

Alex Danko Transcript

Jim: [00:00:03](#) Well, hello everyone. It's Jim O'Shaughnessy with my colleague, Jamie Catherwood for another episode of Infinite Loops. And today we have one of our favorite guests, wouldn't you say, Jamie? Alex Danko.

Jamie: [00:00:16](#) Definitely.

Jim: [00:00:17](#) Who is a real bigwig. I asked him whether he was chief cook and bottle washer up at Spotify in Toronto. I said Spotify.

Alex: [00:00:27](#) You said Spotify.

Jim: [00:00:28](#) Fuck it. Let's start over again.

Alex: [00:00:30](#) Same company, right?

Jim: [00:00:32](#) We'll do it live. We'll do it live. [crosstalk 00:00:37].

Alex: [00:00:37](#) One second while I'm updating my Twitter handle to chief cook and bottle washer at Spotify.

Jim: [00:00:43](#) I love it. I love it.

Alex: [00:00:43](#) Stockholm.

Jim: [00:00:45](#) So that actually is one of my favorite things to watch on YouTube. We'll do it live. I fucking love that.

Alex: [00:00:52](#) It's so good. It's such a good quote.

Jim: [00:00:54](#) We're going to start again.

Alex: [00:00:55](#) We're going to start again? Okay.

Jim: [00:00:56](#) Yeah. Well, hello, everyone. It's Jim O'Shaughnessy along with my colleague, Jamie Catherwood, and with another episode of Infinite Loops. Today, one of our favorite guests and a repeat guest at that, Alex Danko, who is the chief cook and bottle washer at Shopify.

Alex: [00:01:18](#) Not Spotify.

Jim: [00:01:19](#) Not Spotify. And actually, really, you're now a bigwig in the merchant group because you've recently split. And, this I love,

you are the executive at that firm in charge of cryptocurrency.
Wow!

- Alex: [00:01:35](#) Is this where I have to throw in the disclaimer about whether executive having to be in our material disclosure forms for investors, that there's somebody new with this title of executive. Oh, it was on this guy, Jim's, podcast. Shopify has to disclose this now.
- Jim: [00:01:48](#) That's what I love about it is, I set you up and you immediately understand that I've set you up.
- Alex: [00:01:53](#) What is being an executive really, if not having some vague, but looming liability over anything that you happen to say in stupid conversation, being held over you by the SEC?
- Jim: [00:02:02](#) Exactly. Exactly.
- Alex: [00:02:04](#) This really is the Matt Levine theory of everything is securities fraud put into practice. Because now by having labeled me an executive on your podcast you now have the ability to blackmail me over literally anything I say or do for the rest of my life.
- Jim: [00:02:18](#) [crosstalk 00:02:18].
- Alex: [00:02:18](#) Because you can threaten to take my non-executive status to the SEC and say shareholders were misled. Shareholders were led to believe, in real time, on the air, that Alex Danko, this guy, an executive at Shopify, said such and such bullshit. This is securities fraud.
- Jim: [00:02:34](#) Because prominent market personality, Jim O'Shaughnessy-
- Alex: [00:02:40](#) Prominent Twitter personality and gif master, Jim O'Shaughnessy set me up.
- Jim: [00:02:44](#) I mean, it doesn't get much better than that.
- Alex: [00:02:47](#) Okay. So we have our intro. Thanks for having me on again, Jim. It's really great to be back.
- Jim: [00:02:51](#) I actually, no kidding, asked my wife. She was like, "You seem pretty happy." And I went, "I get to talk with Alex today." And she's like, "Oh, God. Okay, here we go again." But that is a nice segue to what we talked about before going on the air, which is we got to talk, we got to talk, about the newest ETF that our

friend Mr. Portnoy is sponsoring. And it's like words fail me. I know they don't fail you. Fill us in.

- Alex: [00:03:25](#) I wanted to just play his, can you call it a prospectus? Is that the technical term for what this is? I wanted to play the video of Dave Portnoy announcing the new Barstool supports ETF. It's B-U-Z-Z. Buzz is the-
- Jim: [00:03:39](#) [crosstalk 00:03:39]. It's incredible.
- Alex: [00:03:40](#) It's just perfect. And it's like, well, was there ever any doubt that this is where this is going to end up? Portnoy ends up turning his stock pumping platform into the ability to turn it into the white collar version of Barstool Sports, which is selling ETFs. Truly the man is smart. He's made the jump. He made the jump from blue collar scamming to white collar scamming remarkably quickly.
- Jim: [00:04:06](#) It's very impressive, actually.
- Alex: [00:04:07](#) That's right.
- Jim: [00:04:08](#) And I have said on a number of occasions that, whatever your thoughts about him, the guy is a meme master as well as-
- Alex: [00:04:18](#) [crosstalk 00:04:18].
- Jim: [00:04:18](#) Yeah. I mean, he's an amazing communicator and also he uses weapons grade persuasion in every... I literally have looked at his things where he does the press conference or whatever, and stopped them and taken notes because, man, he's good.
- Alex: [00:04:37](#) He's the Boston version of [inaudible 00:04:40].
- Jim: [00:04:39](#) Yeah. Yeah.
- Alex: [00:04:41](#) He, unfortunately, is the Boston [inaudible 00:04:42].
- Jim: [00:04:47](#) So it's like, I was saying, God, am I going to have to put top and then reap myself on Twitter? Probably.
- Alex: [00:04:56](#) Have you gone back and looked at every time that you've called Top, especially at ramp, and retroactively issued an apology.
- Jim: [00:05:06](#) Never, ever. Never apologize.

Alex: [00:05:08](#) That's protocol, right? If you have to go back and issue an apology later when you're wrong.

Jim: [00:05:12](#) That's right. That is bad. Just don't apologize-

Alex: [00:05:15](#) I'm sorry. I was wrong, but this is top.

Jim: [00:05:17](#) Yes. Yeah, exactly. I was early [crosstalk 00:05:20].

Alex: [00:05:19](#) But seriously. How could this not be top?

Jim: [00:05:24](#) Well, we're not even at base camp of peak crazy, in my opinion. I mean, it's just, there's so many different underlying things going on that are so atypical.

Alex: [00:05:34](#) We were talking about our friend Howard Lindzen before hitting record, and I remember for a little while his Twitter handle was Tiny Bubbles.

Jim: [00:05:40](#) Yes.

Alex: [00:05:41](#) Which I actually thought was really smart, is this idea of like, look, bubbles always exist. Maybe what's happening because of the internet is just the critical amount of size and narrative and density that needs to exist for a bubble to take place is just smaller. So we can have many more, more localized, crazy instances of people having a good time and going wild. Is that what's going on?

Jim: [00:06:06](#) I think so. I think it's part of it. And another thing that you said you wanted to talk about, which I instantly said, yeah, let's talk about that, is this idea that everything is now not a thing. It's a scene, right? Right. So it's Silicon Valley is not Silicon Valley with new technologies. It's a scene.

Alex: [00:06:23](#) That's right.

Jim: [00:06:23](#) And everything is a scene. It seems to me, I was really re-reading some of my notes on [Bernays 00:06:30], who I have repeatedly called a fucker because he was an awful person, the founder of propaganda, and then... PR first, then propaganda. And he got away without people going, "Hey, wait a minute." You know? So, but this idea that scenes are shaped and are almost by definition false, it's like a PR event. I don't know how many you've been to, but they are always, they drive me insane.

Alex: [00:07:06](#) Let's define for the show first, before we get into this topic, because this is a good one. What do we mean by a scene? What is a scene? And I think I first started thinking about this, not in the context of investing or in business or anything, but somewhere buried in my past, I was in a ska band. I was a musician in a ska band. We went on tour for a couple of years. We were on a record label. And so we were a part of the local ska scene in Montreal, which was, as you can imagine, all the losers. It was a really great time. And it's really interesting being in a band and getting to learn how the scene works. Because it is so intricate and multi-layer, different people trying to show off in different ways.

And it's like, the people in the bottom of the scene are always trying to move up into the top half and the people at the top half or trying to simultaneously lord over being in the top half, but also try to break away and disassociate themselves with the people in the bottom half of the scene. It's all very interesting. And once you learn how one of these scenes work, you start to see them just really, absolutely everywhere, because these are kind of fundamentals of human behavior type of stuff. People want to belong to groups unless you're in the top half of the group, in which case you simultaneously want to lord over the group, but also not be in the group anymore because it's bringing you down.

Jim: [00:08:17](#) Exactly. And your most recent piece is a good one to kind of explore this through. It's non-fungible tokens and a CBGB. So CBGB guys was the preeminent kind of club scene in Manhattan that started in 1973, but a couple of things that are interesting about it. So CBGB stands for country, bluegrass, blues and gormand? I don't know. But basically none of those made it famous.

Alex: [00:08:55](#) I thought it was country bluegrass blues.

Jim: [00:08:57](#) No, no, I looked it up actually.

Alex: [00:09:00](#) Oh, really?

Jim: [00:09:00](#) Yeah. And there was a third one.

Alex: [00:09:02](#) What?

Jim: [00:09:03](#) Gormandizer. So you know Gormand?

Alex: [00:09:05](#) Yeah.

Jim: [00:09:06](#) So I never knew that. I had a chance to go there and didn't take it and I really regret it. But what's interesting is, so founded for that, famous for Ramones, Blondie, Talking Heads, Patty Smith. So it was a great scene, but you made a really interesting comment that I want you to talk about a little bit, which is the floor plan of CBGBs. Tell us about it.

Alex: [00:09:35](#) Yeah. So David Byrne from the Talking Heads has a book called How Music Works. It's an interesting book. It should more accurately be titled How My Music Works because it is by no means a comprehensive discussion about how music works generally, nor how to be a musician in today's world. Notably this is like a 400 page book or something which mentions selling merch zero times, which is how you make money as a musician, to be clear. That is how you make money is selling t-shirts. And so this is David Byrne talking about how he thinks music works, and David Byrne finds that kind of stuff distasteful or whatever. So he doesn't feel that he needs to mention it. So anyway, this is why I say, this is really how my music works, not how music works generally. But nonetheless, it's very interesting book because this is David Byrne talking all about... he's talking about how to create art and a specific kind of art that is the art house music that was the Talking Heads coming out of [inaudible 00:10:34], coming out with this new and interesting type of music that found its stride in the eighties, and specifically found its stride in places like CBGBs, that are these very physical, grimy, focal point locations for a certain kind of magic to come together and people to realize that they're interested in something.

So he goes into a little bit of detail in one of... there's one chapter that is, I think, explicitly called How to Create a Scene that goes into detail about the type of venues that you need and the specific kinds of gathering places that have to exist and the rules around them that are conducive to scenes actually forming. And he goes into some detail around like, the floor plan really needs to look like this and not like that. He talks about how they did this remodel of CBGBs at one point, and it changed the floor plan. He's like it ruined everything because the people who were coming in, who weren't really interested in the band had to watch the band and so they left; whereas before you could hang out in the back with the pool table, and that was essential because you were still next to the band. So he goes on.

Like any master of his craft. It's fascinating to hear masters of a craft talk about the micro details of what matter, just with absolute proficiency. This is what's great about this book is you

hear David Byrne talking about, down to the mechanics of how you circulate around a room like that. And if you've ever been to these venues like this, like these clubs, these are these long and narrow buildings where you go in the front door and the coat check is on one side and there's a closet where you get tickets. And then you sort of squeeze by, and then the bar's on the right hand side, and there's a stage on the left-hand side. And you can squeeze through that and then get to the back where there's a pool table and then there's stairs to go down to the bathrooms.

And then, also, there's a door to the back in the alley and there's a door to the front, which is how you go outside now to go smoke and stuff. So this is the basic setup of these venues, right? And so he's talking about the importance of the physical layout of the venue, to how the social dynamics of the scenes get created, and specifically how there's a critical kind of layout that leads to the good kind of mixing that is, new bands being able to play and people be able to pay just enough attention to them because again, of the floor plan being critical, that you're able to get new music out there in a way that is just imposing enough, but not too imposing that people will not want you there. Right?

So there's all these tiny details about what it takes to create these little incubator environments of cool new culture and cool new things. So this is obviously fascinating to me for a number of reasons. One, as a former musician who has played in a lot of these types of clubs and spent a lot of time in a lot of these back rooms and just sort of hanging out generally with other musicians, you get a sense for when scenes are working well. And generally how do people simultaneously have a good time, but also be striving for something, is essential element of these scenes. There has to be a concept of forward progress, navigating your way through the scene, both in terms of growing your band and your presence and your music, but also, it's not a zero sum game at all, in the sense that overall you are trying to grow everything.

But [inaudible 00:13:51], status absolutely is a zero sum game, right? You are trying to get on top of your particular scene, right? That is what everybody is trying to do. And there is some degree of jostling and jockeying and statusing that goes on between all these bands. Because you don't really know who's going to make it big. You never totally know.

I'll tell you one quick story. This is a fun story. When my old band was on tour once, we were playing a show in Toronto. It

was at a venue called the Opera House, and we were opening for a psychobilly band called The Creep Show that were good friends of ours. This is a great band. We played with them a bunch. And their lead singer Sarah was also in this tiny, crappy band that used to open for us on a semi-regular basis or something called Walk Off the Earth.

And this is a band where it was like, they'd opened for us recently. We sort of knew them, but this is a band we didn't pay any attention to. She had this bigger band The Creep Show that we were playing with. And then over the course of that night, around maybe 7:00 PM, was where Walk Off the Earth's viral video, you know, the one with five of them playing the one guitar, that was the night it went viral.

- Jim: [00:15:00](#) Huh.
- Alex: [00:15:01](#) And you could see it go up. And then over the course of that evening, she stopped being friends with us. And that was where we saw, in real time, the power dynamics of the scene just shift like that. And that was our little brush with one of those moments of like, oh, there's a change in power dynamics that happen in these sudden little jolts. It's very Breakfast Club-ish.
- Jim: [00:15:28](#) That is so cool. [crosstalk 00:15:31].
- Jamie: [00:15:30](#) What is the name of your band?
- Alex: [00:15:32](#) My band was called The Fundamentals.
- Jamie: [00:15:33](#) Nice.
- Alex: [00:15:35](#) You can listen to us on Spotify and I will make a quarter of a cent.
- Jamie: [00:15:39](#) Spotify or Shopify?
- Alex: [00:15:42](#) We were not on Shopify. And that was our problem.
- Jim: [00:15:46](#) Wait, wait, wait. So the talks of a merger, are those correct?
- Alex: [00:15:51](#) Executive, But going back [crosstalk 00:15:53]-
- Jim: [00:15:52](#) We have a prominent executive here.
- Alex: [00:15:56](#) But going back to the scene thing though, I want to talk about this a little bit, just because these human behaviors about how

scenes work and how this jockeying for status and competition and half working together, but also half being wary of each other is a generally reproducible rule about how people behave in general in situations where people's status and worth and presence and value is expanding rapidly, but also very indeterminately. And the primary forum in which this takes place that matters to the world that we're in is startups, right? The startup scene is indistinguishable from a music scene. It is virtually the same thing. Bands are like startups, record labels are like VCs. You have the press and the whole mechanics of telling people about things is virtually indistinguishable from the tech crunches and the Twitter presences of the world.

But ultimately what matters is that it's a hits business. That first and foremost is how these things organize around and that nothing matters until you get a hit. And then once you do, your life changes and everything revolves around this idea of figuring out how to preempt who is getting these hits and why, and that's how everything organizes. And so the elements that contribute to these scenes that are the terroir for hits happening, like the floor plan of CBGBs. This is so interesting to me because it's like, this is where art comes from. This is where creativity comes from. This is where new comes from. Jim, you've obviously seen a few more of these cycles than I have or that Jamie has, but yeah. I wonder, you've seen how this works both before and after the internet too.

- Jim: [00:17:35](#) Yep. Yep.
- Alex: [00:17:38](#) What was this like before the internet? Was it just the exact same?
- Jim: [00:17:43](#) So, no, it wasn't. When you were talking about CBGBs, I thought of The Limelight, which was kind of the most decadent disco in Manhattan, and it was not all the way downtown, but downtown. It's a shopping mall now, which is just a tragedy. But back then, this is pre-internet. So late eighties, early nineties, we would go there after having dinner and copious amount of wine with friends. But back then, if you went to a nice restaurant, you had to have a suit and tie on. So we would go to a nice place with our friends and be dressed up. And then I would always say, "Hey, let's go down to The Limelight." And everyone was sufficiently lubricated because The Limelight, I mean, oh my God.
- Alex: [00:18:39](#) It was the spot?

Jim: [00:18:41](#) Oh boy. The stuff that went on in that place was literally fucking crazy. When you were talking about CBGBs and the floor plan, exactly the same, except it also had an upstairs room, which was the VIP room.

Alex: [00:18:59](#) Okay. That changes everything.

Jim: [00:19:01](#) It does because here's what's... And they had girls dancing in cages. It was just crazy. Crazy, crazy. And it didn't really, even... There's a place in the South of France that is very similar, where the scene doesn't even start until like one in the morning, but back to The Limelight. So this is pre-internet, we would go there, and we were seen as such exotic creatures-

Alex: [00:19:30](#) Because you're wearing suits.

Jim: [00:19:31](#) Because we're wearing suits, that they would look at us and they'd pull us from the back of the line. They'd let us come up, comp us, give us passes to the VIP room. And you know me. I try to figure out-

Alex: [00:19:46](#) Are you guests or are you props?

Jim: [00:19:48](#) We're props.

Alex: [00:19:49](#) Yeah.

Jim: [00:19:49](#) We're props. And that's very insightful because it took me a while thinking about it to figure out that that's exactly what we were. We were there for all of the super, super cool kids to mock and throw drinks at. We were the man.

Alex: [00:20:11](#) You need a villain.

Jim: [00:20:12](#) Yeah, exactly.

Alex: [00:20:13](#) You need a villain.

Jim: [00:20:14](#) Right back to, that goat's not going to scape itself.

Alex: [00:20:18](#) That's right.

Jim: [00:20:18](#) So we loved it. And so we would go, and ultimately the tie would come off, the jacket would come off and all that. But as long as they were on, we were the props, we were the bat, we were the man. Everybody hated the man.

Alex: [00:20:36](#) That's right.

Jim: [00:20:37](#) And so we realized is that it was dangerous maybe for us to go there that late at night, but it's identical pre-internet. In other words by that I mean, The Limelight became famous because it was only known to the cognizanti. The fact that people like, we were there, was kind of a death knell in a way.

Alex: [00:21:04](#) They bit off more than they could chew in terms of inviting the other in?

Jim: [00:21:09](#) Exactly. What I loved about it is it was kind of like, it was one of my earlier theories of capitalism or free markets, to be more specific. Free markets co-opt everything, literally, in real time you can watch it happen. And so what happened there is when you have a scene place, unlike with the scene of startups and things like that, those kinds of scenes pre-internet moved pretty quickly. Limelight was an exception to that, because it was the place for years and years and years kind of like Studio 54, which was in the seventies. This was late eighties, early nineties. But the way people behaved, identical to your description, the idea of having a villain. We were the villain.

PART 1 OF 4 ENDS [00:22:04]

Jim: [00:22:00](#) ... having a villain, right? We were the villain, we served our purpose, that's why we got comped on everything.

Alex: [00:22:06](#) That's right, yep.

Jim: [00:22:08](#) And yet it did move quickly, and what I've noticed in an internet era is it moves a lot faster.

Alex: [00:22:15](#) Mm-hmm (affirmative). So okay, a couple of things here I want to hit because this is such a perfect demonstration of what I was going to talk about before. You said you want to talk about Gerard, so let's talk about Gerard. So one of the great elements of a scene that is essential for the scene working is having a critical mass of people who have all bought into playing the same game, right? It's like, you need to have a critical mass of people who have all decided that they're going to measure themselves by the same yard sticks, which is being cool within this very confined box of the Montreal ska scene or people who go to the limelight or whatever it might be.

Right now, when you have a whole bunch of people who all think the same things and want the same things, and they see

each other as peers, right? Fundamentally this is a peer relationship of everybody in the same place. And like I mentioned before, it's like you have this really interesting juxtaposition that happens where it creates a tension. The tension is as follows, right? When you're surrounded by peers that are all competing for the same thing, on the one hand it creates this tremendous sense of comradeship, right? Because you admire each other and you are grateful to each other and love each other for all validating each other's choices, right? You look around and you see other people who are striving and wanting and reaching for the same things you are and that makes you feel good, right? Because it validates this choice you've made to care about those things.

On the other hand, you hate them because they're your rivals, right? They also want the same things and there's only one of it, there's not enough to go around, right? They are becoming your opponents by being the same as you. So this creates this really big tension, right? It creates something that you would call a double bind psychologically, which is simultaneously you are forced to love and hate them, right? You are supposed to be grateful to them, but also envy them, right? This tension, this irreducible tension, is what creates the energy of a scene, right? That is the potential energy that powers everything that follows. And like all human vices, like envy is an infinitely, renewable resource, right? You will never run out of it. And that fundamentally, this sort of double bind tension of, I love you, but I envy you, right? And I am grateful to you, but I hate you is the energy source, right? In the middle of any scene, always, right? This is a fundamental rule of how people work.

And you can really transpose this into the startup world, really, which one of the main reasons why the startup scene works so well is because of this limitless source of energy that is powering people willing to go out and work really hard and scramble really hard and not only hustle, but be creative and try things and do it in the context of the scene where there is on the one hand, great competition, right? The competition amongst founders, let alone the outside world, but even amongst founders or amongst peer set is immense. And people will work very hard and very long hours just to scramble out of the scene and emerge in order to break out into a really hot seed round or something, so immense competition.

But also if you look around at these founders, simultaneously, there is enormous shared love among this community for each other. People care greatly about each other because you are in this together, you are all fundamentally alike and you are all

validating each other's choices to do this with your life, right? And that's what makes it work, right? That is a very important part. It really is the energy source at the middle of this start-up scene, or as with any scene, that I think is very hard to replicate elsewhere without having this critical mass kickstarting it. That's one sort of thing that people... It'll be really interesting to see what happens honestly with this whole, can we artificially kickstart one of these scenes in Miami if everybody just decides to commit to it, right? Can we get really get this going in Austin or in wherever it might be. And here in Canada also, I've got myself in nicely in trouble for writing this piece earlier on in this year about the Canadian tech scene and what I felt was some of the problems with it. It's Toby slacking me, I'm turning off notifications during this. So I wrote-

- Jim: [00:26:28](#) [crosstalk 00:26:28] Spotify.
- Alex: [00:26:30](#) Executive. I wrote this piece early on this year called, Why the Canadian Tech Scene Doesn't Work? That was-
- Jim: [00:26:39](#) Just let me interject. You know I know Canada well because of our relationship with RBC. But I read that piece and I'm like, "Oh man," and I thought of our last podcast I'm thinking, "Alex is going to make himself it."
- Alex: [00:26:54](#) I was there it for like two weeks, in Canada at least. So it was interesting. So my friend Dan Debow, who I work with at Shopify, who's great Canadian, both startup, legendary operator, and angel investor, calls me up immediately and he's like, "You fucking idiot. But I know what you did," right, he's like, "I know what you did and I appreciate it, this is amazing." Because it's like, do I actually think things are as dire or as bad as I portray in this post? No. But I also know how the internet works. And I know that if you write a piece that says like, "Hey Canada, I'm so proud of you, we're doing such a great job building up our tiny little scene. We got a lot of work to do, though, let's try to make those deals happen a little faster and get those term sheets out the door." It's like hooray, four retweets, 13 likes, we'll forget about it within the hour. But instead...
- Jim: [00:27:43](#) Or get mad at you.
- Alex: [00:27:45](#) Instead, I was willing to say, "I'm going to be the villain here and I'm going to say these things." and somebody asked me actually there was like, "Was this post a troll?" And by one definition of what trolling is, yes it was, right? If you say, trolling is posting where the reaction is the content, right? That's my definition of

trolling at least. And it's like, this is an instance where the reaction was the content. The reaction to this post was unbelievably great because it was just hundreds of angels and founders and people around Canada... Well, part of the reaction actually was a lot of founders emailing me and saying, "Thank you so much." So it landed in one place pretty happily. But lots of angels and people around the scene and in all these communities first being like, "How dare you write this, this is outrageous." But then all basically saying, "I'm going to show you how great we can be."

And then since then, it's been unbelievable, you have these angel group chats that have been restarted. You have all this energy and momentum that's rushing back into the system, both with Shopify angels and with other people around the country. It's really been wonderful. So it's like, "Well, I am more than happy to be the villain all day long if the consequence of having a villain is that you guys get stuff done."

Jim: [00:29:00](#)

So when I read that piece, in addition to going, "Okay, he wants to be it," I looked at my wife and I said, "This is an experiment." And she goes, "What do you mean?" She thinks I talk too much about all of these things to her anyway and so she can ignore me with the best of them. But this one did intrigue a little bit because she was like, "So he did that to shock them into reacting?" And I went, "I think so." And the reason I thought that was because that's what I did in the early '90s, or mid '90s rather, after What Works got printed. I went to Morningstar conferences, I went to all of the conferences and you got to remember, back then, nobody knew what factor investing was, literally.

And I would intentionally say very provocative things. Like I was on a panel, I can't remember her name, and I feel badly about it now. So there was a very prominent portfolio manager who was right to my left and she got really worked up about me saying, "Hey, you can clone any manager. In fact, the clones perform better because they don't have all the human foibles." Literally, I could see-

Alex: [00:30:16](#)

You could literally say the clones will mimic the upside exactly and the downsides will be less because their drawdowns will be less related to boat payments.

Jim: [00:30:24](#)

Exactly. And so she got really worked up, and she was sputtering because she was like, "Wait what? It requires an insight. It requires." And I went, "No, not according to all of the information, the factual evidence contradicts you." And it was

then a free for all, right? But it really, really works if you want that message for people to say, "Well, wait a minute, what is going on here?" So that's what I think with you, with the startups, right?

- Alex: [00:30:56](#) So hold on. If I can interrupt for a second.
- Jim: [00:30:59](#) You can.
- Alex: [00:30:59](#) Listeners, you can draw, imagine if you will, a straight line that I'd like to draw between Jim, all those years ago, saying, "Guys factor investing is really important." To today where we have BUZZ ETF, B-U-Z-Z, you can buy all the momentum stocks.
- Jim: [00:31:20](#) Hey, that has one factor and I'm not going to say what it is. I'll let our listeners fill it in.
- Alex: [00:31:26](#) Is that one factor outperforming the S&P by 40% last year because that's a pretty good factor, I'd love to get some of that factor. I'm going to make sure this episode never sees the light of day.
- Jim: [00:31:38](#) Right. But what's so funny about it is it's just like, so for an old school guy like me, right, I see these people making these outrageous statements that, in an earlier era, you're done, you get a Wells Notice...
- Alex: [00:31:52](#) You're done, that's right.
- Jim: [00:31:52](#) ... they close you down. It's just like, you can't do that.
- Alex: [00:31:55](#) The thing is, you know what's amazing about this idea that like you can just get canceled and kill that permit is that only reinforces the initial point that it's not about you. There is the system that is creating margin, right, in the advisory and investment business that has nothing to do with you and has everything to do with staying in line and getting paid and whatever. Like here are your baseball tickets, right, here's your comp, here's your, this now shut up and do the thing and don't rabble too much.
- Jim: [00:32:21](#) But see, that's actually, well, look at our canvas project and what I try to do with Netfolio 20 years ago, right? You've got that, but you're also concurrent with that, have people who are looking down the road, right, and they're saying, just asking questions like, "Okay, so where does this end?" Right? And Patrick, I can still remember the conversation, well before

Robinhood, Patrick was sitting here and we were talking about it and we were talking strategizing, right? And he goes, "Well dad, this ends with zero commissions." And I'm like, "Okay, I can see," because we had done a deal with Bear Stearns, where they actually paid us 20 basis points if they custody. So I knew all about all of the other ways you can make money. So I thought about it for a long timeline. "Yeah, you're probably right." And then what does that imply, right?

- Alex: [00:33:16](#) Right, what are the second order consequences of zero commissions is it's 1999 all over again, right? Day trading is back.
- Jim: [00:33:24](#) Right. But you can also, in a zero commission environment, do portfolio customization like it's going out of town. And so I believe the future belongs to custom, I've always believed that, right? Again, as I look at the natural progression, when you get to a space where you have the tech, where you can custom what's... You know this, you do this, where you can customize a portfolio down to an individual's specific desires, right? Man, you're not going back. Once they-
- Alex: [00:33:57](#) No, that's right. So here's the thing, right? This is like the real hallmark of abundance is not quantity it's variety. Because that's what you never go back from.
- Jim: [00:34:05](#) Yes, exactly right.
- Alex: [00:34:06](#) Abundant food does not mean there is a mountain of apples in the grocery store, it means you can get any type of food delivered to you in 20 minutes from Uber Eats, right?
- Jim: [00:34:16](#) Exactly. And then...
- Alex: [00:34:18](#) It's the Friday that hooks you.
- Jim: [00:34:20](#) Exactly. So just a couple of examples. We can... ESG investing, right, so it's social investing. For a long time, there was much more heat and fire than there was any reality to it. But now what we're finding is because we have tools available that frankly just were not available before, you want an ETF that has a segment that has to have 20% or greater women in the C suite or in the board. Done. You want to immunize... Let's say you're a Google employee and you want to immunize the incredible tax bill that's coming due. We can do it. We can also do nearest neighbors and not invest in anything that's like Google.

But the point is, once you get there, and once you see that you don't have to do anything and you can make 50 or 100 basis points. Not always, let's do disclaimers, but just through better tax management. And all of these things... So Patrick put a tweet up the other night and I'm an old, right? So I'm 60. And he used the term primitive. And so I think of primitive as bad. So rather than anything else, I just called him and I'm like, I know I'm wrong about this and that primitive means something else in the software world.

- Alex: [00:35:43](#) That's right. Explain to me why this doesn't mean we made something basic.
- Jim: [00:35:47](#) Yes. And he's just like, "No man, primitive is the coolest, because that is the true use case, right? If you don't have a technology that allows that use case to happen, you don't got anything, right? And so the use case of tax management, sounds great. They're like, "Yeah, sure." Do you know what a bitch that is to program in reality?"
- Alex: [00:36:10](#) Oh, it's horrible.
- Jim: [00:36:12](#) So anyway, I think you're absolutely right about the whole idea of seeds. And I think that the other comment that I want you to expand on is can you artificially create a seed?
- Alex: [00:36:26](#) Oh. Okay, before you even ask me that question, there were like two or three other side questions I also had for you, which I want to make sure we hit. Well, one comment is actually, it's like, if you want to know where the end point of this is, I actually think there's a step more that you can go. So as Patrick says. "Okay, first end point is zero commission." Okay, well, like the logical consequence of that is infinite customization. You can actually go past and say, "The logical end point of infinite customization is what's called lookalike audiences." Facebook makes money, right? If you want to know what Facebook's product is that they are just world-class at, it's the concept of the lookalike audience. It says, "Hey, here's one customer, give me 100 people like this."

It's the ability to say, "Hey, here's a basket of 20 stocks. I want you to make me a basket of 200 stocks that look like this." Right? That is the actual end point of this process, right? If we've learned anything from doing this at scale with the other mirror image of this, which is just getting people to buy stuff. Facebook has figured out what the true product is here in this world of abundance, right? When you have infinite variety, the real unit of power is being able to create the lookalike.

Alex: [00:38:43](#) It's funny because I feel this is actually one of those amazing things which is like, you don't have to be smart, you just have to have a different information set, right, to actually get ahead of things. And that's like, I don't know, I feel like for many people in tech, that's a really obvious thing, right? Just because we've been around Facebook and we know how Facebook works and why Facebook has so much power, right, and why Facebook makes such a great product. And it's because of this idea of saying that you have the infinite combination of things, the value is in their groupings.

Alex: [00:39:22](#) I want to talk to you about ESG a little bit, because this is something that I'm actually really curious about is like how this is going to work especially in this world of canvas? I really like the idea that you're saying about this being something that ultimately the end investor can just simply pick, right? As opposed to going through a gatekeeping system of saying like, "Oh, well in order to get into this index fund, you need to have this and this and that."

And then Mark Franklin, who runs the CFA Institute, is my neighbor and we argue about this all the time. And we had this really interesting conversation about like, I'm genuinely not sure which direction this whole movement is going to break in towards whether this is becoming just an established part of the work of doing advisory versus it being something that actually just breaks far away from that just being towards like, "I'm going to customize it however I want, right, this is my decision as the end investor to decide whether I want to be investing into this factor that is having a diverse board or this factor that is being CO2 offset or whatever it might be." I would love to know what you just think about this. I don't really have a formed opinion here, I'm really [crosstalk 00:40:36].

Jim: [00:40:36](#) So I think that there will be a lot of experimentation that leads to failure on a lot of these factors. The challenge that we face is, and actually it's also kind of the next step of where we're trying to push our research, is the data set doesn't exist really. I can actually say that. One of our OCM partners is a machine learning genius and a client wanted a portfolio that featured women on the board or in the C-suites. No list. Didn't exist. So we called our research partner, he provided it that afternoon. And so we have the only list of that. The problem is I can't test that retrospectively, right? So I'm going to have to try to do, okay, what is this proxy for, right? And does it proxy?

So we view our responsibility as letting our clients do what they want but trying, if we can, to intervene if we feel that

something they're doing is just absolutely going to... So for example, we would really try to get them not to buy that ETF that we were talking about, right? So I think that where this goes is with customization, ESG might become a real thing because the problem with the package product calling itself ESG, it's not ESG.

Alex: [00:42:23](#) No, it's basically influence.

Jim: [00:42:26](#) Exactly.

Alex: [00:42:27](#) I was reading... There's this newspaper article I saw this morning in the Globe and Mail about how the Canadian oil sands big push to get back into being actively included, right, in active investors portfolios is a big ESG push, right? I wonder where this went off the rails, right? This is... All right. Sure.

Jim: [00:42:47](#) But the point is, with the ability to customize... And the other thing I love about this is that we don't care what you're passionate about. Who are we to judge? We're not, right? We're not going to set ourselves up as the arbitrator as to whether your causes are valuable or valueless. What we're going to try to do is we're going to try to, when we can, do a test to see how that might turn out, right? And if it's really bad, we really want to tell the advisor, "I just want you to tell your client that this is what it looks like."

And you know what? Some people might just say, "What?" Fine, let's say, they're anti-smoking we point out that Phillip Morris is one of the best performing, or what are they, Altria is one of the best performing stocks over the last 40 years, it's amazing. And they still say, "Don't care." Then we feel that we've hit the standard that we need to hit. But this is one of those unfolding things where Kierkegaard's quote, I think it was apt here. "Life can only be understood backwards-"

PART 2 OF 4 ENDS [00:44:04]

Jim: [00:44:00](#) This quote, I think, was apt here, "Life can only be understood backwards, but we must live it forwards."

Alex: [00:44:05](#) That's right.

Jim: [00:44:07](#) And so we'll use different tools, we'll use machine learning, we'll use things like that to try to get as good a handle as we can in terms of people customizing to where we feel it might do them damage. I think it'll be, horrible to say it, but there's not enough

data right now for me to give you a good answer to that question. I don't know. I don't know whether ESG is going to end up being like a great out performer. I have my suspicions. What's the best performing joke portfolio we ever put together? The Vice portfolio. It bought alcohol, casinos, pharmaceuticals, tobacco. Kills, kills. But we'll see. I don't know.

- Alex: [00:45:30](#) So you wanted to talk about, can you create scenes.
- Jim: [00:45:36](#) Yes.
- Alex: [00:45:37](#) How do you create a scene? And surely the answer is yes, in the sense that scenes are creative and you can always retroactively figure out how they were created. They come out of something and you can always work backwards and say, "Well, if these two people met each other at this critical time and they ended up going to the bar together after work, and then they met this third person, that's how they came up with this idea for this startup that launched the Austin startup scene retrospectively." Because then these other startups formed around it.
- Backwards looking, you can always construct something. That's how narrative structure works.
- Jim: [00:46:12](#) Of course, laden with bias.
- Alex: [00:46:15](#) Of course. It's not even bias. Earlier you mentioned this whole idea of looking backwards versus looking forwards. You know in some cultures, you look forward at the past and you look backward at the future. I love that.
- Jim: [00:46:15](#) I do. I do too.
- Alex: [00:46:28](#) It makes so much sense. You're looking forward at the recent past that's very fresh in your mind, and you look farther out at the past that's more behind you. And then behind you is the future. And you walk backwards into the future. I love that.
- Jim: [00:46:42](#) Yes. I love it too.
- Alex: [00:46:43](#) It makes so much sense.
- Jim: [00:46:45](#) It does, and it's also why our memories are unreliable narrators. What happens is we literally change memories to coincide with what we're feeling and liking now. I think you even mentioned it about Proust in one of your pieces.

Alex:

[00:47:05](#)

But the thing with memory... Sorry, I get to trot out my once upon a time when I was a grad student in neuroscience. Even the concept of memory, you said that your memory changes. Memory isn't a fixed thing. Memory is just a set of weights that we give to synaptic strengths between thoughts. And those weights and the strengths of those weights change all the time. There's nothing saying they should be fixed at all. It was a huge presumption that we made incorrectly for a long time, that these things are set and then stay there. That's not how our brains work.

Our brains are these incredibly... Honestly calling our brains plastic as if they remodel themselves from time to time is actually a misleading understatement. It is the active presence of these weights and biases in these neural connections that creates the concept of a memory, period. That's why memories are colored in certain ways or whether they're associated with other things. Or that experience that everybody has when you get a certain smell, that brings you back to summer camp or something like that because it's just the particular neural pathways between the emotional parts of our memory and our noses happened to be just more fewer steps. It's just an interesting artifact of brain evolution.

Anyway. But going back to your question of, can you create a scene, though. There certainly are things you can do that help these scenes get created. And it's funny that across many different scenes, one of the recurring features that you see very frequently is old, shitty buildings.

In Montreal, there is this startup hub called Notman House that is exactly that. It is this old building that was rebuilt into a bunch of tiny, horrible offices that are way too hot, and the layout is terrible. And there's this cafe in the building with this horrible metal furniture that's so uncomfortable. And it's like, you couldn't design something to be less friendly. And it's an amazing startup hub [crosstalk 00:49:08]. I would change zero things about it. It is exactly right.

I don't know if they were planning it this way or not, but down to the level of the uncomfortableness of the furniture, they got it exactly right. There's a certain quality of being in a fairly uncomfy, physically uncomfy environment that is necessary for the early components of these scenes. I wonder about this a little bit. Like in CBGBs, if CBGBs were a big, comfy room where you could sit on couches and have conversations-

Jim:

[00:49:37](#)

Would not have happened.

Alex: [00:49:38](#) -isolated from other people, none of this would work. It absolutely doesn't work.

Jim: [00:49:41](#) Same with the Limelight. Same with all of those things like the It hotels, Ian Schrader. What's his name? Ian Schrader or Schradenger? I'm always thinking of Schrodinger. Anyway, who did the hotels down in Miami. He made them kind of so cool from the outside, but when you get in, the rooms are postage stamps and things are uncomfortable. So that never enticed me, that kind of thing.

Alex: [00:50:15](#) One of the funny ways in which people have been meaningfully led astray into the wrong things is around people's houses and around these remodeling decisions around what they think is good for parties versus what actually is. There's this idea where people got sold on this idea of open concept houses with these huge things as being good for entertaining. And what's actually good for entertaining is a bunch of tiny rooms.

Jim: [00:50:35](#) Exactly.

Alex: [00:50:36](#) That's actually how you throw a party is for everybody to be in a room that is 10% too small. And that's why anytime you throw a party, the party always ends up in the kitchen, because that ends up as the big attractor where people end up squeezed in a little bit tightly too much. And that's where the party is best. So it's where people go.

And this is an aside, but I really enjoy the conspiracy theory that part of the whole reason why open-concept got started was because HGTV needed to have more shows that attracted a wider audience. And in order to do that, they realized that the scenes of people demolishing their houses with sledgehammers were the most popular ones, and so they needed open concept to be a trend. Because if you don't demolish any walls, you don't have an audience. And so, hence you got all these open concept remodels, which look amazing.

Jamie: [00:51:19](#) Where in the hell did you find that conspiracy theory?

Alex: [00:51:22](#) Where do you think?

Jamie: [00:51:22](#) Where is this being written about? Reddit?

Alex: [00:51:25](#) Where do you think, Jamie? Where do you think I saw this conspiracy?

Jamie: [00:51:27](#) Reddit.

Alex: [00:51:27](#) No, on Twitter. Well, okay, Reddit would have also been a fine answer. But there's this idea, which is that what people's first impressions for what they think they want are often wildly misleading. Because you look at a house with a big open concept inside, and you think, oh, that must look great. And the reality is actually like totally the opposite, but your first impression will be different because it looks impressive.

I think, similarly, there's this famous... I don't know how replicable this is, but I heard that if you give people blind taste tests between Pepsi and Coke, people prefer Pepsi on the first sip, but then not afterwards. Because Pepsi's a little too sweet and it's a little too acidic, but it shocks your tongue initially in that first step into thinking that you really like this, where you prefer it on the first taste, but then not actually the whole can. You prefer Coke.

Jim: [00:52:15](#) Exactly. And which is why the New Coke thing, they didn't even... What's so funny about that is that there were... And I know a lot about this because I've studied this particular, the Pepsi Coke challenge. It gave birth to New Coke, which was a disaster and fiasco. People did not understand the... At Coke, they didn't-

Alex: [00:52:37](#) You're going to have to tell me and Jamie about this because we weren't born.

Jim: [00:52:40](#) I know. I know. God, I'm old. Anyway, so New Coke was our response to this Pepsi taste challenge, which was brilliantly conceived because they knew, scientifically they knew, we prefer on first blush, the sweeter... It's different. "Oh, I like that." If you do the same test, but make them drink the whole glass, Coke wins hands down.

Alex: [00:53:09](#) Every time, every time.

Jim: [00:53:10](#) Every time. But at that time, the executives at Coke we're not clued in on this. So they panicked, they created this thing called New Coke, total disaster. They had no understanding of the emotional attachments people had to their product, sugar water, right?

Alex: [00:53:31](#) That's right.

Jim: [00:53:31](#) But they do and did. And so it was a complete fiasco, which Coke learned from-

Alex: [00:53:38](#) Thank God.

Jim: [00:53:39](#) Which gave us Diet Coke, which gave us-

Alex: [00:53:42](#) Cola Classic.

Jim: [00:53:42](#) The Cola Classic. It gave us all of those things. But yeah, first impressions are... And broadly, one of the reasons I'm interested in this is because first impressions are often wrong. So, first mover advantage. Well, right. What was Google? What search engine were they? I don't know, 27 or something like that.

Alex: [00:54:03](#) I don't know. I really preferred dogpile.com myself.

Jim: [00:54:08](#) I was [crosstalk 00:54:08].

Alex: [00:54:08](#) There are so many good ones.

Jim: [00:54:11](#) But the reason I'm so interested in whether you can create a scene, is yes, if you understand the idea, it's almost kind of like, yes, you can do it, but only by not trying to do it.

Alex: [00:54:29](#) Right. So, I mean, this gets me back to... Part of how I had framed this Canadian startup scene article was in the context of Finite Versus Infinite Games, which is a book by James P. Carse that recently... So we'd just had Shopify Summit a couple of weeks ago, which is our big, once-a-year internal gathering, where everybody gets together, this year virtually. And where Toby talked about this book and this idea of finite versus infinite games. It's really this wonderful way to think about life.

And it's this way of categorizing the purpose and the story of what we're doing in terms of games, and where there are two different types of games that you can play. You have finite games, which are games that have an end. They are games full of willing participants who all agree on a set of rules. And they agree on the ending terms of the game.

As opposed to infinite games, which are also games that you play with willing participants. But the difference is that the game doesn't end. The idea is that you play in order to keep playing. And you make things so that other people can make

things. And you take actions so that other people can take actions.

And a lot of the interesting and richest parts of life are the infinite games we play, which can include, but can also be in contrast to finite games that exist within them. So learning is an infinite game. School is a finite game. Culture is an infinite game. Scenes inside the culture are finite games for the most part. There is an infinite component to them, which is enjoying all the culture, and participating in creating something special, but scenes are finite games. They have winning conditions. They have boundaries that are understood. They are seen as a game where all of the participants in the scene enter into it willingly and accept a certain order of things and a certain power structure that is agreed to, and everybody understands what it means to advance in the scene together.

And part of the beauty of this book, this is not infinite games are good and finite games are bad. But the beauty of living life to its fullest is in choosing what finite games you play, that serve the infinite pursuits that you have. It's picking. What finite game am I going to play in this scene? And does it really align with the infinite game I want to play of participating in culture?

So this whole idea of like you asked, can you artificially create a scene? The answer is, there's no reason why you can't do that, but it's very dangerous. Because when you're coming in from the outside, especially... And you can think of like, there are no shortage of government initiatives around the world to try to create an innovation economy. This is a great example of people coming in and they try to understand. Okay, what are the incentive structures we need to create? And what are the winning conditions we need to create? And what are all of this structure, structure, structure? And they come up with this big set of finite games that can be played. And then they put it all together and then it doesn't work.

It doesn't work because first of all, it's not within the context of an infinite game that people want to play, which in the context of software startups at least, is nerds writing code, and people making startups so that they can show them off on Hacker News, and this whole, other culture that is just unknown to these people. You're trying to create the set of finite games that exist outside of the infinite game that you were looking at jealously, and it's not going to work. You cannot recreate these things outside.

But the other thing that doesn't work is that scenes are really interesting systems of behavior that only work because people willingly enter them, like really have to willingly enter them. If you are entering them for some outside purpose, like I want to enter into this game, but only because it's my job to do so, or only because I've been told that if I do this, I will get this other promotion somewhere else, then it's not going to work. Scenes only work if people are really committed to advancing in the social hierarchy and the status ladder of the scene. That's what makes these things authentically work.

And this is part of why I think if you circle back to why crappy buildings are important. The scene needs to take place within an enclosure that reminds you that one of the outcomes of the game you're playing is escape upward and outward. If you don't have that and you feel like you've made it inside the scene, then everything calcifies.

So if you look in contrast to Notman House in Montreal, which is this amazing little place, we have this thing in Toronto called MaRS, the MaRS Discovery District, which is this enormous quarter of a billion dollar building retrofit center thing that they did, where they basically retrofitted this huge glass office tower and atrium over one of the old hospitals in the downtown core to create this hub for innovation. It's this stunningly beautiful building that costs all this money filled with all these impressive things.

And it's like, this is so missing the point. This is not just a waste... People misunderstand this when I complain about MaRS, because people are like, "Oh, if you don't think this was good return on investment, maybe we could have spent less money." It's like, this is not bad return on investment. This is actively harmful. Actively, harmfully spent money. You would be better if you took this money and dumped it in the lake. That would actually be better for the startup community for it to not be in a building that does not constantly suggest to you that you have made it. It's very, very important.

Jim: [00:59:49](#)

So true.

Alex: [00:59:50](#)

I could go on on this all day.

Jim: [00:59:52](#)

But the great insight here is that when you're designing things, what you need to... So let's take a step back. Why do markets work so well? Markets works so well because they are complex, adaptive systems that are bottom up, not top down. And if you try to say, "I'm going to use a top-down solution to come up

with an iPhone competitor," I'm not investing. I'm not going to invest a dime in that, because what's going to happen is, the MaRS center is going to happen. And by the way, as an aside, I love the way stories get told and retold. Jobs was opposed to the iPhone for the first two years that his staff tried to convince him about it. And we now remember that he was the champion of the iPhone.

- Alex: [01:00:46](#) That's right.
- Jim: [01:00:46](#) Well, he was ultimately, but-
- Alex: [01:00:49](#) He became the champion in iPhone.
- Jim: [01:00:50](#) Exactly, exactly. But, so what is interesting is... You have to understand that in complex adaptive systems, trying to insert controls that are artificial is going to screw up the very complex, adaptive system. Now, it'll work its way around like a complex system does, but it... I think about Eisenhower. At some point in his career, he had some input about a new college that was being built. And so they came to him... The fifties, don't even get me going on that decade.
- Alex: [01:01:30](#) I don't know the fifties. I wasn't there. Maybe you can tell me about it.
- Jim: [01:01:34](#) You can read. I wasn't there either, Mr. Funny Man.
- Jamie: [01:01:37](#) Low blow.
- Jim: [01:01:39](#) But so Eisenhower is sitting there and he's looking at the blueprints and they've got the models and everything, and they go, "General, where do we put the sidewalks?" And he's like, "Don't put any sidewalks in right now until there are students there. And I...-
- Alex: [01:01:52](#) Wait until they walk, and they'll show you where they should be.
- Jim: [01:01:54](#) Exactly. And so, that intuitive understanding is oddly not intuitive for a lot of people. It's not intuitive for people who built the center. And so, what you've got to do in complex... So complex adaptive system, black swans. So what is the definition of a black swan? You can't predict it.
- Alex: [01:02:21](#) The three, right? It's unpredictable, retroactively explainable, and big consequence. Aren't those the three things?

Jim: [01:02:27](#) Yes. Perfect. So one of my little projects is I don't want to predict black swans, but I do have a hypothesis that you could confirm that one has occurred earlier than other people through analysis of big data sets. Haven't been able to run it yet. We're still collecting the data set of which, by the way, my Twitter feed is a main component.

Alex: [01:02:57](#) Sure. Absolutely.

Jim: [01:03:00](#) And so what's interesting about the thinking though is, and I love the book Finite and Infinite Games, because I completely agree with that concept. But the idea of... And that's why I asked the question about, can you create a scene. It's weird because I don't think... Like we opened our discussion. CBGB, by its very name, did not plan on being the punk rock center of the world. It's design allowed for that. And I can just think of a million different things.

Post-it notes. That was an accident. They were trying to create a glue that was so good, it never broke. And they came up with post-it notes. I mean, penicillin. Oo, that smells funny. And people have this... My concern with narratives is that people who allow themselves to become continually narrative-based thinkers, you're just getting set up. Because it shouldn't be, "Eureka" for a scientific discovery. It should be, "Oh, that's weird."

Alex: [01:04:18](#) Well, so what's interesting about the power of narrative is that narrative can be very useful in that it is a really powerful way to condense things. It's a compressor that allows you to put names and handles onto things and carry them around with you and bring them into conversation, where given the typically finite length of time that you were allotted to have a conversation, it can allow you to get to more complex and interesting places quickly, and then start a real conversation.

Jim: [01:04:45](#) I agree.

Alex: [01:04:45](#) The challenge though, is again, part of what I'm always trying to get better at is just the idea of like narratives aren't the problem. It's cause and effect thinking that's the problem. If you get really good at figuring out how to tell narratives that actually don't rely on cause and effect thinking, but instead are getting better at the idea of systems thinking, and thinking there's no such thing as cause and effect. Everything is complex. But there is such a thing as purpose. You can say this system runs in a certain way and exists in a steady state of flow because it has a purpose.

The local goth scene doesn't have causes and effects in terms of how people join it, enter and ladder up. But it does have a purpose, which is these rules of this game that everybody has agreed to play, and the concept of moving through and then upward escape through the scene. That is the purpose of the scene. That is something you can talk about through a narrative in a way that is true, in a way that is very authentic.

You can talk about the iPhone, completely disregarding the whole idea of cause and effect of how it came to be, but talking purely in terms of what is the purpose of the iPhone, which is highly maps to what is the purpose of Apple? And it's like the purpose of the iPhone emerged within the purpose of Apple. And that is something that came out of the system that included Steve Jobs and Jony Ive and everybody else. All-

PART 3 OF 4 ENDS [01:06:04]

- Alex: [01:06:00](#) That included Steve Jobs and Jony Ive and everybody else. That is, again, it sort of reminds you that narrative is not actually the problem here. Narrative can be very powerful if you're talking about these narratives in terms of the right things. The question is just really to get rid of the word causes in all of your thinking. That's the harder part.
- Jim: [01:06:18](#) So we had another guy who's anonymous on Twitter as a guest, he drops Thursday. He's really smart. And you know how I always bang on about we are deterministic thinkers, cause and effect, in a probabilistic world, hilarity often ensues. And so Max is a New Yorker. He's an immigrant from India, but he's very successful. He's an M.D., he's a doctor, but he's also an entrepreneur and he's like, "Jim, stop with this right now because yes, you need to be a probabilistic thinker. You need to think about those things, but you don't want the people," he goes, "So you're the con on your elephant surveying the game space. Do you want the guy, your spear holder down there to be a probabilistic thinker?" Hell no, because he'll think, "You know what? I think I have a much higher probability of living if I drop my spear and run into that forest over there."
- Alex: [01:07:13](#) That's right.
- Jim: [01:07:14](#) But then he also, he put... Another thing I love very simply, and he's like, "Look, 98% of the world, they don't want to be long [vol 01:07:21]. They will do anything they can to sell vol." And he goes, "Guys like me and you, who are insane, we want to be long vol all day long."

Alex: [01:07:33](#) That's right.

Jim: [01:07:34](#) Right?

Alex: [01:07:34](#) This is the opposite side of a crowded trade.

Jim: [01:07:37](#) Exactly. And so it's like, it's something I learned over time. It's like when I designed my original portfolios, I was in my early thirties. I loved, I still love, I'm 60 and I still love risk, but I designed them for Jim. Big, big mistake. Because I would be like, "Why are you getting so crazy? It's only down 40%. It'll come back."

Alex: [01:08:05](#) Stocks can only go down 40%. After that, they have to go back up.

Jim: [01:08:08](#) That's right. It's a rule.

Alex: [01:08:11](#) It's a factor.

Jim: [01:08:12](#) It is a factor. But the idea is, is I loved, and I want you to just keep going with that.

Alex: [01:08:18](#) That's your factor, stocks that are down 40%.

Jim: [01:08:22](#) So, but keep-

Alex: [01:08:23](#) The falling knife portfolio.

Jim: [01:08:26](#) Actually the falling knife portfolio is one of the ones that compounds negatively, going back to the twenties.

Alex: [01:08:31](#) That's the rule, right?

Jim: [01:08:32](#) Yeah.

Alex: [01:08:32](#) Don't try to catch them.

Jim: [01:08:33](#) Don't try to catch them because that's bad. You know, one of my favorite favorite quotes is Damon Runyon's. "The battle may not always be to the strong nor the race to the swift, but that's the way to bet."

Alex: [01:08:47](#) I like that.

Jim: [01:08:49](#) But anyway, I love this idea about purpose and about narratives that are not built on cause and effect. Keep going on that, I

really like that because I want to think about that. It might fit into something I'm working on right now.

Alex: [01:09:04](#) Sure. I mean, cause and effect thinking is so deeply ingrained into how adults think about the world, but not kids. Kids actually don't think in terms of cause and effect. Kids are right.

Jim: [01:09:20](#) Yes.

Alex: [01:09:22](#) When people say childlike creativity, and a childlike approach to the world, this is what they're really getting at. Is that kids do not think in terms of cause and effect. If you take a kid, it's like kids are actually better systems thinkers than adults because kids understand that the world is... What kids understand is that the world is this little system that is largely outside of their control, but it can operate in one of many different modes. And just because it exists in this mode one day does not mean that it's necessarily going to be existing in that mode another day. If you take a kid and you put them in a context of something that they like, let's say some system that they already enjoy.

If you have a kid who really loves to play soccer, if you put them on the soccer field every day, or if you have a kid who really loves the woods and then they walk around in the woods every afternoon after school or whatever, they will really quickly come to understand that these systems that they're in are these very dynamic, adaptive things where the way to thrive in them is not to try to solve anything. It's just to look around and make things. If you were at soccer practice, it's like how much of soccer practice is spent solving problems? None of it. A lot of soccer practice is spent on working on your awareness. Just what do you see? Don't solve anything, just see. See the play, see the ball, see the opponents, see where people are going.

And then the other half is making plays. Run over here and kick the ball over there. Execute. See, execute, see, execute, don't solve. There's no solving anywhere in the middle of this. And this is how kids approach the world. And this is how a lot of very high performing professionals, in fact, approach the world. Which is the idea of seeing and making, and seeing and making, which is this very important way of interacting with the world in which cause and effect doesn't appear at all. There's no cause and effect in seeing and making. None. You make, and then you make more. And you see and you make, and it's just something that you do.

And the great thing is that every kid is interested in something different. Some kids are really interested in learning about the

history of dinosaurs and some kids are really interested in playing around outside. But the problem is then the bell rings at 8:30 in the morning and you got to take all those kids out of the systems that they like, and are interested in, and you got to put them into school. The kids have to go to one place where they are put into a neutral context where we say, "Okay, we've got to teach you things." And the problem with teaching people things is that if you teach people things in the concept of a system that they already know, kids will take their systems thinking mindset and then gain wisdom. You gain more knowledge and you gain more wisdom and more understanding and more creativity.

But if you take kids out of a system that they understand and like and appreciate, and instead put into a neutral format where you're like, "There's one textbook and there's going to be one teacher, and this is just the way that a classroom works." You say, "Okay, everybody has to solve the same thing." What you spend your time doing is solving problems. You say, "Here's the book. We're going to go through the chapter of the book. And at the end of the book, there's going to be a problem set. And then in the problem set, your job is to solve the problems. And then in the back of the book, there's an answer key. And then you check to see if you got the answer right. And your homework will tell you whether you got a sufficient number of answers right. And at the end of the semester, there's going to be an exam. And if you get a sufficient number of answers right on that, then you graduate to grade four."

That is what school is. So school, and again, I don't mean to say... It's like I feel bad for teachers because almost all teachers want to do the right thing by their students and want to help their kids learn and do this heroic job. The problem actually is just the format of school itself, which is that it has to take you out of the systems that you know because otherwise there's no way to accommodate all 30 students at the same time, or all 500 students at the same time, or whatever. And so you leave school and then you go out into the world having been taught for 10, 12, 15 years, however much time you spent in school, that problem solving is what work is. You say, "Here's the problem." So not looking around, not just seeing things and looking. That's not work.

And also in a lot of cases, not making things. It's problem solving is what work is. And I'm sure you've heard this before, if you want to go be useful, go solve someone's problem. Go solve problems for people. That is universally good career advice. It's not go make things, it's not go look around and be curious. It's go solve problems for people. And one thing that you learned

after leaving school, which is a rude surprise to you, is you learn that in school, people tell you what problems to solve, but in the real world, like work, people do not actually tell you what problems to solve very explicitly. So you have to go find problems to solve. So then what you start doing is, what you start learning how to do is draw boxes around things and say, "Okay, I'm going to define this problem that I'm going to solve. I'm going to try to create a little box, and I'm going to solve what's inside the box. And then I'm going to be able to show that as my work product for the quarter," or something like that.

And then what I'm going to be able to do is on my performance report, I can be able to say like, "Look, I defined this problem, we figured out what a KPI is for this problem, and then I saw what was inside the box." At no point do you contemplate necessarily whether this was the right box. Or what solving this box might do. But you were able to define something and you were able to show forward progress against it because you problem solved, and this is what we've all been taught that work is. The problem is that inside of this is that you've transformed the entire world into a cause and effect problem of saying, "Cause, this problem exists, therefore I have a job to do, which is solve it. Cause, I solve the problem. Therefore I get an A." Again, kids don't think this way. They don't want to think this way. They don't want to think this way. What kids want to do is look around, make things. It turns out that in highly complex adaptive systems, the skills that you need to have are looking around aimlessly and making things for no reason.

Jim: [01:15:14](#)

Bingo.

Alex: [01:15:15](#)

It turns out that's actually what you should be doing the entire time. It's just looking around and making things. But unfortunately, again, and especially on the making things side of the spectrum. Because we have this huge cadre of people whose entire lives have been spent, scored, and graded on the idea of problem solving is what work is, we come up with all kinds of reasons to not build things. We say, "Oh, there's risk. We need to do a study and figure out what the uncertainty and the risk and the possible set of outcomes are if we were to just spend four days building this thing. No, we need to figure out how to project manage this so that we are appropriately solving for the building process." It's like, "No, just go build it. Let's go around and build things." But the problem is it's very hard to exit this mindset of problem solving and cause and effect thinking when it is everything around you, because what you're

doing that's not that does not look like work. It looks like you're just sitting around and either being disobedient or being lazy.

Jim: [01:16:15](#) Or being me.

Alex: [01:16:17](#) Or being you. Right. Disobedient and lazy. So this is, I think, part of the power, or just to bring this home for you, part of the power of talking about things in terms of purpose, rather than in terms of cause and effect, is that if you start the conversation from the beginning of saying, "What is the purpose of what we are doing?" At Shopify if you ask, "What is the purpose of what we're doing? Well, our purpose is to make things for merchants. We want to help merchants around the world become entrepreneurs and become better entrepreneurs and help sell more things and help build more businesses and help their buyers get happiness with what they have, and all these things, and the way that we're going to do that, we're just going to make things. We're going to make the tools that they need to go out in the world and win."

It's like at no point are we trying to solve entrepreneurship. We are not trying to solve commerce. First of all, there's no such thing as solving commerce because commerce is infinitely diverse. Second, it changes faster than we can build. The world is a complex, adaptive place. What we can do is make things. And this, I think, really like when people ask, "Why does Silicon Valley win? And why do all these tech companies win?" The simplest and dumbest and best explanation is just because this is a culture where making things is seen as high status. That honestly is all there is to it. You don't have to galaxy brain to any further than that. That's really what it is, is just a culture where problem solving is not what is rewarded, but building is. That's it.

But in order to frame that, in order for that to be the frame that people accept, and in order to unlearn all of school, you need to think about the purpose of what you're doing. Which again, in terms of in the hacker community, the purpose of what you're doing is code... There could be all kinds of purposes around why did you make this code? Or why did you have this idea? Or why did you do whatever? But it doesn't matter. It's like it's whatever it takes to get yourself out of the cause and effect mindset, and back into thinking like a kid. Do whatever it takes for you. Everybody's different. I don't know how to do it for you, but if you can find it, hold onto it. Because it's important.

Jim: [01:18:20](#) Yeah. I mean, wow. So I don't know that we could be any more simpatico. Because it's this whole... What I'm working on right

now is a way to better articulate to people what you've just helped me enormously with. So thank you. I will be stealing that from you.

Alex: [01:18:41](#) By all means.

Jim: [01:18:42](#) And the idea of beginner's mind, which means kids. I have two grandchildren and I just love watching them because everything you just got done saying, I get to see because they live close by and they're always over here or I there. And so I get to watch this everyday and it really just that activity of watching them has, because I've been thinking about this for a long time, and I think exactly like you do, that just start like, "Okay, what would be fun? What would be fun to build, or make, or observe, and see from this?" And what I think we're up against is the consensus reality around this is unfortunately very much around your cause and effect idea. And so, it is great advice, but it's very hard for you to... So I don't believe in it, I can't change you, Alex. You can't change me. You can give me great ideas. You can help me along the way. I can command or require or compel my employees to do something, but that's not changing them. That's actually poisoning the well of the relationship. And so, one of the things that I just keep trying to get is, is there an intuitive way to get people to understand the concept of what you've just outlined and that's going to help me enormously as I'm working on it.

Alex: [01:20:24](#) I think there is. And it's to bring this conversation home really nicely, and it's the power of scenes. What is a scene? A scene is a purpose. There's no causes and effects in scenes. When you enter a scene, you enter into a complex system where people actually slip right into this mindset of there's no A causes B, what there is, is I understand what the purpose of the scene is. And that's why we're all here. That's why this gathering exists is because the scene has purpose. That's why the startup scene exists, that's why the music scene exists, that's why these scenes of people who have these common interests, whatever they might be, tend to be so tenacious. That's why they stick around. It's because they are latching into something very authentic about how the world works and how people find motivation and purpose. A scene is essentially a collection of purpose that everybody has agreed to and that's why they're there. And that's why they help you get into those mindsets. That's why scenes actually accomplish all these interesting, creative things.

Jim: [01:21:25](#) See, I think you've just closed this out, my friend, because I think that's the perfect end note. Man, I really am going to steal this from you.

Alex: [01:21:36](#) Oh, please do. Honestly, this is the type of challenge, I guess, that I hope more people spend time thinking about. You know what, before we go, you need to give me two minutes to give a plug to my employer because we're hiring. So if you want to work with purpose, and if you want to work in an environment where, and I mean this very sincerely, if you want to work in a place where people put a lot of thought all the time into how to not be cause and effect thinkers, but instead think all the time about what is the purpose of what we're doing and what is the system around that purpose that is completely changing and re-changing itself all the time. Is a system that evolves faster than we can build it and faster than anybody can understand it, but where the right answer in the middle of it is to look around and make things.

Then you should honestly come work with me at Shopify. I've been here for, what, I don't know, almost a year. And it's like it has been more fun and more mysterious and more interesting and just more challenging in the best possible sense of the word than I had even thought. And part of it is just because this is a company that takes purpose-driven building and systems thinking very, very literally, and we hold it in very high regard. We understand that the minute that we start to slip into a cause and effect mindset as a company, whereas that has everybody else who does that. And so this is part of what I spend a lot of time thinking about. It's what I know Toby spends a lot of time thinking about. And honestly, if this is something that appeals to you, just message me. We'll find something for you to do.

Jim: [01:23:08](#) I love it, I love it, I love it. We will leave the ad in. I might even say that this podcast is sponsored by Shopify.

Alex: [01:23:17](#) I'll let them know.

Jamie: [01:25:38](#) Next time we're talking about Michael Scott.

Alex: [01:25:40](#) Michael Scott.

Jim: [01:25:41](#) Oh yeah, that's a really good one.

Alex: [01:25:43](#) All right, next time we'll talk about Michael Scott.

Jim: [01:25:45](#) Michael Scott, because that's an entire podcast right there.

Alex: [01:25:49](#) All right, that's a Michael Scott promise.

Jim: [01:25:50](#) All right, cheers man. Really great to see you, as always.

Alex: [01:25:53](#) All right, thanks Jim. Talk to you soon.

Jamie: [01:25:53](#) Awesome. See you.

Jim: [01:25:53](#) Thanks.