two insights that come out of it, that's what's valuable. Assuming that you have the pattern recognition and the "wisdom" to be able to do that filtering process. And that sort of is the meta skill of synthesis, where you can find things that are really valuable.

And the opposite is sort of what I used to call *complexity catnip* on the buy side, which is where people would build up all these abstractions in order to create these theses that sounded incredibly smart to their PMs, but actually had no bearing on reality. And it's something I'm writing about for this weekend, and the hardest piece I've ever had to write in my life. It's taken me 100 hours and my brain is scrambled. But one of the funny bits of it is this study that Michael Mauboussin always references of horse handicappers, where they gave them five pieces of information to choose from. You guys are all nodding, you've heard it right?

Adam: 00:08:50

No, but go for it.

- Mike:** 00:08:51 Keep going, keep going. Everyone else hasn't.
- Tom:** 00:08:52 Yeah, yeah. So, they gave them five pieces of information, then they gave them like 10, 20, and 40 pieces of information. They got more confident, but they didn't get more accurate. And it's this phenomenon of confirmation bias, where you can go two ways with information. You can either start with a shedload and filter down to what's true. Or you can start with one piece that you've already agreed on and then just find everything on the internet that confirms that viewpoint. And those two different directions are sort of the difference between useless information and
- Adam:** 00:09:21 Yeah, that makes a lot of sense. Richard, I think that's a good segue to a theme you want to explore in more depth, right?
- Richard:** 00:09:28 Yeah, I mean, doing some of the writing here at ReSolve, I'm always curious to learn a little bit more about people's processes for their writing. And what's interesting about your writing is that you start at a pretty high level, 30,000 foot view kind of thing, and then you narrow down into something that you want to discuss that you think has an overlap or has a relevance that you can extrapolate to broader themes. Then you zoom right back out. So, you do this up and down sort of movements and I'm just curious to learn a little bit more about the process that you undergo and whether it changes from piece to piece.
- Tom:** 00:10:05 Yeah. I mean, well, let's step back for a sec. So, I've been doing this now for 10 months, although I've been writing for 10 years, just not very well. I've spoken to all of my heroes; the Morgan Housel's of this world, all the best newsletter writers on FinTwit. And I was like, all right, what's the universal feature of good content? And I wrote a piece on it, because I was so intrigued by it. And this is going to sound like a cliché, but a lot of the stuff I say and write sounds like clichés, because I think there's something universal in there.
- And it's basically that if you're following something that you're intrinsically interested in, and you're doing it in a relatively vulnerable and authentic way, not pretending that you know everything about it, because we all know in finance, that it's the fastest way to get blown up, right? If you're like, I don't really know what this means, but I'm really curious about it and I'm just going to throw it out there. That has a startlingly high success rate, because you will almost always find your tribe. Whenever people optimize for doing something that they think other people are going to like, or whatever is trendy at that moment, if it's not in their individual skill set, it's going to be very generic very, very, very quickly.
- And so I've just seen these guys just really focus in on what they want to be and what they want to do. And if they sell out, it becomes quite obvious quite quickly. If they start doing like sponsored posts, or things that are coming from

a different origin, you're like, ah, that's not you. And the same thing happens with brands. Right? Like, if a brand suddenly starts preaching something that's not consistent with its brand identity, you can smell it in a heartbeat. Look how we punish hypocrisy in terms of any public figure. The moment it looks like they're straying away from their core values, it's kind of over for them.

And so I guess, like relating it back to me, I'm terrible at single stocks. I learned that relatively quickly. I'm awful at macro. These two, like absolute, like, critical pillars of the financial markets, I'm just not good at. And if I was quite good at it, God, how many more people are better than me at that? Like almost everyone, right? And I spend a lot of time trying to find who the best macro and single stock guys are, right? It's not me. So, it's like, all right, what can I do that I think I'm better than average at? And it's this kind of obsessive synthesis between often like weird spiritual stuff, complex adaptive systems, and really big picture views. And that was what I was interested in back to my undergraduate days. Getting me to accept that I was good at that was actually sort of the basis of my crisis, that I couldn't believe that that skill had value. But now I've just kind of thrown my hands up and rolled with it. The work has gained quite a bit of momentum in a way that's really surprised me.

Gestalt Thinking

- Adam:** 00:12:56 So, that sounds like a business strategy for the launch of a sub-stack. Right? But how do you tie that to a director of communications role for an advisory team?
- Tom:** 00:13:10 Yeah, I guess that everything is everything. Right? Like, if you think that what I'm writing about is not relevant to people managing generational money, I would argue that it is because the things I'm thinking about in terms of the flows of the global network, or the global phase change, or any of these things, if you're operating on a decade timeframe as we are, and as our clients definitely are, that's relevant information. And we have great investors on our team that do actual investing. And for me, it's more about the clients of ours that are interested in broader topics, and sometimes sort of more holistic topics. You know, what's interesting is that once you really go up to the top of Maslow's hierarchy, you want to understand how things extend slightly wider. And that's why a lot of the speakers that I booked for our speaker series have been people that are very unusual in the way that they think but think in ways that I think are quite holistic and have application, specifically to the financial markets, but also far beyond them as well.
- Adam:** 00:14:20 Yeah, I mean, I would agree. I think there's a vacuum of, I don't know what you call it, sort of Gestalt thinking, right, where you've got all this information. You've got the hierarchies, you've got the structure, you've got the process, you've got the bullet points. But I think people really crave content that helps to

bring purpose and meaning or context to that structure, right? I think that of all the gaping holes in modern life, right, I think that is sort of the meta gaping hole, right? Like, people are looking for meaning, right? Philbrick's like biting his tongue over there on the gaping hole metaphor. But anyways, yeah, I kind of feel like maybe that is a niche that really needs to be filled. And I think you are doing a great job of moving in that direction.

Tom: **00:15:37**

Yeah. And you use the M word. And so don't get me bloody started, because this is I think the most interesting thing in the world. There's a great podcast series, it's no *ReSolve*, but it's called *Rebel Wisdom*. And they did a great podcast a few weeks ago, where they were like, what's gone wrong? And a lot of people can point to systemic issues. And then when you're like, all right, how do you fix them? Then you just get *shruggy shoulders* emoji or something overly complex and *thinky*, right? And almost all of the most interesting people that I've encountered have identified the problem as being this lack of connection to something transcendent, or sacred, or Taoism or whatever you want to call it. There's a million words ... They're all absolutely terrible because they're trying to express something that can't be expressed.

But the sensation of meaning is achieved when people are perfectly struggling, this phenomenon of order and chaos, right? And if you're not connected back to something transcendent, you're going to be in these kind of infinite loops of intellectual disconnectedness that you'll just get stuck in. And I wrote last week that the age of intellect typically precedes a civilization's collapse, because you get maximally disconnected from your environment. And weirdly, as I was writing my most recent piece that's been driving me insane, you know, someone sent me a podcast by a Holocaust survivor called Arnold Vandenberg, a great value investor. And he was talking about the relationship between what he calls character and values and investing in the sense of like, you have to be tethered to something, and that something has to be relatively objective.

So, the way that I've been thinking about it, because I've become a big fan of Taoism, the sort of a, a guiding principle is that you use rationality in Bayesian Analysis to get the clearest possible view of the present, which is actually really, really hard to do in a world that's like, just too full of varying opinions. So, you get a very, very clear view of what's on the ground. Again, in finance, almost impossible to do. And then you understand what the propensity of the system is, and what guides you through the propensity of the system that you have to realign yourself with.

Adam: **00:18:04**

Yep.

Mike: **00:18:05**

Whose dog is that?

Adam: **00:18:06**

It must be Richard. Richard is your poor dog whining, bro?

- Mike:** 00:18:10 Poor puppy.
- Richard:** 00:18:11 He absolutely is. Maybe I'll just let him join the show.
- Mike:** 00:18:15 Yeah, just open the door. Let him come in.
- Tom:** 00:18:16 I thought my kids were going to get involved in this. But no, it's Richard's dog.
- Adam:** 00:18:21 Take him up and put him on your lap, man.
- Tom:** 00:18:24 Oh, there he is.
- Mike:** 00:18:24 There you go.
- Adam:** 00:18:25 Oh. Look, come on, bring him up so everyone can see him.
- Richard:** 00:18:30 Let's let Tom get back on it. He's jumping up.
- Adam:** 00:18:33 Okay, fine. Yeah, no, I think that makes a lot of sense. And you do – I like how you sort of interweave the sacred and the profane and a lot of this sort of concepts from Taoism, for example, into your writing. It sort of, it seems to intersect with or interface with, maybe, some of the stuff that Daniel Schmachtenberger talks about. John Vervaeke, right? I went from sort of Schmachtenberger which is, which seems a lot more sort of about process thinking structure, a taxonomy for how to think about meaning, but doesn't seem to connect to the underlying motivation of why people are seeking meaning, right?
- And so I've recently really gotten into some of the stuff from John Vervaeke, where he talks explicitly about the deep seated need for a connection to the sacred and the profane. And how that guides people towards tribalism and sort of connects that to what we're observing in our political process recently, and the nihilistic approach that we see in markets, and in so many dimensions of life. Are these themes, I think these are also themes that you have been really passionate about exploring. Are you continuing to move in that way?
- Tom:** 00:20:16 So, who do you think presented a live event that I went to on Wednesday?
- Mike:** 00:20:23 One of the people hence named.
- Tom:** 00:20:25 John Vervaeke. Yeah. ... So, I've literally spent the last two days going super deep into his work, because initially, I'd been like it sounds do you think. Because I'm very resistant now to the idea of intellectual solutions to sacred and spiritual problems, because that's just like using a flamethrower to put out a forest fire. It's just like, "Well, yeah. Yeah, guys. Let's double down."

Schmachtenberger, I think he talks better. And more interestingly, than most people on these topics, the dance of the Tao and the *Ten Thousand Things* article that he wrote is one of the best things I've read in the last two years.

Adam: 00:21:02

Agreed.

Tom: 00:21:03

Yeah, I'm glad you read it. But he, I mean, who am I to criticize, but he often seems to be one of those guys that then talks about systemic intervention, without – and sort of infinite games without necessarily understanding that this is a connection problem. So, in the synchronicities of the last few days, like five days ago when my friend sent me an interview with a guy called Philip Shepherd, who I've encountered a couple of times before, and I popped it on my Twitter. And basically –

Let's think about George Soros, right, let's go back to the markets. So, I've been thinking a lot about George Soros's *back pain*, right, which is like one of those market cliches, right? And to those of you who mystifyingly wouldn't have heard of it, but it's like, George Soros could give all these really clever ex-ante reasons for why he made a trade. And then his son was like, actually, it's all bullshit. It's because his back starts hurting. And I was like, well, that's really funny. And is that because he's got sort of like this mystical ability that comes from his back.

And then I thought about it a lot. And I was like, well, actually, it's probably just pattern recognition, right? That he spent so long trading, and is so attuned to the market, that he has this pattern recognition system running in the background all the time, but because it's not running in your intellect, because it would be too demanding for you to constantly be doing that, when something trips it, you're going to feel it. You're going to feel it first, your back's going to hurt. And then if you're really, really, really smart, and this is the bit that I think people haven't thought about, or at least I hadn't, was like, you know what the back pain means. Because otherwise, he's sitting at his Bloomberg and being like, oh, my back really hurts today. Whereas if he's smart enough to be like, oh, my back hurts because my portfolio is not positioned well. That interpretation of dissonance, I think, is maybe the most interesting part of that.

And the Philip Shepherd interview was like, all of our thinking happens in the head but all of the flowing with the world happens in the body. And if you can find a way to unite that connection, your pattern recognition skills, and your interpretation of those patterns are going to be very, very high. And for Vervaeke was basically talking about that in this amazing interview that I was listening to yesterday, where he's like, everyone worships intuition until it becomes prejudiced. You know, you see someone from a race you don't like and you make a judgment about them, because your pattern recognition is flawed, right? But when intuition is really well honed, and you've got a great filter, again, to the ... point, right, you become George Soros, where you've seen so many

patterns, and you can interpret it the right way when you see them. And I think that's like a really interesting idea.

Brain Hemispheres

Richard: 00:23:43 I think this dovetails really nicely with one of the themes that you and I kind of exchanged emails on, which is the idea of the difference between the brain hemispheres, and how this may inform the logical versus the more intuitive side of one's mind. I wonder if you might speak a little bit to that and how that may inform the way that we can kind of draw these connections from the broad to the specific and vice versa and draw from one's intuition to that stuff that's running in the background to sort of more actionable steps.

Tom: 00:24:19 Yeah, yeah.

Mike: 00:24:20 Even the connectedness. How does one become more aware of the Soros' connection, my back hurts, sell everything. Right? Especially in an intellectually overpowered world where people are overthinking in order to impress. And then now we're bringing in spirituality via some connectedness to your inner self, which is at odds with, sort of the talking heads in the industry, so to speak. So, how do you square all of that? I know that's a lot, especially with what you said, but I think it is sort of relevant. And how do you square all of that in this particular domain, which is particularly skewed to the more logic side of the hemisphere?

Tom: 00:25:10 Well, Mike, I'll tackle that one first because I've got a more immediate answer. And I'm a hypocrite. I don't do enough embodiment practice. I don't do yoga. I have a perennial source of guilt that I don't. And like every finance pro, I take my cold showers every morning. I don't do the *Wim Hof breathing*, but I have. But there's a fairly long list of well accepted embodiment practices that people get into with various different degrees of success. I think there's some interesting other angles to look at. And the first is resonance.

And something Vandenberg said is he realized relatively early in his life, that quotes were the way his subconscious communicated with him. That he, when he read a quote that was resonant, he saved it. And then he assembled a book of 5,000. And I did the same thing about four or five years ago. And it had a staggering, staggering effect on my life, right, basically just put together a 50-page PDF, and tied them together. And I realized it was me that was tying the quotes together, in sort of much the same way as when I was writing a piece for Wall Street that was just a list of disconnected insights. When I started tying those insights together, I started tying myself together.

So, I think that's one way to think about things is to really reflect on what you found resonant. In fact, that was what Nietzsche said as well is that, if you survey

all the things that have ever moved your soul, you might find yourself in that connection. So, that's sort of one like really interesting, and I think, reasonably specific prescription. Another one, which came out of John Cleese, this latest book on creativity is, is really boundary periods that if your ability to interpret the stimulus correctly, in the Soros' sense is what's important, then the longer you spend that liminal period, the better you're going to get it interpreting those unconscious signals.

So, for Edison, it was he would go to sleep with a ball bearing in his hand and he would wake himself up when he dropped the ball bearing so he could spend even longer in the liminal phase. And now I'm in a fundamentally creative role, I have this annoying habit of waking up at 05:00 AM, with 700 insights that tie together all the things that I've been assembling for the previous week. And it happens almost every morning, when I turn on the cold shower in the morning, I'll get another flood of insights. Medium-paced runs are also really good because you're ruminating, but you're also embodied so you have good interplay. So, if you can find a liminal space that works for you, it seems to sort of strengthen that connection, where you can get more and more unconscious input, and you can get what Adam was saying in terms of that middle line of meaning where you're uniting the hemispheres.

Which then takes me into answering Richard's question. And obviously, this idea is stolen from Iain McGilchrist. I get in lots of long arguments on Twitter about this work, because I'm obviously not a brain scientist. So, if you want to take issue with the brain science, read his book, and then read his incredibly spectacular 2019 rebuttal of everyone that went after the book. And I don't care. I don't care about any of it because the metaphor in the book is so good, and I think, true. But it doesn't need to be true in order for it to be stunningly effective.

And I think where it applies to the stock market, is really simple, but really, really interesting, which is sort of this whole Ship of Theseus idea that basically, **the whole world is always flowing**. And that's the world of the right hemisphere. But the left hemisphere's job is to divide it up into categories so that it can be communicated and manipulated. But in a world where the left hemisphere is overwhelmingly dominant, which you see through grid-like cities, digital abstraction, the emphasis of safety over vitality in almost every part of our culture, you basically have everything focused on the abstract categories.

So, the example I used, I loved Pettis and Klein's book, *Trade Wars Are Class Wars*. And they basically talked about how people didn't really understand the nature of capital flows within a closed system, in that labor reforms in Germany were a butterfly effect that would end up causing a housing crisis in the US. And that basically, people would export excess savings, and that would drive down

lending practices in Florida, and everything would cascade from there. And that's sort of something that I've been writing about, really for the last four weeks with -- no, four months with limited success, but understanding ways the world flows and where those bottlenecks are going to come up. Because now we've networked everything together, there's going to be insane amounts of money won and lost in anticipating the bottlenecks, right? And it's obvious. Just look at the supply chain, nobody wins anything for that, right?

But look at all of these different areas where the network flow is really influencing the prices of things, and people are still as I said, I'm not a macro guy, but like all day, I'm like, "Oh, the Feds printed a bunch of money. That's going to end really badly. I'm like, well done. That's it. That's a great observation." But also like, what are all the other central banks doing? What are the capital flows from Taiwan into the US doing? Are you just looking at us in isolation and wondering how everything's going to go terribly wrong here? And I'm sure great macro traders are looking at this whole situation and laughing at it and being like, you haven't found the butterfly back in the system that actually means something, rather than looking at all these individual countries in isolation, which clearly isn't how anything works anymore.

Adam: 00:30:37

Yeah, I think you really hit on the crux of something, and just sort of, again, tying it back to the world of finance. I mean, you can almost characterize the CFA program, your typical MBA program, your master of finance program, all of them can be sort of characterized as, under the category of the theology of reductionism, right? Like, how can we, how can we distill all of these complex moving parts into the constituent components, analyze the constituent components, forecast the constituent components individually, and then rebuild the model in order to forecast the whole, not realizing that all of the individual components have interaction effects with one another, and with the whole?

And so this is why it just continues to baffle me, all of this concentrated effort on individual security selection, without the context of what is the macro environment? Like, what is the dynamic system in which these companies are operating? Right? What are the interaction effects between the companies in a sector and the competition and cooperation that's happening there, between the companies and the regulatory apparatus? Or the political apparatus, or the global trade apparatus? Or whatever, right? These end up being so vastly more important to the outcome of, or the ultimate objective, right, which is sort of wealth creation. But everybody -- it's like a lamppost problem, right? Like, why are you spending all your time here? What's the lamppost metaphor, right, if the drunk in the dark?

Mike: 00:32:42

Yeah.

Adam: 00:32:43

And he's wandering around, because he's lost his keys, and somebody passes them under the lamppost. And he's like, what are you looking for? I'm looking for my keys. Oh, did you drop them by the lamppost? No, but this is where the light is, right? It's the same kind of problem where -- You were trained in securities analysis, so this is where I'm going to spend all my time because the things that really matter are hard. Right? And so I'm going to ignore those even though they matter far more, because I know how to do this, right? Is that a fair statement, do you think?

Tom: 00:33:15

Adam, if I could hug you right now I would lean through the camera and hug you, give you some sort of incredibly non-British hug. I mean, to step back and go into the weird for a bit because that's my favorite territory, right? Like, if I read one more sodding article about like, the only thing we need right now is just to be more rational, right? If everyone could dissect the problem, and be as smart as me, and make these observations, we would have no more problems, right? And that is sort of everything that we do right now. Right? And that, again, is trying to solve the problem we got into with the problem that created it. Which is if we're just a little bit more reductionist, and break this down into more and more discrete parts, eventually, it will be a solution.

And think about it this way, there's a great quote that is to the effect of if you divide the cow into more parts, you're going to get more beef, you're not going to get more cow, right? If you disrupt any complex adaptive system, you're going to kill it. It's like Johnny Five in Short Circuit. For anyone old enough, he realizes quite early on that if he tears things apart, he kills them. And modern science and modern finance is unbelievably good at taking things apart. But then how do you turn the beef back into a cow? Well, that requires magic, right? Like, quite literally, it requires magic.

And I was reading about shamanic cultures the other day, and it wasn't the breakdown that would characterize whether someone was going to become a shaman. It was the nature of their reconfiguration afterwards, how they put themselves back together. And I think that relates to the point that I was making earlier, which is you need to put things back together according to the propensity of the system. Which is that we need people who are able to connect to values, to understand the way the system is flowing, and then align themselves with that in a harmonious way. And everything will work out much, much, much better. And you do that in an emergent way. Emergence is being on that middle line between order and chaos, right, between embodiment and intellect. And once you're in that space, you can tell exactly where the system is going to flow. And you become this sort of Druk, Soros-esque master trader, that's your thing, where you can see the resonance of the system.

And just to give a sort of a slightly less nonsense example, like I was chatting to a very seasoned investor two days ago, and we're talking about his process. And he was like I was researching this sub industry and I met a thousand management teams. And by the end of it, I just realized that this company was going to be the best one because I'd seen a thousand management teams, because he can, has that timeframe. And I was like, well, yes, I've always heard management teams -- management access is a really big thing for investors. And you know, a lot of people take the piss out of it, and they'll like, oh, it just because you're getting inside information or getting wink-wink, nudge on the quarter, refining your model better than everyone else.

I'm like, maybe, but I've been in like a thousand management meetings, and I've never heard that. It's more than if you're actually a really good investor, your pattern recognition for what a good metaphor what a management -- a management team that is actually telling the truth is something you'll be able to tell. Because when someone is telling the truth, they sound different, they resonate, their body, and their brains are aligned. And if you're good enough, and have been in enough management meetings, you may not even know that you can hear it, but you will hear it and then you will be able to invest on that. And it's that kind of hybrid mentality that you see from a very, very small number of thinkers and investors that actually appears to be a defining characteristic. But to your point, Adam, it's very, very different from this endless reductionism that I think is actually kind of the route to madness.

Complexity and Emergence

- Adam:** **00:37:08** Yeah, absolutely. You spend a lot of time talking about complexity and emergence, and how the really important things happen at the boundary between order and chaos, right? And I was struck by and I forget exactly what the quote is, I feel like it was by Robert Oppenheimer. But it was something to the effect of we have the capacity to solve all of our problems so long as we don't try to direct it towards a certain objective or something. Do you know what I'm referring to?
- Tom:** **00:37:56** I quoted it last week, Jim O'Shaughnessy gave it to me, which is, it's quite obvious that the world is going to hell. The only way it won't is if we don't prevent it from doing so.
- Adam:** **00:38:03** Right. Right. So, did you see that, Mike? Because I would have thought, Mike, ... would have been like, "Oh, my God, this is my favorite quote." Right?
- Mike:** **00:38:11** Never. I didn't ...

Tom: 00:38:12 Jim crushed it. And I was like, I'm stealing that and putting that in my weekly because it was great. Yeah, yeah, yeah, yeah.

Adam: 00:38:18 So, I'm intrigued by that, right? But it implies that self-organizing systems will always converge on a solution that meets the objective of the agents in the system. Right? And there's a lot of really interesting examples where that's not the case. Like, for example, I think it's sea lions, right? So, like, if you go to Greenland, or you go to Antarctica, you've got these sea lions. The sea lions weigh multiple tons. Why do they weigh multiple tons? Because the sea lion that is able to battle and be successful in battling all of the other sea lions or ends up being the one that is able to reproduce with all the females, right?

And so what that means is that over time, the sea lions have become just so massive that they can barely move. Right? So, here you have an evolutionary system that was successful in propagating more sea lions, but the individual agents, the sea lions, probably you're not happy in the way that they're living in the way that evolution sort of created their biology. Another example, antlers, right? So, elk have these massive antlers. And for elk, it's the same thing. Typically, two male elk will battle for access to a female. And typically the one with the largest antlers ends up being successful more often. And therefore, large antlers is a trait that ends up being targeted and emphasized evolutionarily. But for the individual male elks, now they all walk around with these massive antlers, which are debilitating, right? They're just awkward and unwieldy and unpleasant.

So, I guess my point is, can you have a fully emergent solution without guiding towards an objective that seems to satisfy the objectives of the underlying agents. So, this gets to something and I know I'm sort of droning on here. But just to wrap, bring us sort of full circle, the last few weeks, especially we've been having this conversation. Mike keeps sort of raising this idea of moral presumptiveness. And I think it sort of ties in like, the idea of moral presumption is, I think that there is a compass that we need to sort of focus on to help nudge the system in certain directions, that have a higher probability of manifesting the solution that benefits the agents, right. If it's purely emergent, we have no idea whether we're going to converge on a solution that actually benefits the agents. So, I'm going to throw that out there. Anyone can react to that.

Tom: 00:41:33 I think you've hit something staggeringly profound again. So, Morgan Housel, wrote something the other day, I think it's Amos Tversky who said that you waste years by not being able to waste hours, right? And one of the fundamental problems of our existing system is that we assume that running at 100%, and maximum profitability, and maximum evolution is the optimal outcome. Whereas actually, if you look at nature, you end up with people with -- deer with antlers so big that they can't move, right? It's an incredibly maladaptive strategy

to run at 100%. And when we relate it back to our own lives, like obvious that's the case because look around Manhattan, right? People are just falling apart, right?

So, you have the paradox where in order to evolve best, you actually have to have an extremely balanced evolution where you don't excel in any one area. And I think that that sort of paradoxical intent actually also relates back to the systemic intervention, which again, goes back to Taoism because it's super embarrassing that I realized that they worked everything out like 3,000 years ago. But the Taoist sage becomes so congruent with the system, by being completely himself, that he makes weeny, tiny little nudges. So, he does have agency, right, he has egoic agency, but completely in harmony with a system that nudges it into a way that's intrinsically desirable. Right? And that kind of is this existence, that's complete anathema to the Western mentality.

And I always think of this basketball player, Shane Battier, who I think I'm saying his name, right. But like, they worked out that he had the same plus-minus effect on the court as an all-star, but would go through most games without scoring a point. Because basically, he was so congruent with the system that he knew exactly where to force Kobe to reduce his shooting percentage the most. Everyone got better when he was on the court, like to a ludicrous, ludicrous degree, but he had absolutely no standout statistics. And it's sort of that idea of congruence, like Battier rather than Jordan. And there's also both that I think, is sort of this systemic improvement that we can make.

And there's a really interesting idea about the nature of the individual within that context and sort of the individual as the butterfly in the storm, where the Taoist sage operates as that butterfly and has this systemic cascading impact that's incredibly positive. Maybe he doesn't even ever know it.

And I think about Alexander Solzhenitsyn, who basically used his time in the Gulag to purify his soul. And then he comes out and he's like the one thing I'm not going to do is participate in the lie. So, he writes the Gulag Archipelago, and it brings down the Soviet Union, or at least contributes in a very significant way to bring down the Soviet Union. So, you have this guy, he operates outside of the paradigm, he comes back into the system is like, "Guys, this is bullshit. Here's the truth," big T truth. And the system gets reconfigured. So, when you think about that, in terms of a fitness landscape, that's kind of the heroic role of this person that can step outside the paradigm and be like, "Guys, here's a new paradigm." And suddenly, the whole landscape readjusts to that.

Adam: 00:44:44

Yeah, it's an interesting starting point, right. I'm sort of reminded of -- who was at -- the chief investment officer of Transtrend brought my attention to the fact that a flock of birds, so think about migrating birds, right? So, they're migrating 1000s of miles, whatever, oftentimes many miles out to sea, barely in -- often

not really in line of sight with the coastline and somehow they're able to orient well enough, these thousands of birds orient well enough to get from A to B and back again every year.

And what the scientists were able to determine was that it was sufficient for a number of birds equal to the square root of the total population of birds in the flock, at any given moment in time, to have a sense of the direction that they should go. Like, some pattern memory or something that recognizes where they are right now and nudges the flock in that direction. The square root of the total population that that number knows, then the flock can get from A to B successfully, right? Again, this sort of nudging phenomenon of just like a small number of individuals within the group, as long as there's even a small number that are moving in a direction that is constructive, then the whole population has a good chance of getting there, right?

So, I like this idea of the individual acting in congruence with the complexity of life. And through their seeking their own truth, everybody seeking their own truth, but together, it becomes this emergent phenomena that brings us into the right direction, right?

The hiccup in that, I think, in the modern era, is that it requires agents to have an instinct or be able to rely on their own internal programming to make decisions. But in the modern era, we are being constantly reprogrammed by a force that is so asymmetrically larger than ourselves, right? Namely the Facebook content direction algorithm, or the YouTube content direction algorithm or Twitter. How do we successfully rely on that emergent, individual agent phenomenon in a time where all individual agents are being hyper-managed by forces that are vastly asymmetrically large relative to the individual?

Weapons of Mass Distraction

Tom: **00:47:49**

I don't know. Like, I'm less down on this whole idea. I mean, part of me is like, weird idea again, but it is incredible that we've ramped up these weapons of mass distraction at exactly the moment where it seems like we're on the cusp of a global consciousness shift. Like if there was some sort of like Skynet, working against us. And the whole usual suspects thing about like, the greatest trick the devil ever pulled was convincing us he didn't exist. Like, if you were a super evil AI, hell bent on preventing humanity from coming to consciousness, could you have invented a better system than the one you currently have? Like, probably not.

But like, I think, I mean, that being said that, to counterbalance it, like I get a huge amount of value from Twitter, like a huge amount of value from Twitter. And I think if you're not getting value from Twitter, you're using it wrong. I don't,

I'm not on any other social media platforms, because they're bounded, right? They're bounded by the friends that you have, and the advertising they want you to see. Whereas if you can, if you can curate Twitter, it becomes unbelievably valuable. And I think you have to be quite aggressive with who you curate.

I do believe, again, one of the strange beliefs that I have that now gets completely vindicated by my lived experience, is that the environment that we're in is benign. And the environment we're in wants to provide us with the tools to evolve ourselves to our own information landscape. We navigate our own information landscapes, exactly on the Tao when we're doing it right. Basically, following our interests. We don't read things that we don't understand, and we don't read things that are too easy, because they're not interesting.

So, if you can really respect that instinct of your own attention and your own interest, and not doom scroll, I think you're going to get massive, massive amounts of value from just information, full stop. Because you'll literally be evolving through it, right? There's no other way to see it. Because if you're continuously on the balance beam, when you consume information, you have no alternative but to evolve your understanding of something.

Richard: 00:50:00

It's interesting. It sounds like you're threading this line between dystopia and sort of a quasi-techno-optimism, which is similar to some of your writing that I've experienced, kind of threads that line and trend and tries to not go too down on some of the direction that we see that we're going, and some of the issues that we're talking about here, the information overload that we're experiencing, and the age of intellect preceding the downfall of civilization, as you've described. How do you thread that line? How do you find the balance, not to get too down on some of the directions that we all can kind of almost grasp at the whole Skynet analogy that you drew?

Tom: 00:50:51

I'm actually incredibly optimistic. I've never been more optimistic in my life. One thing I find really interesting is that bad science fiction tends to be linear, right? It's like it's today but shit, right? Like it's today but with worse climate change, or no fertility or robots killing each other, right? Like, where it's the really interesting sci-fi, like Arrival, and Looper and Interstellar, and the stuff that I really like. It has intervention from out of time, it has intervention from a different source. And my crazy theory right now that I'm increasingly thinking might actually be right, is we're about to undergo a hemispheric pivot as a society.

And I think the super mega crazy viral success of something like a Squid Game points to that in the sense of like, people realize that these hyper-Darwinistic systems that result in deer with antlers that are too big and these debt-ridden

structures with Richard creating super inequality, where an elite just makes everyone else compete to die. Like that story does not go viral unless it's resonating with everyone, it goes number one in 90 countries apart from Denmark, which I found hilarious, right? Like, it means something. And I believe that adamantly, and I think this emergent phenomenon.

And I was talking to one of the younger geopolitical strategists, who I really like, a guy called Marko Papic at Clocktower. And he has this idea called the Buenos Aires Consensus, which is basically that DM electorates are moving -- Basically, politicians talk a lot, right? But they actually eventually move in the direction of their median voter, and median voters in most of the unequal countries. Not all of them, right? Not all DMs are unequal but most of them, most of the unequal DM countries, electorate so like, screw it, intervention, fiscal stimulus, don't care about small government anymore, just print, keep me happy. And like, I appreciate money for nothing. It's not everyone's cup of tea, and the system will get refined.

But I see all these emergent phenomena right now that people get very worked up about because they were irrational. But like NFT's, a bubble where artists are making as much money as speculators, that's a bit weird. ESG, weird incentives, not being done very well, but a situation where externalities are being incorporated into market prices. Huh, that's weird. That's like a systemic move. Blockchain and crypto, decentralization of networks, back to the edges of the network. That's kind of weird, like all of these things that look dumb, because they're irrational, people don't understand that evolutionary shifts always look irrational. Because if they look rational, that'd be intellectual. And if they were intellectual, they wouldn't solve any problems.

So, I'm super, super optimistic. Whether the transition is going to be smooth, like I super doubt it. There might be a dark knight of the soul for society. But I think we're moving in the direction, to Adam's point, and moving in the direction of meaning and transcendence, it's just going to be difficult.

Mike:

00:54:00

In the direction of that society, I wonder -- there's two ways to go. So, one I think about is, okay, you're going to have a smaller and smaller sect of the population actually creating value and garnering the economic value from that. And so what do we do with the rest of society? Right. So, if you think about the UBI, free money type discussion, what's interesting, and what one of our fellow employees here, Alexi, put to is, well, what do we do with people who have an IQ of 80? Right? They're not productive in our society. And that's a great question. Except now 80 is becoming 90 is becoming 110 is becoming not just the domain of intelligence, right? There's EQ, IQ. There's the physical laborer of the Industrial Revolution, right?

So, there's a whole bunch of dimensions that can make people useful or not useful and what do we do, as power laws come into the economic value clustering at the top, what do we do with the rest? But then when I hear you talk about, well, does everyone just play some video games and swap some stuff at home so they kind of pretend that they're working. Or feel like they're working because we keep a bunch of stuff in place to shift some papers around so they feel like they're working. Like, now we're in this cage but we don't know we're in the cage.

Adam: 00:55:22 And then Dave Nadig also raises the point that the elite then, will get early access to biological jacking. Right? So, biohacking, etc, that will allow them to ... Yeah.

Mike: 00:55:41 They're going to have the biggest antlers on the walrus out there.

Richard: 00:55:47 Until they can't move.

Mike: 00:55:48 Until they can't move.

Tom: 00:55:49 They are welcome to that biohacking. Like, the idea that -- You know when they release like GM mosquitoes in Florida, and they're like, I see no way this goes wrong, right? Like, I've never seen Jurassic Park, right? Like the idea that people are going to use *Gen One biologics* to alter their physiology in a system where we don't understand any of these systems, yours, buddy. You think that's going to work out really well? Cool. Like, if you want to do that, that's great. And part of that is also like the billionaire on HGH that won't accept his own mortality, and is building a sort of billionaire lifeboat into space, or whatever it is, right? It's like, these are all, like substitutes for transcendence in many ways. And I think that, like, of course, I don't have any good ideas to your question, Mike, because then I'd be running a country.

But two things I would say is that, like, I love the fact that you bring up IQ, because our society's worth is basically determined on a metric that is also the cause of all of our problems. Or not all of our problems, but the extremities of our current problems. The idea that people's productivity is based on their intellect is sort of super interesting to me. And like, I think about you know, the relative "failure" of indigenous cultures to integrate into our society. I'm like, do they regard it as a failure, right?

Like, Sebastian Junger made this point that American settlers would defect, to the tribes, to the Native American tribes, and the Native Americans would defect to the settlers. And the Native Americans all came back and the American settlers never came back from the tribes. Right? They basically found that it's easy to romanticize the noble savage. But there is something about other ways of living, where you're much more transcendently connected to your body and

to the world around you. And you're not just judging IQ as the entire determinant of someone's worth that might also be part of this emergent shift.

The obvious rebuttal to that is cool is that's a bit utopian and bullshit. And also like, this probably just ends up as a power law where Taylor Swift, or whoever it is, has all of the plays in the creator economy. And if you're create -- if my writing is not very good, it won't circulate very far, and I won't be able to make a living off it. And I don't believe that everyone can be a creator, because you may not have the experience that's relevant to that. And there may not be an audience for you. I don't believe that everyone has a thousand true fans. And so that is super problematic.

And I think a lot about like -- I got into a big argument with a hedge fund founder a few weeks ago, because he was like, "Feckless millennials, money for free company,... and telling people about their emotions in the workplace." And I was like, you haven't thought about this at all, have you? You really haven't. Like, if your kid was ...

Mike: 00:58:46 It's the boomers that are benefiting from the money for free. And the massive pump -- It's the guy who's probably a boomer who owns the hedge fund shop.

Tom: 00:58:55 Well, no comment.

Mike: 00:58:58 Who's saved themselves several times as financial assets have collapsed by robbing their grandchildren. Who happened to be millennials and Gen Z. Let's get the record straight.

Tom: 00:59:08 It's not even about that. It's about what do you do? It's about if you've graduated from college right now, like if you were like, all right, I've got a kid. And I want them to have a 10 year long career in something, what is that 10 year long career going to be? And anyone that has an opinion on that should spend three months trying to get that job on LinkedIn, where they're going to get kicked in the groin a hundred times a day with rejections, however smart they think they were. And when I was in transition and career basis, I've got some nice box ticking on my resume. And I just ended up getting rejected from inappropriate jobs for months and months on end.

And it made me much more compassionate to the idea that like, it's very, very, very difficult for people 20 years younger than me right now, to determine direction in a way that's going to sustain them. And so of course, they're focused on experiences because they look at an older generation that got to the destination and looked around and was like, is this all there is? And so I think that what we should be doing as a society is thinking about ways that we can position employment.

And the only answer that I've come up with, which I think is very suboptimal, is sort of local knowledge work, right? Like, the small town lawyer, or whatever it is, people that can maintain white collar employment in a localized way. Because anything globally fungible is going to get disrupted down to \$10 an hour by Upwork. Right? And anything that's blue collar, our college graduates probably don't want to do it. And that's fine. And a lot of people frown on that. But like, if you were in the same position, would you want to go and clean toilets? Would you want to go and pick fruit? And I just think it's a very, very hard conundrum to solve.

Mike: 01:00:52

Well, I think there's an area of growth. I know in my neighborhood back in Toronto, all the sports cars with the HVAC, plumbers and electricians, because the toolboxes in all those houses was a check and a pen back in the checking/pen days. That's why it's interesting, right? It's the localized economy, like who's going to fix -- I can't have a guy from India fix my electricity. I need a local guy. And the more wealthy the environment is, the more expensive the various trade is.

So, that localized employment is a really, that's not going to be armed away anytime soon. The local lawyer is an interesting one. I mean, you do sort of see, as you get older and age and have traveled from town to town, you do see that those local economies on the white collar side, and I don't know when I -- that evolved in my mind, but it's always an interesting thing. I'm like, well, why is the local coffee shop now been replaced by Starbucks and Tim Hortons?

And so these types of mega corporations are invading -- Walmart, obviously, put all kinds of businesses that were local, emptied the old downtown. So, do we -- I guess we just have new economies that come. Like, we don't need to regress. But just something new will come up. We'll all play chess against one another and get paid, I guess. I don't know.

Total Decentralization

Tom: 01:02:15

I mean, but that's what people say Web 3.0 is, right? Like it's total decentralization, everything. And I can't work out whether it's nonsense or not. Right? Because what's actually happening on the ground is very difficult. You know, I met someone the other day that was explaining to me that Amazon third party selling, which is all relatively small fry people, is a \$200 billion GMV market growing into a 50% CAGR. Right? That's people in the middle classes, right? YouTube, 55% of the economics goes to the creators. There are robust sub-sectors being created within the platforms that may be bridges to an individual creative economy.

But I love the framing from Chris Dixon of, in Web 2.0, your margin was my opportunity. And then Web 3.0, your take rate is my opportunity. The businesses

are going to compete to provide better economics to entrepreneurs, creators and small businesses. Again, maybe it's utopian, but it does seem to be happening on an emergent basis right now.

Adam: 01:03:11

I mean, one quality that characterizes, has always characterized the creation community, right, whether it's artists or authors or whatever. I mean, there are no work communities or very, very few career directions that have such a Pareto distribution type set of outcomes, right? Like the top 1% of authors captured 95% of total book economics, right? The same thing for songwriters, and performing artists and actors, and etc. Right? So, I mean, I like the idea that artists are now able to go sort of direct to market rather than going through auctioneers or dealers or whatever. But I don't think that it solves the problem of the fact that the wealth will consistently concentrate at the top. And this is an emergent phenomenon of the system. Right?

And it's partly the distribution of talent, but I think even more, it's a function of sort of mimesis, right? Like, I don't know if -- you probably heard about this experiment, I think it was at Yale or anyways, one of the big universities. But they set up this music sharing service, ... and they gave access to two different groups. In one group, they did not interfere with the ranking algorithms of the content. They just let the ranking kind of emerge. Actually, they had like several different groups where they did not interfere with the ranking, right.

And then they had several groups where they did interfere with the ranking. And what they found was that in each of the different individual groups where they didn't interfere with the ranking, they all came, the top ranked content was completely different across each of the separate groups. Okay. So, a different group of people won the content lottery in each of those emergent systems, right? But that concentration of downloads still conformed to an extreme Pareto distribution. So, again, 5%, of all artists ...

Mike: 01:05:47

Yeah, it was emergent conditions that affected sort of the, oh, God, the cascading effect that continued. And what was interesting is the talent, or the thing that was the most popular was different in all of them.

Adam: 01:06:06

Yes, exactly. And in the, just close the loop, and in the group where the researchers control the algorithm, they set the initial conditions so that certain artists got slightly more attention than the other artists. And they were astonished at how little a nudge of extra attention that they needed to give to these artists to catapult them to the very top of the distribution, right? So, it's people, it's the crowd watching the crowd. And that it's the crowd watching the crowd that determines what is ...

Mike: 01:06:51

Isn't it the tribalism, right? Isn't that the whole point of the human condition? Right? ...

Richard: 01:06:57 And mimetic desire, I think, is the terminology that's been thrown around. I think Corey just cited the study there by Duncan Watts at Columbia, I don't know if you can pull that up. ...

Adam: 01:07:09 I love that face, Tom. You got to give us your take on it.

Tom: 01:07:13 No, I can't annoy Girard on Twitter again. I got in a big argument this week with everyone just being like, what actually is important about René Girard's work, because I've tried to read it, and I don't get it. And it's just like, yes, I've got a toddler. He wants other toddlers' toys without realizing he wants them. Cool. Like, if you've got a toddler you now understand René Girard. So, I think I'm missing something, and I got into a big argument with hundreds of people telling me I was missing something. But I don't want to go down that rabbit hole. Because I think I want to go back to what you were saying, Adam, because I think that we're -- and I don't want this to be a cop-out, Mike, I really don't.

But I think we're in danger of making a very bad mistake relative to everything else we've just said, which is that we're sitting here performing like a valuable service of being like, well, isn't this all fucked? And how do we get around it and all these other things. Whereas actually, what we should be doing is looking back at what we've just discussed, right? Which is the idea that, understand where the system is right now, very valuable, but then also understand the propensity of the system. Because I've noticed that a very, very clear symptom of depression is the idea of giving the intellect responsibility for more than it can handle. And the intellect can't actually handle very much at all.

And actually, people that have really concrete five-year plans, like it's often a recipe for madness, because things are going to unfold how they're going to unfold, and you need to be reactive to that unfolding. And the system has an intrinsic intelligence of its own, which I appreciate. Sounds strange, but I do believe it to be true. And so it becomes this issue where I watch particularly the younger generation, look at all these cascading catastrophic, systemic issues and be like, "Well, why haven't I solved climate change?" Or like getting themselves into charitable positions where they're like, there's so much for me to handle. I'm getting burnt out because I can't save all the people.

And I think the really interesting, incredibly optimistic nuance, from the sense of Taoism within this situation is just like, you do you and that basically, like -- I said, recently, *follow your bliss* is the most misunderstood piece of advice ever, because it makes it sound like it's easy. But if you can collapse your ego, which is probably going to be the worst experience of your life, if you can relinquish your protections, and all the things that are preventing you from being courageous and vulnerable enough to actually be creative. And I hate that word, because it sort of brings to mind like finger painting. And I think creativity is different for everyone.

For me, it's writing nonsense on the internet about complex adaptive systems, but it's literally different for everyone. It is different for everyone by definition, and finding out what that is going to be the work of a lifetime and very, very difficult. And we've discussed some ways to do that. But the idea being that if you find a way to become congruent with the system, there are no other problems because everyone's congruent with the system. And the idea that if you start sitting there being like, we can't solve this on a systemic level, you're ignoring the Oppenheimer quote, which is that, like, if we try and intervene with this, we're going to screw it up. So, I don't know, it sounds like a cop-out. But I think it's a great way to live your life without stressing about all the squillion things that are there to stress about, and will always be there to stress about.

Adam: [01:10:34](#) Yeah, I think -- ... Yeah, Mike, I'm sure that that resonates a little more with the way you view things, right?

Mike: [01:10:42](#) Yeah, yeah. Amen, Brother. Go ahead, Adam. You poor guy.

Adam: [01:10:48](#) I actually, I'm closer to that than I was, the sort of me connecting you to the sort of the bird analogy is kind of the way that I got there. But connecting what you said to that sort of bird analogy was kind of the way that I got there. But I'm hung up on the fact that we are no longer operating as agents in isolation, because there is a massive limbic hijacking that is taking place that we have given permission to large organizations with sociopathic objectives, right? Like shareholder yield maximization, right, sociopathic objectives to wreak havoc on our limbic system, right? So, they're playing off our outrage, shame, guilt, rage functions, that like the dopamine, primarily dopaminergic pathways to completely rewire our intuitions, our belief systems, our -- the fundamental drivers of our agency.

So, in a world that is dominated by those types of asymmetric dynamics, why should we expect the natural emergent phenomenon from individual agents operating in flow with their calling to be able to nudge the system towards converging on a solution that benefits everybody in the way that -- that manifest the destiny that benefits people in the way that they want to be benefited.

Tom: [01:12:36](#) You ever seen V for Vendetta?

Mike: [01:12:38](#) Yeah.

Adam: [01:12:39](#) I haven't.

Tom: [01:12:40](#) Go watch it. It's not a great movie, but it's a good movie.

Mike: [01:12:45](#) Philosophically, it's a very interesting movie.

Richard: [01:12:48](#) Good reference.

Tom: 01:12:49 It's a Wachowski movie, right? And I think they adapted it or something, but I always pay attention to the Wachowskis. Those guys know some shit, guys and girl.

Richard: 01:13:01 They're both girls now.

Tom: 01:13:02 Are they?

Richard: 01:13:03 They're both girls now.

Tom: 01:13:04 Oh, I didn't know that. Thank you. So, I'm probably going to ruin this for you. But okay, fine. It's about a man who is masked and you've seen it at every like -- being co-opted by every anarchist movement worldwide. You've seen the Guy Fawkes mask ..., right? But the concept that it illustrates is that the Prophet, one man telling the truth, acts as a piece of sand in the sand pile, that destabilizes something that's grown too fragile, right, as Squid Game would imply that our system currently has, right. And so you sit here being like, everyone's listening to the crazy demagogue on TV during V for Vendetta, and everyone thinks that everyone else is being limbically hijacked by TikTok, but we can all tell deep down that something is very, very wrong.

And all it takes sometimes is one person coming out there and telling the truth, and everyone hears the truth, and the ... collapses. And I think you guys getting on a podcast and telling your truth, you don't know where the greatest sound is going to come from. But if you're like Solzhenitsyn in the Gulag, and you come out and you're like, the one thing I'm not going to do now is lie. I'm just not going to be a part of the lie. I'm going to tell the truth. I'm going to see outside of the paradigm and talk about it. That's all you can do. And I think that I worry, worry, worry, worry a lot about the younger generation who don't have a foundation of pattern recognition to notice the limbic hijack, and I think it's sinister. And it's the kind of world the left hemisphere would build in this really crazy like emergent, like negatively emergent way.

And I do -- it makes me, like the mental health crisis amongst like, particularly teenage girls just fills me with terror and raising, you know, now I have a four-week-old girl, like, I hope this shit will resolve in 18 years or in 11 years, in seven years, however long it's going to take for her to get a crummy little hands on a smartphone. But I do believe that the power of an individual actor or a group of actors, and you know, whatever the number is, like three and a half percent of a population can catalyze a shift in the entire population, which is the number that extinction rebellion always cite.

At the bottom of Pandora's box is hope, right? And the reason why there's always hope is that, in an iterated game, cooperation always wins. Right? Nature, red in tooth and claw always loses to love, nature's final law. And you

see that's the message from Squid Game. You see it's a message from all of our art. And I don't believe that romantic nonsense. I believe that's actually the metaphysical structure of our reality. So, I'm just not that pessimistic about it. I think that route is going to be very challenging.

Adam: [01:15:57](#) Did you see the -- there was a series done by the Wall Street Journal, and then it was -- but there was a series of reports and documents that were leaked by a whistleblower at Facebook recently, right? Did you see that, are you familiar with that?

Tom: [01:16:14](#) I paid peripheral attention to it? Yeah.

Adam: [01:16:16](#) Yeah. So, what struck me about that, just to your point about an individual speaking the truth being able to change the world, right. What strikes me about that, is that this woman revealed, just some just completely damning information. But perhaps unsurprisingly, her revelations weren't carried on Facebook. They weren't carried on Twitter. They weren't carried on -- like, the most astonishing observation about this whole episode was that the truth that is inconvenient to the current status quo is not allowed to propagate.

Richard: [01:17:10](#) Propagate. Yeah, exactly.

Tom: [01:17:11](#) Well, Dan Drezner has this great book called *The Ideas Industry*, it's basically Silicon Valley has all the money so, all the TED talks are all now like techno utopianism, where we go into the singularity and the rapture and all these things. I do like that idea. But I also think this, right, which is the Zen parable of maybe, I'm sure you guys have heard that were like, ..., Yeah, yeah, yeah. You know, the farmer's son's leg breaks and everyone comes to the farmer and says that's really sad. And he says, maybe. And then the next day, they come to conscript all the soldiers for the army, and they don't take him because his leg's broken. And he just says maybe every time, right? And I think about ...

Adam: [01:17:47](#) Mike shares this parable about once a year.

Tom: [01:17:51](#) Oh, yeah? Sweet. Okay. Well, I like Mike a lot. So, maybe it has, like, we don't know where in the butterfly effect we are at any one point in time, because you can never disaggregate one thing from anyone else. That's the nature of systems. That's making the category we're talking about. So, we don't know when this is going to stop rippling. But maybe she's not the butterfly. Maybe it's Mike. Mike, maybe you're going to say something in the next 30 seconds. In fact, I'd like you to, that changes the entire world. Right? No pressure. It's like that idea that, yes, whatever she said didn't penetrate, seemingly, the veneer. But it doesn't mean that the next thing isn't going to. You know what I mean? Maybe I'm just being too optimistic and utopian about things. But I just watched the way it's operated ...

- Adam:** 01:18:44 Yes, yes, you are.
- Mike:** 01:18:46 Well, I think ...
- Adam:** 01:18:48 Categorically, yes.
- Mike:** 01:18:49 The other thing is, in the Tao and these types of things, there's no guarantee that humanity remains forever. In fact, that's not a guarantee. The elk that has the too big ... dies off to make way for the next iteration of the next animal that fills that void in the journey of life. So, we sometimes get caught up in timeframes. We want to make changes in the shorter time frame. We've had discussions about religion as an example. And when you make decisions on the basis of being in business for 2,000 years and expecting to be in business for another two or 10,000 years, depending on the religion that you're talking about, it changes the frame with which you would make decisions, right? You would do things differently in that context.
- And so the timeframe that you're thinking about the things that we are perceiving through our goggles of our reality. And then this right, that we feel we have is this conscious entity, the human kind that we think we should persist, or that the walrus should persist. No, the walrus gets too big. They all die. They get eaten by killer whales and something else takes its place. And that's actually the way it's supposed to go, that it's a long continuum of things that are evolving in the concept of life fighting the entropy of the universe.
- Tom:** 01:20:10 Well, yeah.
- Adam:** 01:20:11 You asked for the ...
- Tom:** 01:20:16 That was it. Right? That was it. Thank you, Mike.
- Adam:** 01:20:19 He's saying with the eradication of the human race, which --
- Tom:** 01:20:23 Look at another way, right? So, you know the Brian Muraresku book, *The Immortality Key*? It's going like semi-viral, and he basically talks about the Eleusinian Mysteries where all of the elites at the time were inducted into this like ergot drinking secret. Yeah, where they'd basically die before they die. So, they'd be like, all right, I've had some sort of ego death experience in psychedelia, and now I'm not afraid of death. So, I can just be a better steward of the world.
- And that plays into your point, Mike, of just basically being like, we've caused all this havoc, essentially, because we've over indexed towards safety at the cost of vitality. And the consequence of that is, is that if you ever want to live your life even better, you have to have a degree of vulnerability and vitality that as a

society we've been unwilling to embrace. So, yes, we'll have to accept the fact that maybe it's not our place to be as "successful" as we have been.

But, and I think this is a point that Schmachtenberger makes really well, Adam, is that like, regressive. Spirituality is like, just be in the moment and be like a kid and everything will be fine and bullshit. And then like enlightenment, spirituality and spiritual bypassing, just go sit on a lotus cushion and meditate yourself to enlightenment. And he's like, no human adulthood, is the ability that we have that's unique in the animal kingdom to co-create the Taoist sage, right? We can co-create and control the direction of our own evolution in a way that no other species on Earth can, because we can do it consciously in timeframes that no other species can do. Right? So, that makes it a choose your own adventure.

So, like, we don't have to be eradicated. We're probably going to have to put more slack into the system, right? Like, if you create a system that is optimizing for massive antlers, it's going to break whether we want it to or not, because that's the nature of those kinds of systems. But we do get a choice.

Phase Change

- Adam:** 01:22:17 So, talk to -- I think this is a good segue to the theme that you have been working on, spending a lot of time on, and you mentioned it earlier in this conversation about phase transition or forget the word you use ... for it. Phase change. Yeah.
- Tom:** 01:22:34 I'm not even sure I'm using it right.
- Adam:** 01:22:36 Well, yeah, go for it. Tell us what is involved with that.
- Tom:** 01:22:40 It's all what we've been talking about. Really ...
- Mike:** 01:22:43 Just to clarify, is that the boundary between order and chaos? Is that what you mean there or no?
- Tom:** 01:22:50 Yeah. We're in too much order, and ... the emergent systems all tip towards the state of greater criticality. And whilst I'm absolutely not a physicist, or even a particularly good complex systems person, the metaphor I think of is the Kung Kalahari tribesmen in Africa, where they basically dance and dance and dance and dance and dance until they get hotter and hotter and hotter and hotter and hotter and hotter and hotter. And suddenly, their heart opens, and they gain the ability to heal others, right? And I look at the world, in July, the hottest month ever, the level of interconnection of a thousand fold increase in internet traffic, everything has become stupidly interconnected in a microscopic sliver of human history. Our brains are the most complex objects in the known universe, and we've connected them to all the other brains across the entire world. Right? It doesn't even make sense. The scale and the speed with which has happened

doesn't make any sense. And that from my idiot's understanding tends to be what happens just before a phase change. But phase changes are nonlinear. It's not that we're just going to extrapolate to the dystopian sci-fi and everything getting worse, my opinion, and it's just my opinion, and I'm a literal nobody is that if you relay it back to the Iain McGilchrist book about the brain hemispheres, if his diagnosis of the problem is that we've become highly lateralized in the left hemisphere, in all the ways that we've just been talking about, the phase shift is taking us back the other way, in this very irrational shift towards an emergent evolution that reconnects us to the transcend ...

- Mike:** 01:24:15 It's the Renaissance, baby.
- Tom:** 01:24:17 It's exactly the word. It's exactly the word. Someone sent me a great piece where -- God I'm going to -- One River ...
- Richard:** 01:24:25 Peters, Eric Peters.
- Tom:** 01:24:27 Eric Peters. Yeah, thank you. Thank you, Richard. So, Eric Peters wrote a great piece with exactly the same thesis as mine. So, obviously, I'm not an original person, basically talking about how this is an *artistic renaissance*. But all of these terms like art, poetry, creativity, they're one very easily denigrated our society to your point, Mike about IQ being the be all and end all. But also, I think a lot of people, particularly, in our line work, look at that and think, well, I'm not creative. I certainly would have done. But it's about capturing that individual creativity, but the rub is that capturing that individual creativity involves relinquishing whatever the left hemisphere deems to be important. And that is safety, security, linearity, logic, language, all these different things. **But if we're pivoting the world's going to unfold in that way.**
- There's a good, there's a good guy to read, Duncan Austin, he wrote a PDF called can economics understand what ecology says. And, Adam, it's exactly your point about the reductionism. We've gotten to this point of dissecting everything, and now we need to build it back up, and the process of building it back up is going to require magic.
- Adam:** 01:25:35 Okay. Just to tie it back to, I mean, our audience ... primarily sort of financial. So, for the thesis of phase change, which presumably is volatile, it's chaotic, it requires risk-taking.
- Mike:** 01:25:57 We're talking about disequilibrium, I think, right? Is that like pretty substantial disequilibrium from one state to the next state?
- Tom:** 01:26:04 Yes.
- Mike:** 01:26:05 Okay.

- Adam:** 01:26:07 So, what's the investment thesis for a world that is on the cusp of a phase change in the way that you define it?
- Tom:** 01:26:22 I think, I mean, this is going to be the work of the next five years, 10 years of my life is finding ways to capitalize on it. I think there's two different frameworks to look at. I think it's like, looking at the continuation of all those emergent things that I talked about, like, at the moment, there's symptoms, so I wouldn't recommend any of them as like investment ideas, but like NFT, crypto, blockchain, ESG, political intervention towards more fiscal stimulus. If the phase change idea is right, you're going to have more stimulus all over the world, because electorates are just going to increasingly demand it. So, you have all of these things that look irrational, but are going to become increasingly prevalent. And I think increasingly mainstream, as people understand afterwards, what it actually all meant, which is in hindsight, it always looks obvious.
- So, I'd say that, like, that's one thing to look at. I think, as I said earlier, the ecosystems that are coming out of the platforms are probably the most interesting bridges. Because as the platforms get threatened, like the big internet monoliths, they can either double down on crushing their providers, or they can make them healthier. And I think making them healthier is an emergent system where all these third party ecosystems or whatever it is, are going to benefit very, very significantly. So, finding ways to invest in those kinds of areas, I think, is very important. Unfortunately, everything I've looked at pretty much is like \$5 million seed, or an NFT or something a little bit dumb.
- I think the way to look at it in a much more investable framework is what I've been thinking about for the last four months, which is network flows, which is that basically we created these network flows. And now everything that's a bottleneck is going to blow up. Supply chain, obviously, right. But the ...
- Adam:** 01:28:05 What does it mean to blow up? What does that mean?
- Tom:** 01:28:07 Well look at the Port of LA that's what it means, right? Is that if you can forecast where the bottleneck is, you're going to make or lose a fortune. And then the second or third derivatives, so like, best ...
- Mike:** 01:28:18 LME, metals exchanges, also having some challenges.
- Tom:** 01:28:20 Oh, yeah? That's interesting.
- Mike:** 01:28:23 Copper. Yeah, copper, in the storage there's less than one year's use of China, using copper. That's all the storage there is of copper.
- Adam:** 01:28:36 -- risk of not being able to deliver on spot copper. Yeah.

- Tom:** **01:28:38** Oh, my Lord. So, everyone's talking about the same thing in terms of industrial metals for the batteries, right. Again, I'm not an expert, but it seems like a sensible thing.
- Mike:** **01:28:47** Lithium, all that. Yeah. Sorry to disrupt your thought .
- Tom:** **01:28:50** No, no, no, I got no good ideas on this so I need you guys. But the best call I've probably ever seen one-off in least 10-15 years was Dan Wang at Gavekal, where he basically spent the whole pandemic reading a squillion pages of turgid propaganda, from the CCP and was like, they've realized consumer internet is not a good allocation of financial or personal capital. So, it's like there -- and coupled with trade sanctions and the breakdown of the global supply chain, they are basically going to embark upon a Manhattan Project for their own domestic iron industry. And you're like, huh, and this was before any of the regulatory crackdown on anything. And ...
- Adam:** **01:29:34** Yeah, it was like, 2019. Yeah.
- Tom:** **01:29:36** Yeah, this guy did the work and you got the call. But like the idea that China is now going to build itself out in semis, in iron industry and all of the all of the seriously geopolitical, important stuff that Brits and Americans regard as kind of like too dirty work. Like, I think that's a theme that can run and run for a really long time. And obviously, ... that the amount of committed capital to that is just like crazy absurd. It's just I can't square the paradox of energy intensity and the amount of investment required to get us there. And most people seem to bridge that through industrial metals for batteries.
- Richard:** **01:30:13** I think that is like a decade, right, because the Belt and Road Initiative, maybe not a decade, but the Belt and Road has been around for at least five years, I'm guessing and their presence in Africa, particularly in the Congo, but in some other countries there are rich and rare earth metals, speaks a lot about how they're thinking. And I think this speaks a lot about how the West has been, like goes into your cycles, electoral cycles, particularly in the US, whereas they're thinking in decades. They're thinking about the century of shame, or whatever the terminology is, and they're actually thinking about replaying this long, long game, but we're going to get back on everyone that's wronged us. So, they've set the pieces on the table and the West has -- it's taken a pandemic for the West to wake up and to realize, and I think the term that you use there, Manhattan Project is very precise. I mean, we've offline, amongst ourselves, have described it in such terms, because it really is a project of this magnitude that they're engaging. The teenager's not allowed to play video games for more than two hours, like they're reorienting their human capital towards the most productive, or at least what they perceive to be the most productive use of their time towards this greater project of Chinese hegemony.

- Tom:** 01:31:38 And its will. They have the will. Whether or not it's directed in the right direction, they have the will, and they've demonstrated it.
- Mike:** 01:31:44 Now, how does the median voter concept manifest in that? Does it or ...
- Tom:** 01:31:49 Mike, it's exactly there, which is basically so, Papage had the same call as Dan Wang just not as well, which is that basically, it's a really interesting idea, and I'm not sure it's true, and so don't quote me on it. But like, that part of the reason the Chinese monitor the internet so much is not necessarily because they're looking for Winnie the Pooh pictures of It's because they really, really have an incredibly nuanced understanding of what their population wants. They don't have voters. But you know, 50% of the Chinese population is now middle class. Everything that gets in the way of that middle class' prosperity is going to get crushed.
- And so they probably looked on social media, and they were like, these property developers making out like bandits, done. These education systems that are a little bit fraudulent, done. Look how much time people are spending on TikTok, done, look at these oligarchs who are making out, done. And they probably crushed all these systems because they saw a groundswell and got ahead of it. So, they're not median voters, but it is median preferences, which are manifesting in the US in a completely different way, which is, we want more slack. So, I think that's a great question, and I think that sort of is a theme that is potentially going to run and run.
- Adam:** 01:32:59 So, your thesis, admittedly, you caveat it as being sort of a theory, but if I read it, right, it's, these policies are reactionary, not strategic.
- Tom:** 01:33:12 Yeah. Well, who knows, right? Like, as Richard says, the Chinese are probably thinking about things, a few stages ahead, relative to people on shorter electoral cycles. But the idea is, is that you're either going to be smart and preemptive, or you're going to get punished. And Clocktower have done amazingly comprehensive work on this, looking at polls, and looking at shifts in governments towards their Buenos Aires consensus where basically, they were like, whatever comes out of a politician's mouth, they've now realized this is what's needed. And he thought it was happening before the pandemic, but the pandemic just provided air cover.
- And Russell Napier has been on this as well, because he's tied into an inflationist where he's basically been like, politicians now have the money tree, it's never happened, at least not in recent history, right? Politicians are not going to give up the money tree. Because why would you do that, right? And so you have this situation where everyone can get very worked up about fiscal stimulus and maybe it gets redirected in different ways. But whoever takes the money away, good luck, right? Like, maybe in America, that'll work because people do have

still have this sort of bootstrap ideology. But I think in sort of the developed world, that's a trend that's not going away.

Adam: 01:34:23

So, why are we seeing the same emergent preferences in western democracies, right? I mean, just getting back to the idea that the CCP is monitoring the internet, they are finding the core themes that are working people up, that people are getting angry about or have anxiety about or what have you and they're acting to move the system towards a direction that is closer to the preferences of the middle class. Right?

So, why -- Do you think the middle class in western democracies is having the same perceptions? And if so, what does that mean for policy in western democracies going forward? Should we expect similar actions by governments against say big tech and in incentivizing development in certain industries that are deemed both strategic and in service to the middle class? And if not, then why are voters in western democracies not having the same experience, the same anxieties and expressing the same preferences?

Tom: 01:35:46

I love the question, if this were true, what would happen? Right? If this were true, what would be happening? And if the median voter theory was right, what would be happening? If you're in a two year, four year electoral cycle, right, so you can't be like Manhattan Project, the green tech, although, obviously, in the US that sort of happening,

Adam: 01:36:09

They tried.

Tom: 01:36:09

They're trying right? And it might happen, right? And I don't want to denigrate the efforts of the American political system, because that's like a cheap shot, right? And the British one, right, it's just too easy. So, what do you do? You just give people a huge amount of money while you sort the rest of the problems. And that's what's happened. Right? You don't do that in China, because that's not the way that you roll, right?

But like, with the tools that you have at your disposal, like the idea of just cutting Americans a check suddenly became possible during the pandemic. And now that's continued. Right? And so you're saying that you're asking me like, why hasn't it happened? I'm saying it's happened. The only question is, is that how long is it here to stay for? And if this argument is right, in one form or another, it's going to stay for a very long time.

Now, the smartest way for it to happen would be for it to be sustained reshoring, right, massive investment credits for people in middle America to rebuild. Indianapolis, the home state of KCP, right? Like, one of the top reshoring destinations in the whole US, right, you could make the US a manufacturing hub. Again, and I think there's still very much the possibility that could happen on a

long enough timeframe. So, it's possible, but at the moment, before it's possible, just give people money. And that seems to be what's happening.

Mike: **01:37:21** Yeah. I think Dave ... makes a good point too that I think is where my mind went, Adam, when you said the preferences, why are they the same? I mean, they're very distinctly different demographic pyramids with different age cohort makeups, and wealth cohort makeups, and religious backgrounds and sort of Western versus Eastern thinking. So, I could certainly see that there would be different preferences manifesting. And you would say that, even if you went back into the US and said, okay, what was manifesting in 1940 versus what was manifesting in Europe, or wherever. So, certainly, there –

Adam: **01:38:01** ... thinking through the prism of individuality and in the east, they're viewing through the prism of collectivism, right? Or, at least that is a dimension through which there's a difference.

Mike: **01:38:11** Yeah, and we couldn't begin to postulate all the dimensions that would be professing and all that. And so I think that that's where my mind went on the variance. What was my point now? Dammit, hate when that happens. Hey, back over to you guys.

Global Flows

Tom: **01:38:32** There is an interesting tangent, you raise, Mike, which I'm reading Parag Khanna's new book, *Move at the Moment*. It's a really comprehensive piece of work. And he's good at global flows. Right? So, his current book is about what's happening in demography, and how is the world flowing? It's a super interesting idea, because it will have investment implications down the line. And it's basically that if you're rich, educated, and mostly Asian, pretty much, but basically rich and educated, you'll go anywhere you like. You'll go to the city, you'll go where the action is, this whole work from home thing probably doesn't last for very long, particularly not in the east, right.

So, basically, you're going to have this continued massive, kind of assorted meeting, where everyone just goes within -- China has more internal migrants than the rest of the world has migrants. I love that stat, right? Like, there's just this crazy amount of mobility that's happening, stopped only by nation states, right? The nation states put up these semi-artificial barriers and stopped people from coming in. And at the moment, you're having more people, I think, in 10 years, you're going to have more people hitting adult working age in Sub-Saharan Africa than the rest of the world combined. And you have no infrastructure for them to grow into because we solved child mortality without any sort of solution for that, right.

And so you're basically going to have this mass migration, coming at the very high end, but also on the lowest end, at exactly the same time as rural America and rural developed societies pretty much across the board are going to get hollowed out, like really badly hollowed out if they haven't already been becoming sort of opioid paradises, and industrial husks, right? And the moment that happens, I'm generalizing, they tend to become more hostile to immigration. Because it becomes a Squid Game, right, it becomes a zero sum game. And people don't like other people coming in and taking the pie.

So, you're going to have this fascinating paradox for the next 10 years where basically, all these areas that need migrants, most, in many cases become incredibly hostile to them. And it's countries that are going to be able to work out how to assimilate migrants, and how to bring in talent at the high and the low end that are going to do really, really well. But in the interim, you're probably going to have a rightward shift, particularly in places in Europe, where they just don't want to bring anyone else in as things dwindle, like Bulgaria has the fastest shrinking population in the world.

Adam: **01:40:47**

Interesting, yeah. I want to come back to supply chains, because they actually, I was asked by a few people on Twitter, right, how do we see the evolution of these bottlenecks? What happens when they get unlocked? That sort of thing, right. And what occurred to me is I was sort of thinking through that is, this is sort of the essential crux of queuing theory which Chris Schindler brought up during our conversation a few months ago, in the context of kind of trend following any emergence in price, right.

But what we've seen over the last several months, right, as we've tried to sort of reopen in this lurching kind of staggered way, is that you've got the supply chain bottlenecks, you don't quite know where there's going to be bottlenecks at what time, you don't know what the supply dynamics are, you don't quite know what interruptions to the demand dynamics are, etc. But there are these bottlenecks. And the bottlenecks cause not just a small shift in price, but a massive explosion in price. Like, we've seen this in so many different, especially sort of commodities over the last six to nine months, right? Whether it's coal, or natural gas in Europe, or petroleum products in Europe, or ... petroleum products everywhere, obviously, copper currently in Europe, a bunch of like magnesium, a bunch of less well-known metals, etc.

And the lesson is that, well, a lesson is that it doesn't take very much supply demand imbalance to change the price dynamics by orders of magnitude, right? That relationships are so profoundly ... nonlinear, right? And this to me, is almost a perfect argument for why you need a sleeve of something like trend following the portfolio, right. And especially trend following on commodities, because commodities are the most vulnerable to these types of queuing effects, right,

these dislocations that cause these massive phase transitions in price, right? So, and just at a slightly higher level, any type of period where the level of uncertainty is very high. There's a lot of pressure built up in the system, maybe it's because of interconnectedness that has led to fragility.

There's a lack of slack at the moment. And because there's a lack of slack, and there's fragility, and there's so many nodes in the network, you get a lot of opportunity for dislocations and phase transitions in prices, you need diversity of exposures. And you need the ability to take advantage of these types of explosive price dynamics in the different areas where they might occur, right? And so a way that investors may either hedge risks of these types of episodes, or maybe profit or take advantage of these types of episodes, is to allocate a little bit more to trend following type strategies.

Tom: [01:44:33](#) Yeah, I mean, I'm going to leave that to you as someone who's probably forgotten more than I'll ever understand about it. One thing I'll say that I find super interesting, a lot of stuff comes in from my network because I'm super, super fortunate in that way. And someone who's come in a couple of times, literally in the last few weeks is David Dredge. I don't know if you guys know him. He runs a company called, I think, Convex Strategies out of Singapore. And he's written two papers recently,...

Adam: [01:44:59](#) Oh, he writes the Drudge Report, right? Yeah.

Tom: [01:45:01](#) I don't know. I don't think so.

Mike: [01:45:02](#) No, I think that's -- isn't that ... It might be. ... I thought of the Drudge Report too, but ...

Tom: [01:45:10](#) But my point, listened to his last two monthly's that I probably understood less than 50% of because there was a lot of fractal stuff in there. But what I did understand of it, he went on the podcast on Macro Hive that got me to read Per Bak's book, *How Nature Works* that I probably understood 30% of what it's all about, fractal scaling, right? And the idea being that basically, we've hit a very fragile part of the sand pile. So, we can expect shit to get weird on a very regular basis. And the reason why I love the supply chain situation so much is because it could not be more perfect for what we -- for everything that we've just been talking about. It's just this illustration in front of us of butterfly effects of cascades, everything, right? So, like, implementation is always like crazy. But I think about distribution of risk within a portfolio is going to have to be very, very different to the way it used to be in the past, because there's no such thing as a standard deviation anymore.

But also, like I love the idea that if you're an unconstrained family office, the best thing to do is wait for like a French bank, or someone that has no idea what they're doing, not that French banks don't know what they're doing, but just for example, to sell you something with like an inappropriate notional, and like really massive payoffs, where someone on the selling end doesn't understand what the -- or just doesn't care what the incentives are in terms of their misalignment. And like, I like that idea in terms of like finding something that operates on a different timescale to the one that you're working on, where -- like an Ackman-esque 21 million for a 2.7 billion payoff, or whatever it is.

Like, assuming you've got someone on your team that's smart enough to be able to price and work out when you are actually being sold something mispriced, which is the world's biggest assumption, that seems to me like an interesting way to look at the world. I'm just sure that there are people with millions of magnitude more intelligence than me looking at that. But, like, One River was saying CTAs, as well as the way to play the current trend.

Adam: 01:47:12

Yeah. Well, I mean, there's this macro sort of asymmetric payoffs, where you're trying to identify where there may be explosive dynamics in the future and position for those explosive dynamics. Right? And so that's sort of trying to decipher complex systems. Right? It's trying to attach a narrative and examine, play out the branching, the tree of possibilities, and then examine where some of the bottlenecks might occur. And then where there might be some explosive reactions there.

And I think there's a role for that, right? And there's also a role and I think this is more consistent with a lot of what you write about, which is the idea that complex, dynamic systems can't be controlled, and they can't be effective in forecast, at least not on timeframes that most investors operate on, right, which is sort of six months, a year, two years, etc., right, or 10 years. And what's interesting about trend following is like as a complement to those types of active or macro kind of convex positioning strategies, is that the price will tell you when there's a dislocation, and that you just wait for it's -- you're just waiting and adapting to what the system is telling you is happening right now, rather than trying to anticipate what the system will do, right, what the emergent dynamics will be.

Tom: 01:48:42

Totally, yeah. I think that -- Sorry, were you still going? I think the one thing you can do there is work out where the doors are, and how big they are. Right? You can never know where the system's going to go. But like I listened to two good podcasts recently, one by Dennis Lynch at Counterpoint. And he's like, all well, not all. He's like a great deal of our money has been made by misclassifications, right, that basically stuff that it was a tech company was categorized as stable, and was being covered by the wrong analysts. And I saw that a bunch in my

career as well. We're basically just like to the left hemisphere, right hemisphere dichotomy, Richard, something was flowing in the wrong category.

And something that, I'm sure you guys know Dan McMurtrie at *Tyro*. Something he's talked about a lot that I think is very smart is the idea of constraint arbitrage. That basically, you find a company that is un-investable and unownable by a really big cohort of investors, because one of the few remaining constraints in the market is style buckets, right? And these guys have these really strict mandates in a world that's flowing faster than it's ever flown before.

And so they won't take the career risk because of their market cap or because of the categorization or because of the management team or any of those things. And if you can work out where there's a really big constraint that's about to be removed, that's probably better than fundamental analysis in a lot of situations. Because ...

Richard: 01:50:00 ESG and energy.

Mike: 01:50:02 Close, yeah.

Richard: 01:50:03 It is a prime example of recent quarters.

Mike: 01:50:07 ... corrupt. Absolutely.

Tom: 01:50:08 Yeah.

Adam: 01:50:10 Mike, you may remember your story of making a lot of money when CalPERS and a lot of the major pension plans were forced to divest of tobacco stocks. Right? And then it -- Anyways, you go ahead and tell it, but that always -- I remember ...

Mike: 01:50:26 Yeah, I mean, it's a classic scenario where the last seller sold in a dynamic where tobacco stocks were out of favor in the late 90s with all of the lawsuits and whatnot. And there was a movement, probably not dissimilar to the movement against petroleum and fossil fuels over the last couple of years, leads to a point where the last seller who's going to sell sells, and thus there's only buying. And this is the buying and selling dynamics. Sometimes it's the movie theater. Somebody yells fire, everyone's getting out. And sometimes it's everybody's getting in, and that the demand is so big that you've got the right tail and left tail dynamics that are disequilibrium opportunities. But you know, you had a 9% yield on Philip Morris, something like that, and nobody wanted it. I kind of was like, well, this is definitely a winning trade, because nobody wants it. And you know, it took time. But that probably was a little bit ahead of price.

So, in the other example, Adam, you're suggesting, like you just -- you look at this. I think it's interesting. I think a door is as we move from fossil fuels to

electrons, how do we produce electrons and the electrons become the primary, if the link to electrons and cryptocurrency and the blockchain is something that grows. So, now we have electrons being sort of the currency, it's not a petro dollar, it's an electron dollar. And in that context, you layer on top of the ESG, it's hard not to make a case for nuclear becoming a major source of electrons, because it meets a whole bunch of these dynamics.

And at the same time, we had the Fukushima ionization of sort of the demonization of that type of energy creation, leading to a set of dynamics that, to me, look very fragile at the moment, almost tobacco-esque 1999, if you will. So, there's a whole bunch of layers there of a tapestry or gestalt of different ideas that come together in my mind that are very interesting. So, if we're going to speculate on where the doors could be that are interesting, I think that's something that is something I think has got some potential at this moment. But you're right, I don't know. Maybe that'll happen, maybe it won't. But the tinder's dry.

Adam: **01:53:02** That's the Don Cox analogy, right, of the best opportunities lie where those who know it best love at least because they've been disappointed most. Right? And uranium and nuclear, right, I mean, we're no longer at the sort of trough where everybody has abandoned nuclear, but we're just at the beginning of the revitalization of the nuclear sector. There's been no investment in uranium mining for, you know, basically the 10 years since Fukushima, everyone had sort of abandoned it. And this may be an opportunity, we may see some sort of queuing theory type bottlenecks ...

Mike: **01:53:37** Oh, yeah. And the production of the yellowcake has been also disrupted by the virus. And there was a number of shutdowns at the mine due to some of the COVID issues during the pandemic. So, they had full shutdowns of production at times, or not -- partial shutdowns anyway, in certain areas of mining. So, there's all kinds of fun stuff that's occurring in that area that were -- anyway, for what it's worth.

Adam: **01:54:05** Yep, absolutely. Anyway, we are sneaking up two hours here, Tom. You've been extraordinarily generous with your time. Thank you so much. You've continued to maintain fantastic energy throughout. So, it's been a lot of fun. Where can everyone find you?

Tom: **01:54:23** The KCPGroup.com, where you can sign up for my twice monthly writings and ramblings. I'm going to do an absolutely insane one next Saturday. And I'm going to go back to normal where I'm going to talk about flows. Hit me up if you've got any good ideas on these flows and bottlenecks. It's something I'm going to be spending the next couple of years on. So, if you're listening to this, ping it over. I'm also always looking for good stuff. And I've built, as I said, an incredible

network of contributors and friends, always open for a Zoom call like this with people to just chat things over.

And I'm always looking for interesting speakers. I do a speaker series every whenever. We've got Lia DiBello, who's got an incredible thesis on accelerated learning and business expertise that's coming on November the 11th. And then fingers crossed I got Iain McGilchrist, the guy that wrote *The Master and His Emissary*. Yeah, best book I've ever read. He's coming on early December. But between now and then he's releasing a 1,400 page book which I can't obviously not read. So, I'm probably going to have my child a metaphorical orphan until that point.

- Mike:** [01:55:32](#) And so they find you, where, at Tom where?
- Tom:** [01:55:37](#) @ Tom_MorganKCP on Twitter, and the KCPGroup.com to sign up for the distribution.
- Mike:** [01:55:44](#) And if they sign up on the email distribution, they get the newsletter and alerted when you're having the speaking engagements and things like that?
- Tom:** [01:55:49](#) Correct, correct.
- Mike:** [01:55:50](#) Perfect.
- Tom:** [01:55:50](#) Yeah.
- Richard:** [01:55:51](#) This was awesome, Tom. Exceeded expectations. And really appreciate your time today.
- Mike:** [01:55:57](#) Yeah. The comments were un forego. Thank you very much for taking the time with us, and we look forward to having you back.
- Adam:** [01:56:02](#) Thanks so much to everyone who participated and asked questions and made great insightful comments. And thanks in advance for clicking the Like button and for sharing this content if you feel it's worthwhile.
- Mike:** [01:56:13](#) Oh, yeah. Share it un fuego.
- Richard:** [01:56:16](#) Have a good weekend all. Thanks.
- Tom:** [01:56:19](#) Thanks, everyone.
- Adam:** [01:56:20](#) Thank you. See you.