

## Naufal Sanaullah – Macro, Psychology & Charity

- Jim: [00:00:03](#) Well, hello everyone. It's Jim O'Shaughnessy with my colleague, Jamie Catherwood, for another edition of Infinite Loops. I am super excited today because my guest, Naufal Sanaullah... Did I screw it up?
- Naufal: [00:00:18](#) You got it.
- Jim: [00:00:20](#) Is somebody I love following on Twitter, and reading what he writes, because he is a macro strategist. The firm you're with, Naufal, is...
- Naufal: [00:00:29](#) EIA All Weather Alpha Partners.
- Jim: [00:00:32](#) Nice. Perfect. The reason I was really looking forward to this chat is basically, as a quant, I'm kind of a bottom-up guy, right? I love to hear macro people talk about things, because I love the process of trying to figure out the big sweep.
- Naufal: [00:00:52](#) Mm-hmm (affirmative).
- Jim: [00:00:53](#) We were talking right before we were on air, and that's where I really want to start, actually. You've had COVID.
- Naufal: [00:00:59](#) Mm-hmm (affirmative).
- Jim: [00:01:01](#) We joked that my wife thinks I did too, but tell us about that experience. Why, maybe, COVID wasn't the worst thing that happened to you, because it allowed you to see something and take action.
- Naufal: [00:01:14](#) We were pretty lucky, before I had any real symptoms developing, to have been kind of on the right side of the trade. Again, like you said, you're more quantitatively focused. I'm more macro. The dark arts, as many folks call them. Interestingly enough...
- Naufal: [00:01:39](#) And Jim, I'm interested if you would agree with me here, but one of the ways I kind of think about things is everybody's investment strategy... I mean, anybody who has a durable investment strategy is going to have some set of rules, whether they're really, really well-defined, or just kind of helping to guide you along the path. But I kind of separate them between... I kind of bucket them between two different approaches.

- Naufal: [00:02:04](#) One is what are the rules that work on Wall Street? Like your book, right? What works kind of across the board, or what has worked, or what can work. But for someone like me, I'm much more interested in terms of what works for me personally. Macro and trading macro really lends itself to an approach that's very specifically defined for your personality and your temperament, as opposed to some sort of deeper truth in the market, or dynamics of the market.
- Naufal: [00:02:43](#) Basically, that's a little bit of a background for the way I approach things. In January, we saw the Lancet article, all of us in the markets, and, there was this debate about what's going on, right? I'm a big believer in kind of marrying charts with narratives. The conclusion I kept coming to is the market is seemingly willing to brush this off as long as it believes that it's a China only story, or an East Asia only story.
- Naufal: [00:03:16](#) What I thought was the most significant factor was going to be international spread. Given the lead lag relationships that were in almost all of the literature about this, when we were all experts on the archive preprints, right? The [MetaArXiv 00:03:33] preprints. Based on those lead lags, I kind of had this... I wrote a note, I think. "Sometime in early February, some time in the second or third week of February, is going to be a big tell. It's a window to see if we see some real international transmission."
- Naufal: [00:03:48](#) And then Valentine's Day, I believe, of 2020, we saw the case counts in South Korea really exponentially grow. Like, explode. That was kind of our signal. My partners really grossed down their long/short book very dramatically. I just kind of took over, and just shorted [inaudible 00:04:08] and crude futures. We had this 25 to 2,600 target on S&P, based on if we were right.
- Naufal: [00:04:18](#) As we approached that, I started taking some stuff off, and then we saw... I was telling Jim before we were on the podcast, I saw John Williams, the head of the New York Fed was a green dot on Bloomberg, which told me... He's very well-known as somebody who does not keep a terminal on his desk. It's something he's proud of, seemingly. That was my tell that the Fed's going to step in with credit facilities.
- Naufal: [00:04:46](#) I just booked my P&L. We grossed back up our long/short book, and then the COVID symptoms started. It was rough. It was very rough. Definitely not just the flu. Spent a lot of time, especially in the evenings, with shower mist going in the bathroom with the door closed, just trying to breathe. Not fun. But thankfully, we were able to do pretty well on the front end, and thankfully,

I was able to recover on the back end. All the gratitude and blessings in the world. I can't complain.

- Jim: [00:05:21](#) That's a great story. It's so funny because you described, as you began, in a nutshell, what I tell people about the market, which is you've got to have rules that are copacetic with you as a person. Right?
- Naufal: [00:05:38](#) Mm-hmm (affirmative).
- Jim: [00:05:41](#) Somebody reads What Works on Wall Street and they say, "I'm just going to follow this wrong approach." Wrong approach, because-
- Naufal: [00:05:47](#) If only. If only.
- Jim: [00:05:48](#) Yeah, right? Right? Right? I'll tell you a funny story. When it first came out, I was getting a lot of calls. I get a call, and my then-assistant said, "Yeah, it's the, whatever, a bigwig at the Bank of Ireland." I'm like, "Okay. This is probably a gag."
- Naufal: [00:06:09](#) Well, Bank of Ireland, though.
- Jim: [00:06:11](#) Yeah. Yeah, yeah. Right? I know. All the jokes make themselves. He's like, "Hello there, Mr. O'Shaughnessy. We've just gotten done reading your fabulous book, What Works on Wall Street. How could we do this in a large scale, then?"
- Naufal: [00:06:27](#) That's good. I like that.
- Jim: [00:06:29](#) I honestly don't know what happened, but you're absolutely right about the... You've got to have rules, right? I think Deming said, "If you can't describe what you do as a process, you don't know what you're doing."
- Naufal: [00:06:41](#) Totally. Totally.
- Jim: [00:06:43](#) But they've got to be rules that work right for you, so I'm really happy to hear that that turned out good for you. I guess one of the first things... New year, new prospects. I was reading some of your stuff, so I kind of know the answers, but I'd much rather hear them from you, because you're going to be much more eloquent than me.
- Naufal: [00:07:02](#) Oh, we'll see about that.

Jim: [00:07:03](#) What do you see as the kind of longer term secular trends post-lockdown? Okay?

Naufal: [00:07:14](#) Yeah.

Jim: [00:07:15](#) When the lockdown is done, when hopefully the... Don't get me going on bureaucrats. But if we get everyone vaccinated, right?

Naufal: [00:07:24](#) Right.

Jim: [00:07:25](#) What do you see as the big secular trends? Maybe not just for 2021, but even further.

Naufal: [00:07:31](#) Totally. If you don't mind, I would like to kind of bucket them into two different answers.

Jim: [00:07:37](#) Sure.

Naufal: [00:07:39](#) One, which I'll get back to, I think really depends on the results of this Georgia election this evening, in terms of a lot of the policy stuff, and a lot of the... What type of stimulus are we looking at? What type of a fiscal obstructionism may arise in response? You know, the typical American political nonsense. But the other, which I think is a little bit kind of agnostic to this environment... And this sounds crazy. No one agrees with me.

Jim: [00:08:12](#) Oh, that's good, though.

Naufal: [00:08:16](#) Yeah. This would not be the first time I was wrong, nor the last, but what I see is that this big global rebalancing that we've all been hoping, wishing for since even before I was involved in markets, which was January of '08, was when I first started trading, I think it's in play right now. In 2015, we saw that big China currency shock, right? A lot of folks freaked out about it, but it was a good thing.

Naufal: [00:08:47](#) China's opening its currency markets, as courtesy policy, to market forces. Over the last couple of years, we've seen China open up its government bond markets. They did both of those things in the proper sequencing, in my view, by which I mean China is effectively a monetary sovereign at this point.

Naufal: [00:09:11](#) The way I kind of define a developed versus emerging market is when growth slows, developed market bond yields go down. When growth slows, emerging market bond yields go up. China fits that characteristic of a developed market. It has the monetary sovereignty to have increased fiscal capacity,

increased monetary capacity when its growth slows. That's why I think it was smart how they approach the sequencing of their opening of their bond market.

Naufal: [00:09:43](#) Given that as a backdrop, it's really interesting. From the financial crisis until COVID, the U.S. dollar was kind of a constant short circuit to anything good in the world, because it was the only yield in town. Every time anything positive would happen, the dollar would rise and short circuit it. Both in terms of domestic U.S. growth, but also just globally, especially given all the dollar-denominated debt out in the system. Chinese government bonds have kind of taken that baton since COVID, which is really interesting, because it lends itself to a dynamic where you could have a secular depreciation of the dollar vis-a-vis [inaudible 00:10:32].

Naufal: [00:10:33](#) That's really, really good, because that makes American labor and manufacturing globally competitive versus the counterfactual, and it makes Chinese consumption have higher purchasing power with respect to the counterfactual. China announced an 8% GDP target for 2021. I don't see that as anything but a signal of, "We're finally going to do something along the lines of safety nets and consumption." Meanwhile, the Biden administration, based on my read, is very much interested in, industrial policy and manufacturing in the U.S. The way the Fed has kind of changed its course, with respect to the Phillips curve, and with respect to... We're no longer going to preempt inflation, and we're only going to react to it. That's very good for domestic inequality. The cat seems to be kind of out of the bag on fiscal policy, to the extent that if the Georgia elections this evening...

Naufal: [00:11:33](#) We are recording on Tuesday. If the Georgia elections this evening end up being a Democratic sweep, I'd be expecting \$2,000 checks, and the \$2 trillion climate package over four years, that adds up to five, 600 billion this year of stimulus. This is against the dynamic where unlike most recoveries out of recessions, the initial conditions are pretty resilient household balance sheets and no real accesses.

Naufal: [00:11:59](#) All these things combined, to me... I know I'm ranting here, but all these things combined, to me, to say, "This is the global rebalancing and action." It's not going to be perfect. It's not necessarily going to be how we, as Americans, thought would be optimal, in terms of sequencing and all of this. It's not necessarily an inevitability, but to me, that's really interesting, because my entire career, to this date, until COVID, was about global imbalances. That was kind of the name of the game. It

seems like we may be exiting that dynamic, and that's really cool. I like to say that the most interesting time in macro is always right now. I think that applies to right now, as well.

- Jim: [00:12:47](#) That's interesting. One of the things that I wanted to ask you about was... You were talking about inflation. I always call it the grifter side. I think you called it the rentier side.
- Naufal: [00:12:58](#) Yes.
- Jim: [00:12:59](#) Healthcare, childcare, education. By the way, I want to talk later about the charitable work you do, because I think it's awesome, so I want to-
- Naufal: [00:13:07](#) Oh, much appreciated.
- Jim: [00:13:08](#) ... give you some time to talk about all of that.
- Naufal: [00:13:10](#) Thank you for your generosity along those lines.
- Jim: [00:13:12](#) Oh, my pleasure. My pleasure. I think it's just incredible. I want you to tell our listeners about it, because I love things that are actually working, right?
- Naufal: [00:13:22](#) No kidding, right?
- Jim: [00:13:23](#) Yeah, that's really nice. "Oh, wow. That really works."
- Naufal: [00:13:25](#) What a surprise.
- Jim: [00:13:27](#) Yeah, exactly. But you made the point about healthcare, childcare, education, is where you're seeing kind of the crazy inflation.
- Naufal: [00:13:37](#) Mm-hmm (affirmative).
- Jim: [00:13:40](#) What are your thoughts? Do you think that that can be tamed? Do you think that that is... Does that go into the too hard pile, or what do you think?
- Naufal: [00:13:50](#) Well, it certainly seems to have been too hard to date. The way I would think about that question is... There's kind of this dynamic of demand-driven inflation and monetary inflation, which is kind of what we tend to focus on, as market participants, especially market participants who collect yield in different assets and stuff, but the only real inflation we've seen in America has been, like you said, these gift dynamics, by

which I mean these are kind of artificially-imposed supply constraints across the board, from housing, education, and childcare. Tightening interest rates or raising taxes, that doesn't fix these inflations. These are supply-driven inflations.

Jim: [00:14:45](#)

Right.

Naufal: [00:14:46](#)

Which is really ironic, because we exist in a demand-deficient society and economy, and inflation constrains the extent to which our fiscal policies can address those. The only inflation that really exists right now is supply-side.

Jim: [00:15:04](#)

Right.

Naufal: [00:15:05](#)

I think that those things... And again, this is another crazy view. No one agrees with me about it, but I think it's accurate. If we were to spend trillions of dollars for single-payer healthcare, I think that would actually increase the government's fiscal capacity, because it would be structurally disinflating our inflation rates, because healthcare is a big driver. Same thing goes with zoning regulations, or anything that addresses the lack of supply response to prices in the housing and the property markets, which, by my read, is more due to land than anything else, which is a bone I have to pick with a lot of my fellow leftists and progressives. Don't blame the developers.

Jim: [00:15:53](#)

So you're not in the, "Not in my backyard," camp.

Naufal: [00:15:58](#)

I am. I am. Well, no, I'm in the, "Yes, in my backyard," camp.

Jim: [00:16:03](#)

Yeah, yeah, yeah, yeah. That's what I thought. That's what I thought.

Naufal: [00:16:04](#)

Yeah. Right, right. That stuff definitely matters, but I think there's more to it than what our quote unquote represented leaders kind of reflect. And then with respect to education, I think that's actually a little bit more... That's a little bit more complex of a problem to solve, especially college education, but one big thing along those lines would just be at least dealing with some of the anti-competitive practices there.

Naufal: [00:16:41](#)

With respect to childcare, it's just immigration. You know, if you have enough immigrants, if you have enough of a flow of immigrants, it will accommodate the flow of household formation with respect to childcare, especially if it's distributed properly across geographic lines, which ends up being a whole property arb type of stuff.

Naufal: [00:17:02](#) But yeah, I think that the sources of inflation in America... Step one, what constrains the U.S.'s fiscal capacity? In my view, it's inflation. If inflation is too high, then you've got to raise taxes, raise rates, whatever, because, it's Congress that creates money, not necessarily the Fed. Bank reserves are different than deposits in people's bank accounts. And if inflation is the constraint, okay, so where is the inflation?

Naufal: [00:17:32](#) If it's in the supply-driven dynamics, then you could address those on the supply side and only have even more room to utilize even more demand-side stimulus to redistribute. Sequencing matters. Leadership matters. All these things matter. None of this stuff is an equation, but I just think that's a really interesting dynamic in America, and one that may not be as well-understood by everybody.

Jim: [00:18:02](#) Yeah. Well, you're certainly touching on some points that I have been on a soap box about. For example, immigration. I think we are absolutely insane not to let... The smartest, most ambitious people in the world all still want to live in the United States. We should let them.

Naufal: [00:18:25](#) Yeah.

Jim: [00:18:25](#) I just...

Naufal: [00:18:25](#) If we don't, then they won't want to be here anymore in the future.

Jim: [00:18:29](#) Exactly. That's right. That's right. We have so many of these natural advantages as a country that it's almost not fair, right? I mean, geography. Are you kidding me?

Naufal: [00:18:45](#) Oh, yeah. Oh, yeah. Coast to coast.

Jim: [00:18:48](#) Coast to coast.

Naufal: [00:18:49](#) Yeah. Fertile land.

Jim: [00:18:50](#) And it's very hard... Yeah, fertile land. I mean, and it goes on and on and on. The rule of law.

Naufal: [00:18:55](#) Totally.

Jim: [00:18:56](#) The right to freedom of speech. I mean, this is a very cool mix, right?



Naufal: [00:19:02](#) Totally.

Jim: [00:19:04](#) I understand why all of the smartest, ambitious people want to move and live and work here. I don't understand why we let that go drop immediately to the lowest common denominator. Right?

Naufal: [00:19:18](#) Yeah.

Jim: [00:19:19](#) It's like, "Well, this is what we'll do." It's almost like an episode of South Park, to me.

Naufal: [00:19:23](#) Yeah.

Jim: [00:19:24](#) Come on. When you let... I had a funny experience. I used to do a lot of traditional media, and I don't do that very much anymore, because I think what we're doing right now is actually the media of the future.

Naufal: [00:19:40](#) Agreed. Very much agreed.

Jim: [00:19:42](#) Anyway, I was-

Naufal: [00:19:43](#) Infinite Loops for the future.

Jim: [00:19:46](#) Thank you. Thank you. I'm going to quote you on that, Naufal.

Naufal: [00:19:49](#) Please do.

Jim: [00:19:51](#) Anyway, I had a week where I started the week on Squawk Box.

Naufal: [00:19:56](#) Okay.

Jim: [00:19:58](#) I was in the green room, and who should be in there but Paul Ryan, the then-Speaker of the House.

Naufal: [00:20:03](#) Beautiful.

Jim: [00:20:04](#) I introduce myself to him, and I say, "Nice to meet you, Speaker Ryan. I have a question for you. I hope I'm not being rude here, but why in God's name are we not stapling green cards to any advanced STEM degrees that are granted in this country?"

Naufal: [00:20:19](#) Totally.

Jim: [00:20:20](#) He looked at me and he said, "I've been trying to get that bill through forever." I'm like, "Come on." He started being a

politician, and I had to go on. To be fair to him, timing didn't allow him to stop his thought. Anyway. Then I was on Bloomberg Radio, and who should be in the green room but Secretary of State, Hillary Clinton, whom I had actually met at an event for Bill Clinton-

- Naufal: [00:20:49](#) Very cool.
- Jim: [00:20:50](#) ... many years earlier. Difference between Bill and Hillary, Bill would remember me. Hillary didn't.
- Naufal: [00:20:57](#) He's a constant politician. He really is. Yeah.
- Jim: [00:20:59](#) Amazing.
- Naufal: [00:20:59](#) Yeah.
- Jim: [00:21:01](#) I mean, when you are talking to him, you are looking at a one million watt light bulb.
- Naufal: [00:21:07](#) I remember reading that when he was at Oxford for his Rhodes Scholarship, he made a point to every time he met somebody, he would write their name down in his little book. His little mini book. It served him well.
- Jim: [00:21:19](#) The other thing is when you're talking to him, you feel like you are the only person in the world that he is thinking about at that moment. Anyway. I'm, " Madam Secretary, very nice to meet you." I put the same question to her, right?
- Naufal: [00:21:33](#) Mm-hmm (affirmative).
- Jim: [00:21:35](#) "Why aren't we doing it? Why aren't we stapling green cards?" She was like, "Oh, I'm in favor of that." I came home and it's like...
- Naufal: [00:21:41](#) "Everyone's in favor of it. What's going on?"
- Jim: [00:21:45](#) "What's going on? What is going on?" It's one of my little hobby horses, but still.
- Naufal: [00:21:52](#) I think you'll like this framing, given you're a markets person, and you do a lot of... You're a student of psychology, right? I've learned a lot, just reading about a lot of the stuff that you've written, about how the human mind works. I'm sure that the idea of loss aversion resonates with you.

Jim: [00:22:18](#) Oh, very much.

Naufal: [00:22:19](#) I think that loss aversion is a very powerful concept outside of financial markets, too. I think it applies, as well, to sociological dynamics. If you are somebody who had privilege, and your family has had privilege socially for decades and decades, centuries and centuries, or whatever, in the United States, and then suddenly, there's this prospect that might be kind of exaggerated by politicians, but there's this prospect of demographic shifts and global power shifts. You will fight harder to retain your kind of asymmetric privilege.

Naufal: [00:23:03](#) You will fight harder to retain your asymmetric privilege than a lot of other folks will have resources to try to gain it in the first place.

Jim: [00:23:10](#) Yep.

Naufal: [00:23:11](#) And I think that plays a big role with respect to the anti-immigrant sentiment. Even if for speaker Ryan was in favor of this notion, the revealed evidence shows that or suggest that it didn't matter enough. It wasn't a priority high enough to make it into some sort of bipartisan package. So I think that those dynamics are at play, not just in the markets, but socially, politically. And that I expect better from my country than that.

Jim: [00:23:48](#) Yeah. Me, too. And you referenced something there that I'm always fascinated by, which is people are falsifying their preferences today, at least in my experience.

Naufal: [00:24:03](#) I'm sorry. What do you mean by that?

Jim: [00:24:03](#) They're saying things within groups or colleagues that they don't believe.

Naufal: [00:24:08](#) Gotcha. Okay. Right.

Jim: [00:24:09](#) They're falsifying their preferences. And there are a lot of ways to find revealed preferences, right?

Naufal: [00:24:17](#) Right.

Jim: [00:24:18](#) Like, show me what's in your portfolio.

Naufal: [00:24:20](#) Yeah. Yeah. What do you do, and not what you say, right?

Jim: [00:24:23](#) Exactly. And so I think that there's ... this is obviously a speculation and I'm probably wrong, but I think that there is a huge bit of alpha hiding in plain sight. And by that, I mean if you can figure out ... And I'm a quant, so I'm going to look for a quantitative process.

Naufal: [00:24:45](#) Right.

Jim: [00:24:45](#) But you're a macro theorist, so you might look at different things. But if you can figure out a sustainable and fairly robust and reliable way to distinguish between stated, often falsified preferences, and revealed preferences, you would just have a little tiny headstart week. Boy, now there's [crosstalk 00:25:11].

Naufal: [00:25:10](#) Yeah, the world is your oyster.

Jim: [00:25:12](#) Yeah. Yeah. It really, really is because you've read my stuff. I'm fascinated by psychology because ultimately, I think human beings, we are the ones who ultimately determine what happens in markets.

Naufal: [00:25:30](#) Yeah.

Jim: [00:25:31](#) I don't think that's a radical statement. So I haven't worked with people ... and just to set the stage. I talk about myself as being like Switzerland. I don't have a tribe, right?

Naufal: [00:25:47](#) Mm-hmm (affirmative). Mm-hmm (affirmative).

Jim: [00:25:49](#) So if I went down all my political opinions, half the people who would listen to it would think I was a crazed left-wing lunatic. Then other people who listen would say I'm just to the right of Attila the Hun. And I form them by actually thinking about them. And I've changed, right?

Naufal: [00:26:09](#) Of course.

Jim: [00:26:09](#) So I used to not be in favor of guaranteed income, basic income. I'm in favor of it now, because I kept reading. I think a great thing to do is read people that you think you're not going to agree with.

Naufal: [00:26:19](#) Totally.

Jim: [00:26:20](#) Because they might often be right. But when I talk to people, what I find is when you start talking about belief systems, it's like a third rail, man.

Naufal: [00:26:33](#) Yeah, totally.

Jim: [00:26:34](#) So much so that I've stopped even, or I've been trying to stop calling it that. And our previous guest, Brian [Ramelle 00:26:44] who-

Naufal: [00:26:45](#) Oh, he's great.

Jim: [00:26:46](#) He's amazing.

Naufal: [00:26:47](#) He's great.

Jim: [00:26:47](#) And so he came up with a term that I immediately stole from him, human operating system.

Naufal: [00:26:53](#) It's beautiful.

Jim: [00:26:54](#) Because-

Naufal: [00:26:54](#) That is so good.

Jim: [00:26:54](#) Isn't it? Because it allows us to all instantly realize, I'm not talking about you, I'm not talking about me. I'm talking about-

Naufal: [00:27:02](#) Us.

Jim: [00:27:02](#) ... every human being. Us.

Naufal: [00:27:04](#) Us.

Jim: [00:27:04](#) Right?

Naufal: [00:27:05](#) Right.

Jim: [00:27:06](#) And so that lets you tamp it down a little bit. But belief systems, man, they ... Robert Anton Wilson, who I'm a huge fan of, he calls them, and I think he actually stole the term from Timothy Leary, he calls them reality tunnels. And I-

Naufal: [00:27:23](#) Oh yeah, totally. Totally.

Jim: [00:27:25](#) Yeah.

Naufal: [00:27:25](#) Yeah.

Jim: [00:27:25](#) And so I just did a big piece called The Thinker, or The Thinker And The Prover, that I based on-

Naufal: [00:27:32](#) Yes. Yes.

Jim: [00:27:33](#) Yeah, yeah. Yeah, yeah. So, once you-

Naufal: [00:27:35](#) I like that.

Jim: [00:27:35](#) ... once you see this stuff happening, you can't unsee it, right?

Naufal: [00:27:39](#) Mm-hmm (affirmative).

Jim: [00:27:41](#) You could instantly see what reality tunnel people are in. And one of the things that I think would be really beneficial to humanity as a whole, not just for markets, but for everything, is if people could understand that maybe that person you're disagreeing with, and you, you have a different reality tunnels, and-

Naufal: [00:28:02](#) Totally. It's almost by definition, right?

Jim: [00:28:03](#) Right. It is, really. And if you can understand that, you can save yourself a massive amount of heartache, et cetera, et cetera. But without Jamie here to say, "Hey, Jim, shut up, let's move on with the interview." So quickly, we were talking about China earlier. What's your take on this whole Jack Ma thing?

Naufal: [00:28:28](#) Speaking of reality tunnels, it's very clear to me that the West, and specifically Western media has one approach to China. And China's strategy is not only different, but tries to take advantage of that. So what's happening with Jack Ma? I don't know. I don't think it's necessarily this very black and white, cut and dry personality enmity between Xi Jinping and Jack Ma. When this stuff started happening with [ANIPO 00:29:10], right before Baba started announcing buybacks, we were buying back Alibaba.

Naufal: [00:29:18](#) I think the reality is probably a lot more complicated. And I think that Xi Jinping and the Communist Party, they may be sending some sort of message of Jack Ma, but I think the point, the part that I think a lot of Western media may ignore is I think more so, they're sending a message to Western finance and the Biden Administration. The timing is really interesting. By which I mean, the trade deal, whether or not you want to put them in quotation marks, that President Trump pushed through with China, really opened up China to Western finance.

Naufal: [00:29:54](#) And that's, I think, one of China's goals, one of American leach goals. You saw a big rush of Western finance into Chinese

financial asset products and markets. And so it makes sense that someone like Xi Jinping would be wanting to send a message on the eve of a new administration to both the new administration as well as to Wall Street, that look, yes, we've given you guys access to our markets, but let's not forget who's in charge here. A lot of times I think Western finance folks, Western media folks talk about there's a rule of law.

- Naufal: [00:30:40](#) You have these people who build all this wealth, but the money's not really there. It's just the parties. And personally, philosophically, personally, yeah that sucks. That's not cool. That's not how I would want to run a country or a society, but that is part of their approach. That's part of the strategy is top-down. And they're not the Soviet Union along those lines, by my reading. They've learned from a lot of mistakes. It's a lot more nuanced than I think a lot of us Americans are willing to accept and admit, speaking to loss aversion.
- Naufal: [00:31:17](#) So yeah, I think I don't know the ins like baseball. I'm a gazillion steps removed from having any sort of insight into that, but I would definitely emphasize that the party and the president, Xi, are both probably sending a message to far more than just Jack Ma. And it's not necessarily bearish. Like I said, we bought the Alibaba dip.
- Jim: [00:31:43](#) Yeah. Well, that's another one of my bugaboos. I'm a big rule of law and freedom of speech guy.
- Naufal: [00:31:50](#) Me, too.
- Jim: [00:31:51](#) Yeah. No, I know you are. I know you are.
- Naufal: [00:31:55](#) If there is one thing in this life I'm grateful for, it's the fact that my father decided to drop everything to move to America with two kids. Because if I were in Pakistan, I wouldn't be talking to you.
- Jim: [00:32:46](#) The nature of humanity is to keep looking. Yeah, let's see what's over that hill. So yeah, I think that's interesting about Ma. I still am skeptical, right?
- Naufal: [00:32:57](#) Mm-hmm (affirmative).
- Jim: [00:33:00](#) It's like the old Damon Runyon quote, "The battle is not always to the strong, nor the race to the swift, but that's the way to bet."

Naufal: [00:33:10](#) I love that. Wow. Talk about macro in a nutshell. That is macro in a nutshell.

Jim: [00:34:33](#) Let's get back to another idea that I saw of yours that really, it jumped out at me. And I want you to talk a little bit about it. And it has to do with the response when COVID, when the shit was getting real, right?

Naufal: [00:34:56](#) Right.

Jim: [00:34:57](#) And people were actually frightened. And I think you were either quoting somebody or you said it yourself, "Liquidity is a promise believed." Can you riff a little bit on that, and what you think about that?

Naufal: [00:35:13](#) Yeah. I believe that Michael Santoli wrote this-

Jim: [00:35:17](#) Oh, okay. So you were quoting him?

Naufal: [00:35:19](#) ... from CNBC.

Jim: [00:35:20](#) He's a great man.

Naufal: [00:35:22](#) But totally, oh man, he's super sharp. I'm so lucky to be able to chat with him. We all sit on the shoulders of giants. I'm not entirely certain, but it echoed something that I don't know if you know Mark Dao, something that he's really talked about a lot, too. I consider Mark like a mentor to me, which is funny because I've never met him in real life. I met him on Twitter. We still haven't met in real life, but he's been more instrumental to my career than almost anybody. But yeah, totally.

Jim: [00:35:57](#) By the way, just a footnote. That is so cool.

Naufal: [00:35:58](#) Please.

Jim: [00:36:00](#) And that could be an entire podcast.

Naufal: [00:36:02](#) No. You know how we met?

Jim: [00:36:03](#) No. How?

Naufal: [00:36:03](#) It's so funny. You'll love this. I was just a young whippersnapper, just talking shit on Twitter. And this was during the QE days.

Jim: [00:36:12](#) Right.



Naufal: [00:36:13](#) And I was sitting there and being like, "Well, what about the Fed's DV01? What about the Fed's interest rate risk on their balance sheet?" And he was like, "Bro, trust me," he just said, "Sit the hell down. You don't know what you're talking about." And man, how lucky was I to have that education in real-time? You could have been at a lot of really, really top-notch trading desks and not learn that, because you wouldn't have been around people like Mark Dao. Back then, everybody was just buying volume and betting on hyperinflation. So I really do stand on the shoulder of giants.

Naufal: [00:36:46](#) I was very, very lucky. Mark Dao is a homie. If you're listening, Mark, you're the man. You know you're the man. But yeah, so that's something that he really instilled in me. And I think that Michael Santoli also, he really understands very well. I think he's chatted with Mark about this, too, this notion that the Fed does not inject liquidity, the Fed injects reserves. Okay. If I'm in the markets, what does liquidity mean to me? It's, how easily can I offer my positions? It's a promise of accessibility of transactions. And the Fed can definitely accommodate that.

Naufal: [00:37:24](#) A lot of that actually works through your focal point in a lot of ways, which is psychology, sentiments and confidence, as opposed to you can look all you want at ... If I'm sitting there trying to figure out how much has the Fed liquified the markets, I'm not looking at the balance sheet of the Fed. I'm looking at credit spreads. I'm looking at, how is it impacting market sentiments, psychology, confidence, risk appetite? Another thing Mark always says is recycles are not really about interest rates per se because typically, the housing bubble's biggest points, the dot-com bubble's biggest points were 4% or 5%, 6% Fed funds rates, right?

Jim: [00:38:13](#) Mm-hmm (affirmative).

Naufal: [00:38:14](#) The real thing is our psychologies aren't quantitative. The real way we have risk appetite and the desire to provide liquidity is we look at our neighbors and see they're getting rich and we're not. And that's like the big wipe out [inaudible 00:38:32] for example. So that's really important to me is thinking about liquidity in the context of continents, as opposed to in the context of some sort of quantifiable monetary aggregate, because not every dollar is the same. What's really interesting is the balance sheet of the Fed, the amount of reserves in the US Federal Banking System, well, the US Banking System under the purview of the Federal Reserve, actually declined during the Housing Bubble.

Naufal: [00:39:07](#) There was no balance sheet expansion by the Fed driving us. And yet, we saw a massive expansion of the Fed's balance sheet during the Obama Administration and since. And it really didn't do a lot to risk appetite, but for some reason, tax cuts for the rich? You're right. Nope. Because wealthy people look around and they see the other person is getting wealthier. And so that's a really powerful heuristic, I think, is to not try to think about liquidity in the context of the Friedman monetary aggregates, but in the context of rather, confidence, sentiment and psychology.

Jim: [00:39:48](#) That's really a great answer. And of course, I say that because I agree with you. But I actually do. I love history. Jamie obviously, loves it more than I do. And that is actually saying something, but-

Naufal: [00:40:06](#) No, true.

Jim: [00:40:06](#) Yeah.

Naufal: [00:40:06](#) It is.

Jim: [00:40:07](#) But if you read a lot of history, which I do, there's a great book about the Crash of 1907. It wasn't really a-

Naufal: [00:40:17](#) Okay.

Jim: [00:40:17](#) It wasn't really a crash.

Naufal: [00:40:18](#) The Panic?

Jim: [00:40:18](#) Yeah, it was a panic.

Naufal: [00:40:20](#) Yeah.

Jim: [00:40:22](#) And so you're right on the money with the idea of when things tip over into crisis or fear. There's so much great stuff written about it, but so it was J.P. Morgan, the man-

Naufal: [00:40:39](#) Who bailed out the system.

Jim: [00:40:41](#) Yep. Yep.

Naufal: [00:40:42](#) Yeah.

Jim: [00:40:43](#) And he literally had all of the bankers come to his beautiful library.

Naufal: [00:40:48](#) Totally.

Jim: [00:40:48](#) On 5th Avenue. And he went down the line. And he goes, "You're selling to him. You're bankrupt, I'm buying you."

Naufal: [00:40:56](#) That's liquidity.

Jim: [00:40:57](#) Yep.

Naufal: [00:40:58](#) That is liquidity right there.

Jim: [00:40:59](#) Yep. Yep. And after everyone found out about it, boom, crisis over. And so-

Naufal: [00:41:05](#) And did it take a dollar from J.P. Morgan to do so?

Jim: [00:41:08](#) No.

Naufal: [00:41:09](#) Exactly. And in fact, I think the Panic of 1907 is what ultimately, led to the creation of the Federal Reserve.

Jim: [00:41:14](#) It exactly is. That's right. And so they created the Fed in, I think 1913 as a reaction, because the government was like-

Naufal: [00:41:23](#) Maybe we shouldn't just leave it to J.P. Morgan, the guy?

Jim: [00:41:27](#) Yeah. He might die, something like that.

Naufal: [00:41:29](#) There's this whole thing about people die and stuff.

Jim: [00:41:31](#) Yeah, they do. That's a bummer. But the graveyard is filled with indispensable men

Jim: [00:42:27](#) You were talking about another thing that fascinates me, again, which has always interested me, but I haven't figured out a quant process to figure it out even better, and take advantage of it. And that's this idea of the Goldman Sachs baskets.

Jim: [00:42:55](#) I don't know if all of our listeners are aware. So maybe if you could, just describe what Goldman does for people by creating these baskets, that people can then trade. And the composition of the long basket, and the composition of the short basket is something I'm really interested in. Maybe you could just fill in and give me some color.

Naufal: [00:43:21](#) Yeah. I'll do my best because I'm definitely not a domain expert with this stuff. And I'm sure anyone who is, is going to be sitting

there with a lot of pointers and bullet points about, "Actually, it's not as simple as you say." And so, no disrespect to the folks who make this type of stuff. But I find that very interesting because especially, and Jim, you've worked a lot with factors actually probably before a lot of other folks did, and so I'm always looking ... Goldman is Goldman, and so I'm always interested to look at their factor baskets. So as just one example, they have a long momentum and short momentum basket, which I think is only accessible to clients.

Jim: [00:44:09](#) Yep.

Naufal: [00:44:09](#) But if you are a client, they provide the composition of the baskets and the weightings and all this stuff. And what was interesting to me was, for example, going into and especially, coming out of the election, we had some of these vaccine deadlines coming up. And so I was interested. Are we going to get a really good vaccine headline? And it turned out to be way ... no, the efficacy for the Moderna vaccine was ... I'm sorry, the Pfizer and then the Moderna vaccines were far more than we were even expecting.

Naufal: [00:44:50](#) But the idea was okay, this could be used as a very dirty proxy for how people are doing momentum strategies. And so what was interesting to me was I just looked at what was in the short momentum basket, which would mean this is the basket of stocks that you want to short based on momentum. They have poor momentum.

Jim: [00:45:19](#) Yep.

Naufal: [00:45:19](#) And the long momentum baskets are the ones you want to be buying if you're buying momentum.

Jim: [00:45:23](#) Right.

Naufal: [00:45:24](#) Everyone has their own little basket, so I just figured Goldman is Goldman, I might as well just use theirs. And it's very similar to a lot of the ETFs and stuff. And what I kept coming back to was two things. One, if we're getting really good, positive news with a vaccine or any kind of cyclical reflation, I just want to buy the hell out of these short momentum baskets stocks.

Jim: [00:45:48](#) Right.

Naufal: [00:45:48](#) Because everybody is sorted, right?

Jim: [00:45:50](#) Right.

Naufal: [00:45:51](#) And then the second thing that I thought was a lot really interesting, and I tweeted a little bit about this recently, and this may have been where you saw me come across it was the look backs for these momentum strategy ...

Naufal: [00:46:03](#) The look backs for these momentum strategies and basket constructions are pretty long. I had a lot of internal debates with my partners and then just folks that we chat with a lot on Bloomberg and some of my friends. Where I was saying, everybody [inaudible 00:46:22] long cyclicals, short growth, it's a very consensus trade right now. And it could be totally wrong. But, if we do see a political backdrop that is supportive of it, specifically if Democrats sweep this election this evening in Georgia, both elections this evening in Georgia, then consensus might end up being right. And the pushback I kept getting was, well, cyclicals have been ripping. So they're probably migrating into the momentum baskets. I studied math. I dabbled in the quantitative stuff earlier on and I look at these baskets and these look-backs are long look-backs. You can look at the momentum baskets today and it's still very weighed toward growth tech. And the short momo stuff is basically cyclicals that haven't ripped yet, basically.

Naufal: [00:47:22](#) And so there's still room. At least that argument wasn't that compelling to me. And so, that's how I approach these things as a very non-scientific, but just looking at everything as dirty proxies and finding areas where even those dirty proxies are pushing back compellingly against assumed views. And these are smart people I'm talking to. These are people who make a lot of money, do very well, I learned a lot from. But, it's interesting because it's not even about that they're wrong or right, it's just that this is very suggestive of an assumption that's probably pervasive in participant psychology. And look, if the Democrats don't sweep tonight, all this is relevant. That's how I look at a lot of these things is, when the factors may have some sort of macro inflection then I'm really interested about how the baskets are constructed. Because, whether or not they're all identical, they'll be close enough to the point where I can try to identify pain points, if that makes sense.

Jim: [00:48:43](#) Yeah, no, it makes total sense. And you're right about momentum, just raw momentum. We were able, because we got the crisp data for the fourth edition of What Works. That's the center for the research and security prices for people who aren't familiar with it. [crosstalk 00:48:59] of Chicago, which of course is the holiest of holy places.

Naufal: [00:49:04](#) Nothing better. Yeah.

Jim: [00:49:05](#) Yeah.

Naufal: [00:49:05](#) It's the church.

Jim: [00:49:08](#) It is the church. Right. I used to joke that if I was going to start a cult it would be the church of reason, but no one would join as it would be unreasonable.

Naufal: [00:49:21](#) No, I'm stealing that one too.

Jim: [00:49:25](#) Please do. But, so momentum is to my mind, and I've been doing this a long time, right? And the momentum factor was the one that drove academics, the craziest, right?

Naufal: [00:49:39](#) Totally and I love it. I love that.

Jim: [00:49:42](#) Me too, right? That's how I would always torture them.

Naufal: [00:49:46](#) Yeah, exactly, same.

Jim: [00:49:49](#) Do you know that buying the 10% of stocks with the best six or 12 months, momentum going back to 1926, it's not about 500 basis points better. And that's shorting the 10% of a worst momentum has been like a killer trade.

Naufal: [00:50:04](#) And I bet back then, you're talking to like real deep academics who don't even have the data. So as quantitative as they want to be, you have better data than they do.

Jim: [00:50:14](#) So, I'll tell you a funny story. I worked with Merrill Lynch for awhile. They hired me as an independent consultant to create a unit investment trust, which I don't think they're even, well they are around.

Naufal: [00:50:25](#) Oh yeah, the UIC.

Jim: [00:50:25](#) Yeah, they're not as popular as they used to be. And they wanted me to kind of build a super zoomy growth one. And so I was sharing the stage with Burton Malkiel, who was a wonderful guy, by the way.

Naufal: [00:50:38](#) Oh yeah.

Jim: [00:50:40](#) And of course famous for a random walk down wall street and legitimately famous.

Naufal: [00:50:45](#) Right.

Jim: [00:50:45](#) It's a good book.

Naufal: [00:50:46](#) Yeah.

Jim: [00:50:47](#) Everybody who is certain that the market doesn't have any randomness to it, to read that book.

Naufal: [00:50:52](#) Or just try to trade.

Jim: [00:50:53](#) Yeah, exactly. Shorting juice futures contract equals one Ivy league MBA.

Naufal: [00:51:01](#) Exactly, no kidding. Amen.

Jim: [00:51:05](#) So this is a long time ago, right? This is in the nineties and I'd written a piece for Barron's about the dogs of the Dow strategy, right.

Naufal: [00:51:12](#) Yup, yup.

Jim: [00:51:13](#) That I actually took back to when the modern 30 stock Dow was created in the late twenties. And so I'm telling him about it and honest to God, he'd never heard of it.

Naufal: [00:51:23](#) Wow.

Jim: [00:51:24](#) Well, and what I thought was interesting here.

Naufal: [00:51:27](#) I wouldn't expect that.

Jim: [00:51:28](#) So here it is. Right. So practitioners and academics, I read like everything, the academics, right? Because, they're thinking about things much differently than I am.

Naufal: [00:51:38](#) Totally.

Jim: [00:51:39](#) So I find it interesting to see what they're thinking.

Naufal: [00:51:43](#) Yeah.

Jim: [00:51:43](#) Also, right. So a practitioner, what did Witkin sign say? Something don't look for, meaning look for use.

Naufal: [00:51:50](#) Yeah, totally.

Jim: [00:51:51](#) So as a practitioner,

Naufal: [00:51:52](#) I forgot you're a linguist as well.

Jim: [00:52:09](#) as a practitioner, you want to look for pragmatic things and obviously you want to figure out why they work. Right.

Naufal: [00:52:21](#) Yeah.

Jim: [00:52:22](#) So then the second book I would, I just recommended everyone read Burton's book around, walked down wall street. You should also read metal broths markets, right?

Naufal: [00:52:32](#) Oh yeah.

Jim: [00:52:33](#) And abroad with a mathematician who went at it practically sued worth at the price of the book for his dismantling of efficient marketing.

Naufal: [00:52:43](#) He's why I went into mathematics and also because mathematics, undergrad at Michigan doesn't have attendance grades, just exams.

Jim: [00:52:54](#) Well you and I could hang forever.

Jim: [00:53:43](#) that also gets to this point, which I'd like your take on, which is, I personally believe, I wish I was like 20 years younger. Not for any other reason than I want to see what unfolds over the next 50 years. Because I think we are at such an interesting point in both society, and business, and everything, and the internet is disrupting the hell out of everything. Here's where I think where people really differ. I think we're in the beginning innings.

Naufal: [00:54:18](#) Yeah.

Jim: [00:54:19](#) A lot pop to think that we're in the end game, not even close, right? Because your idea of being conscientious doing the work, but you want to do it on your own time, hello, internet courses, hello. The ability to learn and actually structure education as learning rather than as indoctrinating, right?

Naufal: [00:54:46](#) You know, to your point, and this might sound crazy to folks. I think that we're in the middle game to your analogy about everybody kind of is acknowledging and talking about all the negative impacts of the internet. But, it's really funny because like we are in the early stages of the positive impacts.



Jim: [00:55:09](#) Yes.

Naufal: [00:55:11](#) I think that's really compelling. I'm not even going to try to sit here and predict what that means, because I have no idea. Anybody who thinks they have an idea is either, I mean, a true genius, like some Carl Sagan, Isaac Newton, type of dude or it's just arrogance. We don't know, but definitely think that, we're very, very in tune as a society, as a populace, as an online populace globally to all the evils it reeks. It's a great way for us to lose sight of the positive aspects of it, which could be a good thing.

Naufal: [00:55:57](#) The fact that we're just going to kind of let it run its course and then recognize it in a reactive sense. But yeah, I don't know. We'll see. There's plenty of bad too. I mean, and I don't know, I don't have the answers, but I agree with you. Especially with respect to education. Like I remember back in around the time Steve jobs died, or maybe like a year or two after. The notion of kids are going to learn how to read on an iPad. That was interesting.

Jim: [00:56:29](#) Yeah.

Naufal: [00:56:30](#) That's not even interesting anymore. And that was not even a decade ago. And what's interesting now is you can learn everything you want at your own pace and get accreditation for it. And, put on a badge on LinkedIn or get jobs from it and stuff. I mean, a lot of my LPs are just folks that followed me on Twitter. I never expected that. Kudos to them. Thank you, guys. It's a brave new world. But, Jim, if you don't mind, I wanted to say one thing to what we were talking about, if you don't mind.

Jim: [00:57:11](#) Sure. Please.

Naufal: [00:57:18](#) So you know how we were talking about how everyone kind of, if you want to be an investor or a trader, at least the first step needs to be build a strategy or approach that as suited to your personality and temperament.

Jim: [00:57:31](#) Yeah.

Naufal: [00:57:32](#) I kind of apply that across the board. I hear you. You're the guy who reads everybody else's stuff on the other side, and you want to be the guy who bridges gaps, you want to be the guy who is, I forget, the phrasing you use about, the way you wanted to bridge Paul Ryan and Secretary Clinton. The reality tunnels you want them to align in some way?

Jim: [00:58:05](#) No, I'm not stupid enough to think that they will.

Naufal: [00:58:12](#) But you're somebody I've observed is you're willing to do be an intermediary, which, I really respect just generally speaking.

Jim: [00:58:25](#) Thank you.

Naufal: [00:58:25](#) What I've learned is that I've tried this approach. My personality, it just hasn't been that successful. What I've observed it works for me is I work in a field where most, I guess you do too. Just for a context, I worked on AOC's campaign, I'm pretty far left. A lot of folks say I'm to the left of Marx. I'm not, I'm pretty leftist, progressive guy. And, most of my peers, at least in my industry are not.

Jim: [00:59:03](#) Right.

Naufal: [00:59:03](#) And what I found the most success with is actually just fighting them. I think that, the notion of actually speaking to Secretary Clinton, it takes a village. Society needs people who bridge gaps and they need people who fight each other, you need both sides.

Naufal: [00:59:24](#) And I found a lot of success just really pushing, challenging my peers about views. They may not have in a relatively aggressive manner. And, the results so far for what I've seen has been a lot of folks considering things they would otherwise not consider. Not doing it in a polite way, not doing it in a way where I'm trying to acknowledge both sides, but like very aggressively. And I think that, different personalities and different temperaments necessitate different approaches along these lines. But yeah, it's funny, you can ask Dan, you can cut this if you, if you want from the podcast, but you know, our mutual friend, Dan McMurtry, who actually introduced me to you in the first place.

Jim: [01:00:17](#) Yeah.

Naufal: [01:00:19](#) This was the approach I used with him. Because you would just hear me and a couple of my friends talking and be like, "Yo, what the hell are you guys talking about?"

Jim: [01:00:27](#) Right.

Naufal: [01:00:29](#) And, instead of walking it through in a really polite one step at a time manner, I just kind of went all in. I'm sure part of that is influenced by the fact that I'm a minority in this country. And, I've been brutalized by the police before and all this stuff, but

he thought I was crazy. Next time I talk, he thinks I'm crazy. Next time I talk, he thinks I'm crazy. And then the next time I talk, he was like, wow, mind blown. And, I think that different people should take different approaches. It's not a one size fits all.

- Jim: [01:01:05](#) No, listen. Hey, I actually agree very much. I think it is also, what's your temperament?
- Naufal: [01:01:13](#) Yeah, what's your personality?
- Jim: [01:01:16](#) Yeah, it's like when I was young, man, I breathed fire. I was a proselytizer.
- Naufal: [01:01:22](#) Exactly. I'm an evangelist.
- Jim: [01:01:24](#) Right.
- Naufal: [01:01:25](#) Until I'm the old man on the stoop, because everything already happened that I wanted to.
- Jim: [01:01:30](#) I love it. Right. Because as you go through your life and you grow as a human being and you learn things that are difficult to learn from a book, right/
- Naufal: [01:01:39](#) And you can't be static, right. Like you're going to change.
- Jim: [01:01:42](#) You have to. Literally that's the thing that I've always has flummoxed me with friends of mine, who I view as like super, super bright.
- Naufal: [01:01:53](#) Yeah, totally.
- Jim: [01:01:54](#) And then they're like frozen in this belief system. That hasn't been updated.
- Naufal: [01:02:03](#) Yeah. Again, if only for that easy. Right.
- Jim: [01:02:06](#) Right. Well, that's right. But, the point is it's like, sometimes people will say to me, "Jim, I didn't bother putting this shit up on the internet." The reason I do is because my audience is going to self-select.
- Naufal: [01:02:19](#) Totally.
- Jim: [01:02:19](#) And, I honestly, and this freaks people out sometimes, but I don't really care if they change or not.

Naufal: [01:02:28](#) Yeah, yeah. Amen, Amen.

Jim: [01:02:31](#) What I am trying to do is offer some ideas that I thought worked pretty well for me. And, maybe they can put that in their toolkit and maybe they can't.

Naufal: [01:02:41](#) Mm-hmm (affirmative).

Jim: [01:02:42](#) But my whole point is the one thing I did learn when I went from proselytizing evangelist. Right.

Naufal: [01:02:48](#) Mm-hmm (affirmative).

Jim: [01:02:49](#) Being far more dispassionate and kind of like open to the flow. I guess is what I'm trying to say.

Naufal: [01:02:56](#) Mm-hmm (affirmative).

Jim: [01:02:57](#) Is that I can't change another human being. I just hope I can help them change. Like you were talking about Dan. Right.

Naufal: [01:03:04](#) Mm-hmm (affirmative).

Jim: [01:03:04](#) But that human being also has to be pretty interesting. And like, Dan is the perfect example of this, right?

Naufal: [01:03:10](#) Oh yeah, he's super open-minded.

Jim: [01:03:11](#) Exactly.

Naufal: [01:03:16](#) He's intellectually honest.

Jim: [01:03:17](#) He very much is, which is why we invest with him in his anchor less thing.

Naufal: [01:03:21](#) Yeah.

Jim: [01:03:23](#) And, we did that after lots of conversations with him.

Naufal: [01:03:25](#) Well, he's a smart guy. And also someone with a lot of integrity.

Jim: [01:03:30](#) Well, right. And that's what I test for.

Naufal: [01:03:33](#) Yeah.

Jim: [01:03:34](#) I test for integrity, you've got to be a person of your word. And I have this long history on Wall Street and people sometimes look

at me like I have three heads when I tell them. Listen, man, Wall Street, more so many other industries is based on trust.

- Naufal: [01:03:53](#) Totally, totally. It's liquidity. Right? It's liquidity like JP Morgan, right. S.
- Jim: [01:04:00](#) Exactly, you fuck somebody over you're done.
- Naufal: [01:04:03](#) Good luck, good luck.
- Jim: [01:04:04](#) Because Wall street is small enough.
- Naufal: [01:04:08](#) You can have all the deposits in the bank, how you want, but you've lost your liquidity.
- Jim: [01:04:12](#) Done. And then you're done. Right.
- Naufal: [01:04:14](#) You're done.
- Jim: [01:04:15](#) And so, my point of view these days is I have come to the understanding that I'm not now, of course I can compel. I can force.
- Naufal: [01:04:24](#) Mm-hmm (affirmative).
- Jim: [01:04:25](#) That's not my nature. Right. I think people should change because they want to change.
- Naufal: [01:04:31](#) Totally, totally.
- Jim: [01:04:33](#) And then you can help them. You can give them the tools to do that. So I have no problem with proselytizers, I'm happy to listen to them because they're probably going to tell me something. I don't know. And I think that's the other thing that you really always have to guard against. And, I always ask myself, why am I reading this now?
- Naufal: [01:04:56](#) Yeah.
- Jim: [01:04:56](#) Who benefits from me reading this now.
- Naufal: [01:05:00](#) Mm-hmm (affirmative).
- Jim: [01:05:00](#) Why did this author take this point of view, right? Because, I don't know. Right. I always want to test myself because it's like one of my heroes, Professor Richard Feynman.

Naufal: [01:05:12](#) Oh yeah. One of mine as well.

Jim: [01:05:15](#) Don't fool yourself.

Naufal: [01:05:17](#) Yeah. No kidding.

Jim: [01:05:17](#) And you are the easiest person to fool.

Naufal: [01:05:19](#) Easily, yeah.

Jim: [01:05:21](#) Right, I always say the easiest people to deceive are people who believe they can't be deceived

Naufal: [01:05:28](#) It's definition. It's axiomatic.

Jim: [01:05:30](#) Right. So, Hey, I'm on board, which kind of leads me to,

Naufal: [01:05:35](#) And by the way, just, if you don't mind me to say one more thing, I know I talk a lot.

Jim: [01:05:38](#) No, please. This is your time.

Naufal: [01:05:43](#) You're humoring me, which I appreciate. But the last thing along these lines I wanted to mention too, was if it's of any interest, anybody is one of the reasons, especially as a younger person, I guess I'm not that young anymore. I'm 31 now.

Jim: [01:05:56](#) Oh believe me, you're a child.

Naufal: [01:06:00](#) Man, I was a child when I was talking to Mark Dao, as an 18 year old on Twitter.

Jim: [01:06:05](#) Oh I love that, man.

Naufal: [01:06:07](#) I'm a grown man now. But I will say, one of the reasons why this approach has worked for me personally, in this, kind of age range, I'm in, at this point in time, and I don't mean this to be applied across my life or across anybody else's, but one of the reasons is that, why did I start interacting with Mark Dao in the first place?

Naufal: [01:06:34](#) Because I aggressively presented my view and that allowed me to be aggressively taught. I'm rolling. If you're willing, to be made a fool of, which whether or not you want to, it's going to happen anyway.

Jim: [01:06:50](#) Exactly.

Naufal: [01:06:51](#) It's a great way to just, it's like a shortcut, especially when you don't have any. Like me personally, at this point in my life, if I'm character assassinating myself, it's not the end of the world. Yeah. If I'm sitting there with family and I have respectable political friends, this and that. It's a bit different of a situation, but as long as I'm in this position, I look at it as kind of like it's my own Liberty. I look at it as like a freedom I have and I would be a fool to not utilize it.

Jim: [01:07:30](#) Wow. Again, you're preaching to the choir, my friend.

Naufal: [01:07:32](#) Okay, cool. But, I'll stop interrupting your questions.

Jim: [01:07:35](#) No listen, man. This is your time that you're here because we're interested in you and it's not going to do us any good if I just fucking talk the whole time.

Naufal: [01:07:46](#) No, you're good.

Jim: [01:07:49](#) So that leads really well, I think, into your charitable work, which I want to talk about, because I think it's so important.

Naufal: [01:07:56](#) I really appreciate that by the way.

Jim: [01:07:57](#) My wife and I have supported groups like this, and I'm speaking specifically of public color NYC.

Naufal: [01:08:04](#) Mm-hmm (affirmative).

Jim: [01:08:06](#) Talk, tell us about that. I think is so important for young guys like you to get involved in these things because you're, you're serving as a mentor and a role model. Tell us about it because I think that the outcomes here are like nothing short of fantastic.

Naufal: [01:08:24](#) Yeah. You know, first of all, to all the listeners, again, Jim is too kind to mention this, but he was very generous with this, the organization itself, the moment I mentioned it on Twitter. So, kudos to you, Jim. I really appreciate that. We all really appreciate that. And, I want to see more people like Jim. Public color is really cool because it's an organization that targets the most at-risk youth in New York City to assist. And, by the most at-risk, they mean,

Naufal: [01:09:02](#) [inaudible 01:09:00] and by the most at-risk, they mean the folks who are the most disengaged at the worst performing schools in New York City, which is really interesting because a lot of the organizations in the nonprofit space that have really

high efficacy rates are the ones that are targeting the cream of the crop, geniuses who are going to get Marshall Scholarships, Rhodes Scholarships, one day, blah, blah, blah. And that's cool. And we should absolutely cultivate, folks that have gifts, but it's not the case that the only gifts that kids have are academic gifts. And I really appreciated the fact that when I came across them, my girlfriend, originally introduced me to them, they really focused on these at-risk kids and they utilized a philosophy of design to really push them into productive avenues.

Naufal: [01:10:01](#) So for example, one of the things that we do is we paint. And a couple summers ago, Marcus Garvey Park in Harlem, if you ever play basketball at the courts, perhaps after whatever sixth wave we are on, on COVID at this point, whenever these waves of COVID, finally cease and you go play basketball at Marcus Garvey Park in Harlem, you'll see these really colorful designs on the courts. We painted them. All these kids and us, we took the Saturday morning off for a few hours. We painted those courts. A lot of the high schools and hospitals in the Bronx and Queens that were very drab and completely forgotten by municipal and state authorities, suddenly are very colorful and that matters.

Naufal: [01:10:54](#) Trust me, that matters.

Jim: [01:10:55](#) I agree. [crosstalk 01:10:56].

Naufal: [01:10:56](#) And then beyond that too. Just generally cool ideas. I know this one kid in our program who we had a little contest about how would you change the school bell system? You go from fourth to fifth period in high school or middle school, and you hear a bell, but that's boring, how do you make that fun? Red light, yellow light, green light, which I love by the way, that's such a cool idea, because first of all, I know whoever that was, they knew this was my way of preventing myself from getting demerits for being late to class, because now I'm looking at a yellow light, it's not a black and white system. There's a gradient, which I love. It really is a brilliant idea, but anyway, that's kind of the approach we take.

Naufal: [01:11:46](#) And a lot of these folks come from families that may not be super stable, a lot of them had domestic violence, a lot of them that have gang violence in their families. And so what blows my mind about this and all this was a lead up to this is, a hundred percent of our students graduated from high school on time, last year, versus about 73% of their peers. A hundred percent graduate on time and a hundred percent of them matriculated into college or post-secondary education versus 55% of their peers. Which is-



Jim: [01:12:20](#) Incredible.

Naufal: [01:12:21](#) Insane efficacy based off of literally just giving a fuck, just the smallest things. And I've been active with Publicolor and I've been trying to proselytize and evangelize as I am, but, especially, again like I said, because there's a lot of programs for the gifted and talented, but these kids are gifted too.

Naufal: [01:12:49](#) It's just not based on SAT scores and whatever. Although some of them definitely are too. But so I've been involved with them, I've been very, very privileged to interact with some brilliant folks, but there's two things I really want to mention. One is, one of the programs we have, they're called workshops, which is really cool because basically, I'm on the junior board. So somebody on the junior board or someone on the junior board knows we'll come to Publicolor's offices and go into a classroom and we'll have a classroom of 10 to 30 kids and just spend an hour or two teaching them something. And we've had junior board members teach them how to make products from beads.

Naufal: [01:13:38](#) We've had junior board members talk about marketing. Being who I am, I had a two-part situation. The first was, I wanted to talk about economics. So I handed out candy bars to everybody and then tried to, after kind of teaching basics about supply demand, I wanted them to see, I set each candy bar at the same price level and then I let them trade candy bars. And given how much was traded for which candy bar, I tried to figure out two things. One was, what's the price of one candy bar versus another, ranked it and then see what's the marginal propensity to consume for each person. And it was really funny.

Naufal: [01:14:35](#) They had a blast. And then the second half of the workshop was I brought my keyboard, my musical keyboard, mini keyboard. And I put down a basic core progression on my computer. Like I said, I used to make hip hop instrumentals. That's how I funded my first personal accounts. Hip hop is my first love, I guess my second love. My mom is my first love, love you mom.

Jim: [01:15:00](#) That's great.

Naufal: [01:15:02](#) I had each student come up and play a different instrument, whether it was one person had the kick, one person had the snare, one person had the strings, one person had an electric piano or whatever. And at the end we had a beat and we kept playing it and there was two kids also in the class. And I had them battle each other with a rap battle.

Naufal: [01:15:21](#) It was beautiful. It was really cool. They had a lot of fun and it was really productive and constructive. And actually another time I talked about politics, it just gave him the basic idea of how electoral politics work. And that was older kids or high school kids. I spent an hour and a half with them. And I didn't do much personally. I just kind of put in 90 minutes of my time, which is nothing right. And we took a poll at the beginning of the class, three out of the 20 kids, and they're all voting age, but three out of 20, or were about to enter voting age, three out of the 20 kids said they would vote when they were of age or they would vote in the next election. And at the end of the class, all of them said they would vote because they kind of recognize the significance of it, because I was just talking about this is what we're up against, homies.

Naufal: [01:16:11](#) This is life right now and your voice matters and not everybody is in a position like me and you, Jim, where we were told, at a young age that our voice matters. But so that was really special. And then the second thing I want to mention is because of COVID, I was very sensitive to this notion of food insecurity and almost four-fifths of our kids experience food insecurity. And again, remember, these are kids who defy all odds to graduate high school on time and matriculate into post-secondary or college education, just completely crushed the competition. And almost four-fifths of them experienced food insecurity. So many of these kids were taking jobs as little kids, so they could feed their families because their parents had preexisting condition.

Naufal: [01:17:11](#) Yeah. It sucks to take a [inaudible 01:17:16] on the market, but that doesn't compare to this stuff. And so I was really pushing the junior board, we need to do a food insecurity, only, campaign. And that was kind of our holiday campaign. And we were all very lucky because I put it out on Twitter. I really try to signal boost it to everybody. Jim, was very kind, not only was he generous with contributing, but generous with sharing with other folks and so many folks came through and retweeted, introduced it to other folks, contributed.

Naufal: [01:17:52](#) And we each set a thousand dollar personal target. And I think there's 10 people on our board. So we were looking for about 10K. I had a one K target for myself, me personally raised about 55K off Finance Twitter, alone. And Finance Twitter is not necessarily the most generous of places. So I've been kind of waxing poetic, but essentially gave me the opportunity. I wanted to really express that. I really appreciate you giving me the opportunity. And again, thanks so much for doing so.

Jim: [01:18:21](#) Oh, it's my pleasure. I, 100%, support these initiatives. I believe in them. I think it's the right way to go. I think that we've taken a lot of wrong turns in public education. We've indoctrinated kids. And I don't think that's a good thing.

Naufal: [01:18:40](#) When our policy makers aren't doing the job to feed our kids, then it's up to people like us, right? People like us in the markets. We in the markets, not everybody had a great year, but a lot of us did.

Jim: [01:18:53](#) Yeah, yeah, totally agree.

Naufal: [01:18:54](#) And it's important to remember that when it comes to thinking about the holiday seasons and man, these kids don't even get two, three meals a day and they're still showing up, they're still beating the odds. So who the hell are we? They're crushing us.

Jim: [01:19:14](#) Fantastic.

Naufal: [01:19:14](#) The least we can do is to give the smallest amount to help them along the way, give them a meal or two. And thankfully, people showed up, so much love to everybody who did. And again, mad appreciations to you, Jim, because you really helped us on that cause.

Jim: [01:19:32](#) Thanks. It's been my pleasure. This has been absolutely fascinating, wonderful conversation.

Jim: [01:21:48](#) Okay. So, my son stole all the good stuff for his amazingly popular podcast, but I managed to come up with a fun question for our final question on infinite loops. And that is, we're going to make you emperor for a day, okay, Naufal, but there's some ground rules.

Naufal: [01:22:05](#) How much time do you have? No, I'm just kidding, I'm just kidding.

Jim: [01:22:06](#) Yeah. So, there are ground rules. You can't hurt anyone. You can't hang anyone. No violence.

Naufal: [01:22:16](#) Oh, wow.

Jim: [01:22:16](#) Yeah, sorry.

Naufal: [01:22:17](#) Those are good ground rules.

Jim: [01:22:19](#) I'm taking all of that away from you. You get to promulgate, right? You get to promulgate two things. They can be ideas. They can be courses of action. They can be whatever, that we're going to neutralize everyone right before it. And they're going to hear what you say, and then they're going to go, "Oh, I think I just had a great idea." And they're all going to comply. What do you got for me?

Naufal: [01:22:43](#) Wow, oh, man. They're all going to comply.

Jim: [01:22:46](#) What do you got for me?

Naufal: [01:22:49](#) Wow. [crosstalk 01:22:50] That last part. They're all going to comply too.

Jim: [01:22:53](#) Yeah. That's the one that gets you going, oh.

Naufal: [01:22:57](#) That expands the set of possibilities. I think the first thing for me would be, spend, government spend, you don't need to tax to address inequality. Just spend, just go ahead. And the government can provide a job for everybody who doesn't have one. In fact, Jim, I believe that a job guarantee is superior to a UBI type of platform because we're getting these checks, right? And what was interesting was both with the checks and the unemployment insurance expansion, no one who got the unemployment insurance expansion and got a pay raise because they were unemployed, decided to not take a job when they were offered one. Why? Because an extra 200 bucks a month, 300 bucks a month for two months does not replace a career. By the same metric, if it were a permanent thing, if UBI were permanent, then Congress and companies would just offset the benefits, they would say, "Okay, you have UBI. So you don't need to have this safety net." Congress would say, "You don't need to have this safety net."

Naufal: [01:24:19](#) And then companies would say, "You don't need to have this benefit, or we can cut your wages," whatever. If you have a job guarantee, if you have a federal insurance for employment beyond just unemployment insurance. But literally every single person who wants a job, has one. Because there's a lot of shit we need to get done anyway. Then what would happen is, maybe there would be a little bit of a supply shock to companies who were looking for labor and how do you source that labor? You have to raise your wages to compete. And that is how you redistribute to market forces. So, JG over UBI. But yeah, some sort of jobs guarantee I think would be very, very fruitful.

Naufal: [01:25:06](#) And then secondly, and you said, if everybody just complied, bro, stop blaming other people, guys. It's us. Look within first. When I tell my fellow Americans, stop blaming immigrants or stop blaming China, stop blaming this stuff. I'm not saying that China is this great place. I'm not saying that the rest of the world's so great. Because when people say, "Go move," right? "Why are you in America then?" No, I'm saying hold ourselves to a higher standard in that, we're better than that.

Jim: [01:25:46](#) Right?

Naufal: [01:25:47](#) When people say snowflake, most of the times they say it they're projecting because the real snowflakes are the ones who don't believe in the possibilities this country has to begin with. So if you really want to be America first, then believe in America.

Jim: [01:26:05](#) I love that quote, man. Tony de Mello, who is a thinker that I read a lot and he died, tragically, way too young, but it's all about people being unaware of ourself. We suck at self evaluation, myself included, and he's got a great quote, which is, "If you want to understand your shortcomings, look at what irritates you in others."

Naufal: [01:26:31](#) Oh, that's so good. That's so good. That's so good.

Jim: [01:26:35](#) I so took that to heart and man ...

Naufal: [01:26:38](#) Can I change my answer to that, by the way?

Jim: [01:26:40](#) Yes, please.

Naufal: [01:26:41](#) That's my answer now. That's so good. That's so great. I love that.

Jim: [01:26:45](#) Well, that was your answer. So, awesome to have you on, my friend, we will have you on again.

Naufal: [01:26:51](#) Also, beyond just looking at what irritates you, just listen to your mom and your significant other, because they'll remind you as well. They definitely do with me.

Jim: [01:27:01](#) Listen, I'll tell you if I didn't have my kids, I would think much more highly of myself and my wife, definitely. She is here to continually prick my ego, which is a good thing.

Naufal: [01:27:15](#) Well, you've been, obviously, a very great father, so kudos to you. But again, Jim, thank you so much for having me. I really appreciate that. And again, thank you so much for the generosity with Publicolor, for signal boosting the cause. And for allowing me to wax poetic about it. I really appreciate that. It really means the world to me.

Jim: [01:27:33](#) Terrific. And this has been a great conversation. We'll have you on again. Cheers.

Naufal: [01:27:37](#) Cheers, mate.

Jim: [01:27:38](#) All right. Thank you.

Naufal: [01:27:39](#) Take care, homie.