Dan McMurtrie - The Next Market Wizard
The Business Brew

The second episode of The Business Brew features Dan McMurtrie, PM at Tyro Partners. In this episode Dan pulls back the curtain on how a true hedge fund manager thinks. He discusses:

- A tough launch (13:20)
- Pivoting from "value" investing (17:50)
- Agency costs hurting "value" investments (20:35)
- Convergent & iterative thinking (32:40)
- Risk management and buying higher (44:20)
- The dangers of the value investing inoculation (46:50)
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- Being early on COVID (1:08:00)
- TINA + Liquidity Shortages + FOMO (1:22:11)
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We are grateful to him for sharing his mind. Please enjoy the episode.

[intro]

Bill: How's it going, everybody? Welcome to The Business Brew with Bill Brewster, and my guest, Dan McMurtrie. Dan on fresh off of the big week that I look forward to talking to him about. As a reminder, this is not financial advice, investment advice, anything that you hear, here is the opinions of two people. Do your own due diligence and everything in between. I am not a fiduciary, Dan's not your fiduciary, get your own advisor. With that out of the way, Dan, how you doing?

Dan: I'm good, man. Thanks for having me on. I'm excited to chat. We do this every once in a while. Why not record it and share with people?

Bill: That's how I felt. It's been a pleasure getting to know you this year. We got to talk about your big news, man. Tell everybody what happened.

Dan: We signed a CDO Greenlight Masters, which is Greenlight Capital's internal fund to fund's vehicle. It's run by Mitch Golden. We've been talking to them since early 2017, I got introduced to them by another manager, about known him 25 to 35-year-old range. I'd share his name, but he's obsessively private person. Believe it or not, I do know people who are not on Twitter.

Bill: [laughs] I don't believe it.

Dan: He introduced me to them, and we started chatting, I think, February 2017. We've been talking to them every probably month or two since. And then earlier this year, they said, "Hey, we'd be interested in doing something." We were able to work out a really good partnership, we think, and more importantly, we really love the team over there. We think they're great guys. They're thoughtful, they're helpful. They really took the time to understand what we're doing, what we want to build. It's just awesome.

On a personal note, for my business partner, Alex and I, we grew up reading about for our particular age vintage, David Einhorn, Dan Loeb and Bill Ackman were the three guys that was Batman, Superman and Green Lantern. It's really surreal for me getting to meet some of those people and work with them. I'm on cloud nine. At the same time, I'm, of course, insanely neurotic about not messing it up. But we are six years in, we had some nice overnight success that only took six years. We've got enough experience, which is to say, we've made enough mistakes already to where we know what we're doing. We're excited, and more importantly, it's great that we have partners that we like, and we can work with, and I think it's a great relationship, and we could not be more pleased.

Bill: That's awesome, man. I'm super fortunate to have gotten to know you. Twitter is an amazing place. The first thing that I pinged you about was something in the weed space about drying. I liked a part of the value chain. I think it was licensing. I didn't know who the heck you were. You were still @SuperMugatu at the time. We just started to chat. It's been fun to build a friendship with you. It's been a hell of a year to go through speaking with you over time. I'd like to get into that, but first, I got to start, what was it like running @SuperMugatu?

Dan: Fun. It changed over time. I do Twitter because when I was in college at Notre Dame, I would harass smaller hedge fund managers to let me intern for them for free. "Let me do something, put me in the game, coach." I'm sure some of the work I did was valuable, and a lot of it wasn't. One of those guys said, "Hey, you got to get on this Twitter thing." I didn't really get it at first. I went on, and it was all day traders and charts that I could **[unintelligible [00:04:02]**, and it is hard to penetrate that if you've never been on it before. Also, finance was very different back then.

Bill: What was it like? In what way was it different? I've only been there for maybe three years or so.

Dan: Back in '09, '10, '11, somewhere right there, I had a different handle back then, I think which was under my own name, but it was a lot more daily trading ideas, the charts here, the set or whatever. They weren't these long-form discussions about fundamentals. There wasn't as much of a community. There was a community of these day traders that migrated over from other chat platforms that have existed since computers existed. It was a little bit more like a message board. Then over time, it slowly started morphing into more of a community as people started to put stuff out there, and really what happened between 2015, I think, and 2018 is the online and offline world started to sync. People started to meet in real life because of Twitter or you started to realize that a third of people, that cornucopia covering Liberty, we're all on Twitter, or things like that. Also, surprisingly, high-profile people started to go on as they're starting to be higher quality content, which caused more content to come on the platform and you had one of those nice little feedback loop happen. So, it changed.

I, initially, when I moved to New York, I was going and I was doing open mics and doing standup. I really just started using the Mugatu handle as a way to test standup comedy jokes. Because I also would tweet sometimes about stocks and things, I had this nice little niche where I could interact with pretty much whoever I wanted, but it wasn't serious. It was generally just either talking trash in a relatively light-hearted way or making jokes, but I could still have the stock conversations. Early on, I picked up that if when you're going online, you almost need to create a character for yourself. I explicitly create a character, and I chose Mugatu because my old boss, I would go in and rant after researching company about the receivables **[unintelligible [00:06:08]** problems, and this, this, this, this, this. He'd be like, “You sound like that guy from that *Zoolander* movie who's losing his mind.” I said, “Well, this is great,” because I advise people on this still, when they're going to go on an open platform like this, because there's a game on it. If you just go out and assume it's like real life, people say things on there, they would never say in real life.

So, if you don't create some sort of psychological tool to buffer yourself from it, it's very easy for you to accidentally mouth off and put something that you would never want on the record out there. It's very nice to wear a mask and just also have that comedy character where it's absurd for somebody to get really angry at a Will Ferrell account.

Bill: Yeah, that's fair.

Dan: It's this nice-- There's like a logical fallacy, it's about making an absurd statement and retreating to a rational statement and pretending they're the same. You could do that all day. I think it's motte-and-bailey, or something like that is the fallacy. I realized, like, “Okay, I'm going to have this character, I'm going to play a character, there's going to be a tight thing for it.” Then, over time, I started to meet more and more people, and we didn't know a lot of people, so I went to all the happy hours. I helped set up a bunch of happy hours. Me and a bunch of these anonymous accounts are starting to build followings, we would say, “Hey, this bar, this time, anybody come.” And 30, 40 people would show up, and we meet those people, we stay in touch, and then group chats start, and then email threads start, and you find out you and somebody else are obsessed with one company. So, you start swapping notes. Then, they would introduce you to somebody else, who is a real person, a real fund, and you start talking with them, and all sudden, that started expanding in a fractal way.

At a certain point, it was like, one, Twitter had gotten a point where those types of conversations-- which I really think began offline, people meet online, then meet offline from online, then they have a real conversation, then that moves back online. That is, I think, the loop that drove the quality of content on Twitter to go up over time, along with people like Patrick O'Shaughnessy, and others starting to launch more like formalized businesses around them. Then, that started to loop. At a certain point there, I had met hundreds and hundreds, if not a few thousand people, and I’d spoken to those people, and people have my name and email. If anybody really wanted to find out who I was, it really wasn't that hard. People did try to dox me several times. It was like, “Surprise, I'm a nobody.” It doesn't matter. I know, a couple of people were so disappointed when they found out-

Bill: It was you.

Dan: -that I was the guy behind that account. Right, they're like, “Oh.” There was one guy who was like, “Man, I really thought you'd be like a big deal. So, who are you?” [crosstalk]

Bill: Oh, that's rude.

Dan: I chose to take it as a compliment. Yeah, after time, I just said, “Look, the anonymous thing doesn't really make sense.” It does make sense for a lot of people. I think the anonymous part is really important because people can speak clearly. The only reason, like with a lot of businesses, a prior inefficient state of things is what was necessary to create the current version of things. I think that is the case for finance Twitter is, I don't think the current version of finance Twitter would have ever existed if it weren't for the merry band of trash-talking anonymous accounts because that formed this core hub. Then, over time, the non-anonymous people started coming in, but back five, six, seven years ago, which is eons ago in internet time, there were very few, I would say, real name people who were also publishing serious research. Now, you're seeing it really start to push with all these Substacks and S-1 breakdowns, time for a thread with the three little finger points. There are people that were all this before me, but I feel I was one of the seminal members there, and there's probably 25, 30 accounts that are-- they go back to that vintage.

But it's also changed in some of those accounts that were used to be a big part of the community have faded. There's some people, I think, among hardcore Twitter people. There are some people who aren't considered big accounts that we would all say, “No, he's a real one.” It's just like any other social group.

Bill: I would actually think if you're that guy, that's not big, but the real big ones respect you, that's like the real coveted position in a weird way.

Dan: Yes. Absolutely.

Bill: It's like the OG of the FinTwit. When you get respect by the people that other people respect, that's more important, I think.

Dan: Absolutely.

Bill: That's interesting. The inefficient thing that you had alluded to, I feel that a little bit in whatever the hell I'm doing. I don't even know what I'm doing, to be perfectly honest. What I do know is, I have a reasonably good way of connecting with people in finance and outside, and there's something about me and finance entertainment that people seem to like, and I really enjoy doing. If I can do stuff like this, and deliver this to the world and figure out how to monetize it, I really don't want to run money. For real. I'm happy running my own.

Dan: I think it's because you have the same voice as the guy from office face.

Bill: Yeah, it could be. I sort of have a similar attitude. I need to make sure it doesn't get me in trouble, though. [chuckles]

Dan: Yeah, well, I think that's an interesting topic because I think that-- I've said this on a few things, but earlier in my career, like 2016, things were really not going well. It could have gone worse, but I was having a really hard time and I went to a mentor of mine. He gave me several pieces of advice, really valuable. One of them he said to me, and this is just-- There are things people say and you hear them, you're like, “Yeah, that's right,” but you don't really understand how important that thing is. So many important things in life, in business investing, seem mundane when you hear them. Then years later, you're like, “Oh, my God, that was [crosstalk] stuff.”

Bill: Prophetic, yeah.

Dan: What he said to me was, “Look, everything successful I've ever been involved with--” This guy's been a fabulous venture investor and public investor and manager of businesses. He said, “Everything I've ever been involved with, it worked. It went not even remotely close to how we thought it was going to go. We had to pivot 10 or 20 times, and we had to move directionally in the right way to continue to succeed and survive, I don't think we've ever been in **[unintelligible [00:12:15]** like 100 bagger or something like that. We've never had something go anything remotely the way the original pitch deck work.” His advice was like, “Don't worry about the end state so much, worry about what you can actually control them do right now. Work the process.” There's something, I think, in this modern ecosystem of how these tech communities work, where you can feel it, you know what I'm saying? You can feel like, “Okay, something's happening here. We're building an audience. People are paying attention. This is yielding returns, they're just not financial yet.”

I think a lot of wonderful businesses have been built that way where you're not yet seeing it maybe on an income statement, but you're seeing the function that should produce income statement metrics over time getting built out. I think financial media has been done so poorly for so long. I don't know that it's ever really been done well, that there's a huge opportunity for people to do things now in this community, and the appetites there, and the appetite to global is also the other thing. The costs are low. We can sit here on our laptops and-

Bill: And do nothing.

Dan: -have a chat. Yeah.

Bill: Yeah. There's no startup cost at all. Do you mind going into what wasn't going well, if you're comfortable with it?

Dan: Sure. Yeah. We were going to launch our fund in 2015 in August, and we had been managing some friends and former boss’ money and we had done really well with it. Honestly, too well, because the market had been strong. There was definitely some confusing of bull market for brands going on. We said, we're going to launch a fund, and bunch of people who we had known for a long time said, “We'll commit. I'll give you 250k, 500k, million,” something. We thought we had 15 million committed. Then, in the week before, we're supposed to launch, just people stop responding emails.

What happened there was basically one person decided not to invest, because somebody told them, “Hey, emerging managers almost never work out. Starting at subscale is a bad idea,” all this other stuff. Absolutely, good advice, I wish I had known and understood that at 21 or 22. Then once somebody heard that somebody else was passing, everybody else dominant. We started with 3 million. So, that delayed our launch a little bit, and we started August 2015. We're 3 million instead of 15, then we started investing up, and then the market collapses, because China was going to blow the world up at that point if you remember.

Bill: Yeah, you're talking December 2015?

Dan: So, we drawdown.

Bill: Yeah, that was a crazy time, at least for certain names. I don't know the whole market, but yeah.

Dan: It was very volatile. We were on tilt when we came out of the gate because of how the fundraising environment have gone. We drew down like 15%, and it was brutal because the longs went down. As longs were going down, we're like, “Oh, we haven't really put on our short exposure yet, so we shorted,” and then everything went vertical. We got hit on both sides. Just nothing was working. In retrospect, a lot of classic analysts of PM type things where we confused running basically PA money with a few positions, **[unintelligible [00:15:19]** how to structure a book and manage risk and things like that. I had to go back to the drawing board and figure out how to structure a portfolio better.

After that, it was like, “Okay, should we even keep doing this? How the hell are we going to raise money?” All that other stuff. It had blown up in our face in four months. My business partner Alex had left Citi, working in investment banking to do this with me, and I left my job, and that felt really bad.

Bill: Yeah, and you're in New York at the time?

Dan: Yeah. Actually, we just moved up to New York.

Bill: Yeah, so you in a lot of cost in your life.

Dan: Right. I mean, at that point, it was like we work in apartment [crosstalk] still it was. That wasn't trivial to us at the time. It was just everything went wrong at the same time. You can't raise the money, the longs go bad, the shorts go bad. All these people that were like-- I had people who would call me every day to talk about stocks, all of sudden like, felt bad that they bailed because somebody else bailed. Then they like were awkward about then wouldn’t talk about it. I felt isolated. Then you start just like self-sabotaging almost in a way where you just go into this doom-loop in your head. It's really, really bad. I was just having trouble getting out of it. I took a week, and got away from everything, and went to talk to some people. I was just like, “This is a nightmare,” like basically blown up. [crosstalk]

Bill: Yeah, no, I understand what you're saying.

Dan: Right. I was like, that was just terrible. I'm going to start with people-- Nice thing is, I was able to go to some people, and they were like, “Dude, you're 22. You did something ballsy."

Bill: [laughs] [crosstalk] -perspective.

Dan: Right. “You did something ballsy. How much money did you lose?” I'm like,--

Bill: X.

Dan: It was like 450 grand or something.

Bill: It's not nothing.

Dan: I don’t remember exactly. It's not nothing, but they're like, “How much money have you made for those people historically?” I'm like, “Well, more than that.” They're like, “Okay, well, you don't have to feel that bad. I would fix it if I were you. You don't feel that bad. You're not putting anybody in the poorhouse, are you?” I'm like, “No.” They're like, “Well, you're not going to quit, are you?” I was like, “Well, I'm thinking about it.” They're like, “Why are you going to quit, you're 22? If you can't get better at 22, you have much bigger problems.” I got some pats on the back from people and just said, like, “We see what you just went through, that was a nightmare. Pick yourself back up.” That really led to a huge pivot and just worldview and how I treated people and how I thought about investing. It caused me to move away from a purist value philosophy because I realized there were just practical constraints that existed that you have to manage, like Bill Ackman talks about return on brain damage, but I had had five or six different things go wrong at the same time. I felt that much stress. I realized it's like all these fables you hear about value investing, it was like I was unable to make basic decisions for a couple of weeks. I was like, “I never want to feel like that again,” because I'm going to miss fat pitches because I'm just shell shocked, there's things exploding everywhere.

Bill: Did you feel there were things that happened? I assume that you were in the deeper value sort of strategy mentality at the time?

Dan: Yeah. There were a couple things we did wrong. One, little more deeper value we had invested, one of the worst investments I've ever made. Some investments that don't work, you go back, and you go, I'd make that bet again, it was a good bet. It didn't work out, but ex-ante was a good bet. We invested in this company called Horsehead Holdings that was like a popular value name. We later shorted it to zero in some size--

Bill: Oh, good for you. You made money on the downside.

Dan: We later got our money back on that one. We're going to probably talk about this, I'm really obsessed with understanding how the value school of thought can poison your psychology because there's nothing wrong with value. It's a great framework. Everybody needs it. It's the basic mathematics of business, but it can also become the psychological safety blanket that can provide a feeling of comfort that can suffocate you. We were obsessed with being smarter than other people. We wanted to be clever, we wanted a really complicated thesis where we had to read 2000 pages of documents because nobody else is going to read the document. What I realized over time is those things traded a discount because that reading cost is essentially a diligence costs and then in the event where you're wrong, you can't get out. It's a very different return profile when you go into those weird special situations, especially hard assets, special situations. It was just trick shot stuff, we were trying to justify why people were wrong to not invest with us. We overcomplicated it. We should have just gone really vanilla and tried to hit singles and doubles, but we wanted to be monsters, so we overcomplicated, we made it harder than it needed to be. In retrospect, it was almost like a self-sabotaging your ego thing. I'm really paranoid about doing that now, and I see some thesis people post around, like that is a fabulous thesis, incredible research, I'll never touch it.

Bill: [laughs]

Dan: Never. I'll never touch that.

Bill: On some of those names, do you think you need a really good capital allocator to bail you out? I don't want to cut you off. I'm sure people are pissed off that I did. If it takes that much research to get your head around, it seems to me that you need a guy that knows how to collapse the discount.

Dan: Yeah, the agency costs are huge. All of a sudden, you have all these problems. One, who's your capital? Are they going to ride that out? Two, what is the incentives of a person there? One of the things that you get in trouble with smaller value stuff is, you have management teams that are, first of all, they're not rock stars. It's they're not like the high demand people. I do think there's a signal, and you get a rock star who goes into an absolute trash fire, I really disagree with Buffett on the reputation of business or his reputation management thing. I think that's a huge signal. Buffett speaks to his median audience participant, which is generally a retail investor. What he says is very advisable for them. It's not advice for professionals. There's huge signal when you get a rock star going into a trash fire because there's usually a really good reason, they're not dumb people.

I think you have to really understand the incentives there because if you have a C-minus manager who's been abandoned by the markets, why are they going to go through this very difficult process, and then hand anonymous shareholders all this money when they could carve out a nice 10, 20, 30, 50 million for themselves by working with private equity or creditors or something else in a way that they'll never be called on practically? Actually, with that Horsehead situation, if you go back and reverse the course of events, it seems pretty clear that management, it was mathematically impossible, they wouldn't default at the time when they spoke to investors. I don't even know that that was deliberate on their part, they might have just not been competent. The incentives get really nasty in these small things. So, if you have somebody comes in is aligned, who has skin in the game, who's got the alignment factor, you got to really, really be sure.

I've just seen so many good businesses where even you're right, like, okay, there's a value we can unlock, and you think your asset worth 3X where it's trading, often when I see that happens, it does get bought out or something, but it's in an 80% premium. You took all of this nightmare risk of all that going wrong, plus the illiquidity, plus all of that, and then you're getting a heavily haircut premium because the management team is going to stay in place and get a huge comp package. We had a company we had a position in-- actually yesterday they got acquired called **[unintelligible [00:22:43]**, it's a drug development company, and they decided to sell the company immediately prior to a major data readout and drug approval. I haven't seen what management's compensation will look like at the acquire, but I would love to, I don't have any view on what it is, but I have a feeling--

Bill: You have a view, we just don't need to say what your view is. [laughs]

Dan: I just have a feeling that there might be something interesting in there. I don't know.

Bill: One of the things that I really changed on was when I came in, to the investment game for lack of better term, like I'm self-taught, and value ethos, to your point, like being smarter than everybody else was the real like thing that I wanted. I bought into that mentality. I was fortunate enough to-- Mario Gabelli is the reason that I do what I do. I met him at Berkshire and I asked him if I could buy him a beer. He sat down with me for like two hours, and I got really interested in how he thinks and why he thinks the way. I think his value plus a catalyst is very, very important if you're going to play especially that deep value game. I can't get down with these buyback stories that aren't giving you true cash out.

One of the reasons I like Qurate is the cash that's coming back to you. A lot of these just like orphaned assets, I look at the management incentives, and even if it's really cheap, I'm just not into that game anymore.

Dan: There's definitely ways to do it. There are people that make-- there are people who are wired for, your investment style needs to be synched up with what your personality is. One of the struggles you have, is your conception of who you are as an investor will almost for sure be outed as false as you have more market experience. The question is, can you adapt your investment style to who you actually are, which means you need to have some level of accurate self-perception and self-knowledge. Two, you're feeling it change. Often what happens is the things you want to be good at are not what you end up being good at. The other thing that can happen is it may turn out that you're good at things that you find distasteful. For example, I know a few guys who started out as, like Ben Graham, value style guys who found out they're for whatever reason freakishly good commodity traders. Freakishly good. Yet, they're mostly using technicals and a few other things that people would consider voodoo.

I watched one of them, he was like struggling internally because he was making so much more money on what he considered to be hunting and gambling than he was on his intellectually valid value investing research. Eventually, I think his wife was the reason he gave up the value thing and decided to do commodities full time because his wife was just like, "I like it when we can go to Costa Rica for a month. I don't like it when you're screaming about a steel mill."

Bill: [laughs]

Dan: Right?

Bill: Yeah, that life risk mitigation is [audio cut].

Dan: Right. She was like, "Do you want to yell about a steel mill in front of your children? Or do you want to hang out on the beach?" He was like, "I like the beach." You've got to figure out who you are, and you got to be flexible. I found it for me, everybody, I think the other thing is you have traumas that--it's almost like therapy, like trauma is come out through your investing, and you can usually trace people's investing styles back to either just some sort of personality makeup or traumas they've had in the past. A lot of people who are value-oriented, historically, like when you ask them about their childhood, they'd be like, “Well, my grandfather grew up in the Depression,” and that's the beginning of the story. That tells you everything. Me and my sister called trigger phrases where they give you this line, you're like, “Ah, that's it. That's the character.”

For me, I try to spend a lot of time and I journal a lot. We'll talk about that in a second, I'm sure. I have to figure out what are my traumas were and my biases. Mine is, when you start to have not one or two points of stress, when you start to have 5 or 10 or 15 points of stress simultaneously. I know that my decision-making quality, my analysis quality, my overall productivity is going to decline. Even though let's say I have two stocks, and one is I think, a 15% return because it's a higher quality business, it's not as cheap. I have another what I think is a 30% return, but it's going to be really hairy. I might have one of those hairier businesses, but I know that if I have 10, there's going to be a week where stuff's going on, and I'm useless. Then, I'm going to miss when that higher quality business drops down, now that thing's a 40% return.

Some of that is selective memory, of course, but the question is, what parts of the process-- So, you have to look at two things. One is what is your selective memory telling you versus your actual record? Which is why it's important to journal thoughts and your trades and all that. Then the second is, what do you actually act on? People mess this up sometimes because they look only at selective memory. They don't look at what are you actually going to act on. For me, I found I'm much more willing to buy slightly higher quality businesses. Ultimately, I'm very comfortable in competitively oriented theses where if I just know, “Okay, André the Giant is going to fight a guy who's three feet tall.” I'm super comfortable betting on onto the giant at any point in the round, no matter how people think the fight’s going, unless there's a fixing.

Bill: What if people think the fight is going too well, which is to say, are you willing to stretch now on valuation if you really convince, like André the Giant is going to beat this guy to pulp, I'm still betting it?

Dan: I still have not developed the ability to buy some of these sales multiple companies, and I know--

Bill: It could be a good thing.

Dan: Yeah, I mean, I'll tell you where I'm at on it. I think one, valuation’s last in my process. First, I really want to understand what are the competitive dynamics and the feedback loops for the customer within the company, the culture of the company, capital sources. Reason I care about culture is adaptability of the company. That's why I think a lot of these companies, these tech companies, everybody goes, “Well, they're really overvalued.” I'm like, yes, but also, during this year, this company's cultures were built to be very adaptive to change because what is Facebook do every day? Facebook has teams of data science, people tweaking very subtle things that you'd never notice to optimize the site. All of a sudden, the data goes crazy, they already have hundreds of people whose only job is to adapt to new data. Versus if you go to, I don't know, a company that runs like--

Bill: Sawmill or something, whatever.

Dan: Yeah, whatever. They haven't had to change 100 years. It's a very different factor there. I want to understand all that stuff, and then at the end, I want to look at, not just the valuation, but also the price implied expectations. Mauboussin stuff is fantastic. Then from there, you can see-- and I learned a lot from studying Bill Miller on this. One of things that Bill understands, I feel Bill does not get enough respect.

Bill: Dude, he's a beast. I love him.

Dan: I think he had one bad year and that he's like a monster--

Bill: It's because he blew up once and people shit all over that, but I mean, whatever.

Dan: Who hasn't been produces monster-- [crosstalk]

Bill: I don't know, man. He's one of the most creative investors I've ever studied. I love him.

Dan: The other thing with him is like, I like to look at investors overtime every five years, like what are their new tricks. And Bill has new tricks every five years. One of these Bill understands is, you can be a contrarian in the sense that if somebody thinks something is good, but it's actually amazing. That's as valuable as thinking something's bad and people think something's good. The difference is, and this is something I think this is a return type that I think Bill captures is, there's an issue of the market, there's information that exists, there's information diffusion, how does that information go from existing somewhere to investors. That's a big reason why the special situation value things are so difficult. The cost of information diffusion is insanely high.

When people already like the stock and are already following it, they're already predisposed to be bullish. When you have something that comes out where people go, "I don't own enough of that. Wow, that was amazing," the incremental buying happens is crazy. These valuations can sustain a lot longer. Now, then there's obvious case of things can be grossly overvalued. I don't want to begin with thinking, is this or is this not overvalued, I want to get a sense of where value could be. I also want to detach myself a little bit from, let's say, there's a gold mine. This is a terrible example. Never think about this for gold mine, but let's say, there's a gold mine, and for whatever reason, it's not a vein of gold. There's an area of land, and there's six inches of dirt, and below that there is solid gold down for a mile, just a huge cube. How much is that worth versus a normal mine with veins and gold in the dirt? Really, really different.

You can't use conventional gold mining logic there because all you got to do is scrape some dirt off and then you just start picking up chunks of gold. I really want understand like, what is it we're actually dealing with, is it unique? If it's not unique, and if it's anywhere in this area where I just can't really tell, on to the next one. Don't worry about it. I'm looking for something I think is really, really unique, and then I'm trying to think what I'm really interested in alongside is something I think is super unique, super competitively dominant, and at a fair valuation. I'm not really looking for six times earnings, but if I can find 15 times or 20 times earnings thing that's growing it-- What's interesting, is that a SaaS company to 20 times 30 times sales that are growing 40% a year. Well, there's other businesses that 15 times earnings that are growing at 30% a year. I'm like, I don't understand that, that sales 15 times earnings versus 30 times sales. One's growing 30%, one's going 40%. The margins in some cases aren't actually that different.

Bill: Yeah. Now, you might be talking to Elliot Turner's Dropbox thesis without outing him on that. I do think he would argue the same.

Dan: This comes back to my points of worry about value is, I think any framework or mental model that you have, can become an excuse to stop thinking or to decide that the problem is unsolvable.

Bill: Dude, I couldn’t agree more.

Dan: We call it convergent versus iterative thinking. Convergent thinking is XYZ are true, plus the probable conclusion is something, and therefore, that's the outcome. Iterative thinking is, okay, these are the three reasons that the following should be true, what could cause that to not be true? Or under what circumstances would that not be true? What you're really looking for is something where-- so then you have at least three variables you're monitoring, and then you can figure out in certain cases, that's where things are mispriced, seemingly subtle changes, or environmental changes can happen. You can have really nonlinear impacts on outcomes. I think there's still a tremendous amount of outperformance to be driven there. Usually, those things are maybe not financial costs that people are missing, but there's usually something that's an agency cost, or a social cost or political issue or something like that, that causes those things to be inefficient.

The way we think about it is, we think the market’s efficient, and there are quantitative inefficiencies. The quantitative inefficiencies are always driven by some sort of non-quantifiable cost. It's a real cost, but it's not necessarily a financial cost. It might be a career risk cost, it might be something like that. We try to identify exactly what are those things. What causes this stock to go from something no one can own to something people cannot not own. That's our framework because you need to take your theoretical analysis and then create a practical bridge to the market if you want to survive, or at least that's what I have to do.

A lot of people find making a compromise like that of saying, “Okay, I need to do more analysis, I need to actually understand the trading dynamic. I need to understand who's in it, why, who owns it, who can own it, why can't they own it?” All of that. I think people feel that that's a compromise on their value, beliefs, their dogma. My pushback on that is, I'm like, okay, it's a compromise, but how big of a compromise is it? What of your set of names you want to trade? Are you actually saying like, is there something you're really missing out on here? The answer is no. So often, we're afraid-- I was raised Catholic and so there's always this fear that you're going to stray too far from God and you won't be able to find your way back to the church. I know where the church is, I've been yelled at by enough priests in my life, I went to Notre Dame. I can get back to the church. I'm really not worried about the glorious return of deep value and me being unable to figure out how to go to balance sheet analysis. I'm really confident that I will be able to do that.

Bill: You got that one. [laughs]

Dan: Right. I have the scars to prove I can do that, but you got to survive till then. You can often find the shortcuts like you were talking about Gabelli, value, plus a catalyst. 100%, go by some deep value if you know there's an absolute stud management team in there that's going to make it happen and is aligned and has a mandate and good compensation, and 100%. Then the other question is what's in your book? You always got to think about there's a difference between having one of one type of theses and having 10. One 20% position’s very different than five 20% positions. People make huge jumps in logic all the time in investing. It's what I watch all the time when I'm talking to people or listen to people, reading things is these jumps that you don't notice. That's the same stuff that I love about stand-up comedy. One of my favorite investing books is this book called *What Are You laughing At?* by Dan O'Connor. It's about science of writing jokes and telling jokes and the context of how jokes are received.

One of the things he just hammers on repeatedly is most of thinking people do is subconscious, and you jump these massive distances and reason. Most of what a joke is, is I'm going to provide you two or three pieces of information. You're going to fill in the rest because of how I look, because of what's going on today, because of my tone, because of your knowledge of me and my background, because of your background. Then the punch line is, I'm going to provide a piece of information that invalidates all of that, and makes your brain go, “Oh, ha, ha, **[unintelligible [00:36:54]**.” That's mostly what a joke is. When you read and understand comedy, you actually can start to really see like, “Oh, holy shit, this billionaire investor just made this basic cognitive mistake that Zach Galifianakis exploits every day.”

Bill: Yeah, huh. That's interesting.

Dan: [crosstalk] -crazy.

Bill: Talking to you earlier in the year, we've been talking about who's buying, who's selling, some of the fun flow, the mechanics behind some momentum. It was interesting, I didn't realize my Qurate thing would get so deep when I put it out. I think some of it's who owns it and whatever. I was maybe somewhat bold enough to call out a transaction that people had been burned on a lot by the name. It was interesting when I started to get inbounds from real mutual funds and real managers, and to listen to why people weren't buying. I was like, “Oh, I'm going to fuckin’ land this.” I know, because I don't have the constraints on it.

Now whether or not I'm right on the business is totally different aspect of the trade. On the transaction, I knew I'd make money. I do think my traditional praying to the God of Buffett would not allow me to enable-- My mind wouldn't be allowed to think of stuff like that, as I perceived what he was teaching. As I think I've gotten better at this. I've realized, I'm certain he understands all that stuff. I'm certain that he was doing it all.

Dan: He used to do it all.

Bill: Yeah, that's right.

Dan: I actually once got to speak to a guy who was a broker for Warren back in the day. The stories he told were absolutely hilarious, because he's a card shark, man, he would do all this stuff. He knew who was buying and selling, he understood people's margin balances, he understood all-- he was an active trader early on. He was an alpha male, prime hedge fund manager, one of the best if not the best to ever do it. I mean, just world class monster. Then as he scaled, he had to become system efficient to what he was doing then. The other thing you realize is like that ambitiousness-- if you ever looked at his term sheets, you understand, you can look at the **[unintelligible [00:39:09]** deals, he served in some banks at different points that are public. If you look at those, he's not always grandpa, but he realized, "Look, that stuff doesn't serve a lot of utility for me to here now, but if I develop this image as this thing, and I am going to dial back the teeth, I'm going to dial up the friendliness and social, whatever. I'm going to have these advantages." People critique Buffett's return sometimes on Twitter, but what people don't understand is Buffett has earned his returns the last 20 years, I believe, with almost no risk.

Bill: Yeah, I think that's fair.

Dan: Pretty much no risk. His risk scenario is nuclear war, collapse of the dollar, rise of the lizard people type stuff.

Bill: Even then, man, I'm not sure he's got risk there. I was talking to Toby. Toby calls him a sovereign. In the middle of a pandemic, running an industrial, he doesn't need a bailout. That's crazy.

Dan: Right. You got to evaluate everything on a risk adjusted basis. I love Warren Buffett and I dunk on Warren Buffett fanboys all the time because most people who are Warren Buffett fanboys-

Bill: Don't understand. [laughs]

Dan: -don't know a single thing about Warren Buffett.

Bill: I couldn't agree more.

Dan: I've asked at least 30 people, I have been like, "What's your favorite Warren Buffett deal?" They're like, "See's Candy." I was like, "Get the hell out of here. If that's your answer, you don't know anything about the guy," but he used to do all of that. I would know one of the best traders I know, he's a friend and mentor to me. He has almost the exact opposite of most investors. The first thing he does when he's looking at a company is first, he finds out specifically, who are the bulls, who are the bears, and he gets on the phone with all of them. He calls the primes. He says, "I want to know who's bearish on this. Can you set up meetings?" The primes make some meetings and any backchannels through other ways, and he'll go talk to 20 firms, who's the bears? Who's the bulls? What information do they have? What's the base of their thesis? He figures out if there's basically a debate around the name. Then he sort of sizes it up like a war and says, “Here are the pillars of their sides.” Then he looks at positioning and other things like that.

When he realizes an incremental piece of information is going to come out, that's going to cause one side to get steamrolled, then he trades.

Bill: Yeah, that makes sense.

Dan: The fundamental work is last because when he does the fundamental work, he wants the context of the motivations, logic and incentives, and constraints of the participants that actually drive prices. A lot of people say it's all about positions. I'm not saying you have to go entirely that way. There's a reason that so many prop traders had insane returns. It's not just that they're freakishly good chartist or something like that. They had real flow advantage. There's still people who still have flow advantage in certain seats.

Bill: I got to ask you a follow up on what you just said before we get off it. Does he then circle back with the people that are bulls and bears to share? Obviously anonymized, but will he share people's theses? Why are people willing to share what they are telling him with him?

Dan: I actually get this question a lot from when investors are talking to me. Why are people talking to a Will Ferrell account on Twitter?

Bill: Yeah, because they want to.

Dan: You have to have social skills. This is a clever balance in markets is, I might trade against somebody, but I never want to trade against somebody in a deceptive backstabby sort of way.

Bill: Yeah, that will torpedo your rep.

Dan: Yeah, I'm never going to put my reputation at risk. I'm never going to deliberately cause somebody to lose money. If I go to somebody, I go, “Look, dude, you are wrong on this. Here's the research, here's why.” He goes, “To hell with you, you don't know you're talking about, you're some Twitter guy.” “Sorry, I tried to warn you, I am short. Cool.” I really never gets that blind, but you have to understand how to manage relationships, it's so important for a number of reasons. That's a really delicate and advanced social skill. Some of the best traders I know, I would say, are almost-- I don't know, CIA level social engineers, because they're able to extract information, but not in a way that's hurtful to anybody. They're almost symbiotic rather than parasitic because if people are going to keep working, you also need to provide value to them. I know, for me, I just have a lot of managers that I talk with all the time about what I'm seeing, what they're seeing, what I think, what they think. I'm very candid, and I always try to take a tone of like, “Here's what I think. Here's why I could be wrong. I'm watching that.” I make a really big point of having explicit reasoning about here's the five reasons I'm wrong. If I'm wrong on of those I'm out, I don't care. If I realize that that was a false positive, and I have to go back in, fine. That has a few things. One--

Bill: That's a skill, man. That takes time to build that skill.

Dan: The biggest thing I've learned about portfolio management, risk management over the last few years, we've had declining volatility every year and our returns have held up. People ask me like, "How the hell did you pull that off?" I was like, "Well, one, I blew enough of my fingers off, and I was like, "I'm going to not hold dynamite with my fingers.'" Two, most of the good risk management things feel terrible because they almost always expose you to this loss of pride of, what's going to happen is you're going to call a shot, you're going to have a great thesis, you're going to cut it, because your thesis is broken and then it's going to work and people are going to call you and congratulate you on your thesis that you-- [crosstalk]

Bill: And you own won't it. [laughs]

Dan: Right.

Bill: Fuck, and then you got to buy in at a higher price.

Dan: Right. That feels terrible. You know what? A lot of times you should buy back in at a higher price. That is a brutally hard thing to do consistently, but it's what you saw Julian Robertson do, it's what you saw a lot of the tiger cubs do. You have to go do. You go back and look at like **[unintelligible [00:44:49]** like trading record on a lot of these tech companies. I mean, they've been bullish, bearish, neutral on Facebook, Apple, etc., multiple times and then they got a $2 billion position or whatever. You've got to learn to do that if you want to advance to a more advanced level as an investor. You don't have to, there's a lot of ways up the mountain, but I have found that, that--

Bill: You're allowed to speak candidly here. I agree with you for what it's worth, I think that people that aren't willing to evolve are going to get crushed. That's what this game does to you. It will not not do it. It's impossible. It's too hard not.

Dan: Yeah, for me, that's what I have to do. I know people who do things completely differently. I love talking to people like **[unintelligible [00:45:33]** on Twitter is one of the best macro traders on the planet. I mean, he's a freak, his returns make no sense. They're so good. One of the reasons he's so good is when you listen to him talk, you have to go take a week to try to figure out what he just said. I literally will call **[unintelligible [00:45:52]** frequently a month after I talked to him. I'm like, "Holy shit, I just realized, you were right about everything." When he said it, it sounded like insanity. He's so in his framework, but his framework doesn't make sense because it's his own framework, his own words, his own everything. That makes maybe a little tougher to raise money that would be, otherwise. He does everything, if not opposite, completely orthogonal to how I do it. There's other ways. If you're going to be a fundamentally oriented investor, I just don't see the downside to really focusing on your social game, but I see all the upside. I don't understand, like, so many things like there's that line. Value Investing is like an inoculation.

Bill: Yeah.

Dan: I think the insight from that line is the arrogance of it. Other people think the insight is that value **[unintelligible [00:46:53]**, but think about when people say that line, people proudly saying, I was smart enough and you're weak enough-

Bill: Yeah, I'm right, you're wrong.

Dan: -to be blessed with this immunity to this virus of other things.

Bill: Yeah, because I read a couple books.

Dan: All these concepts investing, every concept investment is a double-edged sword, and who doesn't want to acknowledge the side of the blade that's facing your throat, is eventually going to meet there and die, in my opinion.

Bill: No, I agree, man. Do you know the bet that I have Qurate versus Zoom that I bet with like this Austin Lieberman guy?

Dan: I saw some tweets about it.

Bill: I shouldn't refer to him as Austin Lieberman guy, I should call him Austin Lieberman. What he said to me offline, and I don't think he would mind me saying this is, he was like, “Part of what bothers me about the value investing crew is you guys are so convinced you're right. A lot of you don't even open up your mind to see the other methods of winning in this game.” That comment sort of, like, triggered me in a way because I was like, “No, I'm better than that.” I slept on it. I thought he's probably got a point and it led me to study David Gardner, who's like The Motley Fool guy. The way that that guy looks at the world, I've realized makes a ton of sense.

Dan: By the way, just an aside, you realize a Motley Fool makes a preposterous amount of money.

Bill: Oh, dude, it's an insane business. Insane. Actually, I'd like to talk to him because I think that one of the things that makes that strategy right for him is he just has an absurd amount of cash flow coming in from The Motley Fool. To continue to recycle makes sense, but I couldn't agree more. I think that younger me wouldn't have studied Bill Miller, or, I don't know, some of these other guys, Druckenmiller, for instance, I've learned a ton from. Probably a younger me would have been like, “Ah, that's not me.” I don't know. Does it make sense to turn off different investors, in my opinion.

Dan: On top of that, I mean, I think, again, it's that I always describe it as straying from God or straying from the church. These are not forbidden texts, you don't have to go read these things, and then abandon your principles. For example, studying high-quality growth businesses, helped me better understand when you have a cheaper business that has two businesses within that concept of one smaller business that's growing and really trying to understand, “Okay, that 10% or 20% of the business is going to grow into most of the business, and how do I value that.” That helped me, I was able to go out and basically bring those things back home and apply them to a value-based framework. At the end of the day, with most value pitches that I look at, the way I'm making money is for the company to go from being a value name to being a quality name. I'm trying to understand, what does the future look like?

The other thing is, there's multiple causal factors that loop-- it's like a game where all these everything relates to everything else. Anytime you try to simplify it down to a simple factor, if I put like my critique of some value perspectives in one thing, is that if you are so concerned about overpaying that you're overlooking every other risk, than the other risks you're going to get you just like overpaying can get you. Overpaying can get you. I want to look at a market. When I look at a market, I'm like, “Okay, who's going to win?” Or, “Is there a clear reason why somebody should be able to win, and then what is winning worth?” What I just find most of the time now is-- and it's been existentially painful process to go through this. I don't mean to sound negative on value because I'm not out buying Zoom, but I've gotten this point where I just realized, like, if I boost my tolerance for valuations of 10% or 20%, I'm able to buy businesses that are five times the quality. I'm like, “Okay, that is a good trade-off.”

The other thing you always have to think about is like, and this is something it's hard when you're an analyst, but when you move into PMC, it becomes more clear. Let's say you have a host of businesses where you love all of them, you think they're great, and you think they're going to compound like a 7% kegger because of your interest rate and multiple assumptions. If it's a sufficiently diversified portfolio, and you're actually just concerned about the multiple. You can hedge a portfolio is multiple really effectively. Now you can't hedge a 50 times sales thing so effectively, but you can absolutely hedge the downside from an 18 times earnings multiple to 13 times earnings multiple.

Bill: How so?

Dan: Well, I mean, you're going to be able to go in and-- if you're going to be buying this thing is you're going to be buying things in that valuation universe that you think are higher or superior quality businesses. There's a few ways you can do it. One, you can just go through that universe of things that trade in that universe and figure out which ones you think are not superior businesses that are actually overpriced there. You can short them out, and you can short them up proportionally. You got to think about what part of your actual risk exposure to your invested capital is driven purely by valuation and not by other factors.

The other thing to think about is, in the scenario where portfolio of 20 high-quality businesses, let's say 18 times earnings goes to 13 times earnings, what does that mean for the market? What is the probability that is sufficiently diversified portfolio of 20 plus names of high-quality businesses at reasonable market valuation? If the multiples will get cut in half, it probably means the market got smoked.

Bill: That's right. What else happened? Yeah. That's where I've gotten to because for a long time, I was like, “I don't know.” Then I started asking that exact question. I was like, “What am I actually afraid of here?”

Dan: Right. Now, let's flip over to Zoom, for instance-- not maybe Zoom. Then there's other things where--[crosstalk]

Bill: Now, let’s do it. Let’s go with Zoom. I'm down. [laughs]

Dan: Yeah, so then you go, and you've got names that are it. It's the leaps in logic. People are afraid of overpaying, and so then they make a jump that 25 times earning is the same thing, as 25 times sales. I'm like, “Wait a minute.” They'll make that statement even if earlier in their speech, they made a statement about how certain sales multiples are. You got to recognize, okay, there's two things. I think you would do. One, when you're bullish on something or bearish on something, if you're saying, “I have information the market doesn't have,” you cannot expect the market to trade on that information.

Bill: Yeah, that's fair.

Dan: I see this all the time from people who do really good research is, I did all this proprietary blah, blah, blah. I know blank, blank, blank. Then the thing trades 30% against them, and they're like, “The market’s so dumb.” I'm like, “The reason you bought it is because you thought the market was dumb.” Again, it comes back to, you got to understand who's trading the thing because the market isn't-- it's not Mr. Market, it's not some abstract collection of unknowable things. It's people with actual mandates and motivations, and you got to understand. At the same time, if you got to understand, if you have a low flow tech stock, and everybody buying it, is buying it because this is a lit stock, bro. Why do you think they're going to sell it on earnings being on them losing money?

Now, look, but it also gives you the trigger because then if you can figure out what's going to cause secondaries from large insider holders, what's going to cause the float-- what's going to cause the retail interest to not be enough to score the stock price, that's a great way to time you're short on a high-value stock. The primary issue with the Tesla short was that everyone on the long side of the trade knew the whole short thesis and didn't care.

Bill: Didn’t care at all. Yep.

Dan: They were like, “Bro, we're going to Mars. I'm buying stock. Will they miss deliveries?” Deliveries?

Bill: [laughs] Who gives a shit about deliveries, man? We're going to Mars.”

Dan: [crosstalk] Right. No doubt that--

Bill: You're so right. You're so fucking right.

Dan: No doubt that's insane, but I'm not interested. Let's say you go to the zoo and there's like three zebra and there's some drunk guy who's like, “Bro, which chick do you think is hotter?” You're not going to debate with him about them being zebras and not women. At our firm, we call it low severity, medium severity, and high severity variants. Low severity is you and I looking at it, and you think a company earns 10 cents a share, I think 12 cents a share. Medium severity is, you're like, “10 cents a share.” I was like, “Well, yeah, but I think the iPhone is going to be a regime-changing product and the business is going to change,” and da, da, da. We have the same framework. Low sensitive, we have an identical framework, slightly different inputs. Medium sensitivity, we have the same framework, but I'm like, “The framework is going to change, but you're with me, and you'll probably come with it.” Then high severity is, “They're missing deliveries. Bro, are going to Mars.” Completely different frameworks, completely different data.

You might as well be speaking Swahili to me, and I might be yelling Swahili at you. There's no reason in terms of the practical bridge between analysis and security price that those should foot.

Bill: On high severity, are you waiting to see once your perception of reality becomes the market's perception, and then you pound it or go long or whatever?

Bill: Yeah, exactly. You want to wait till-- so let's say if you have the housing bubble. Housing bubble it's not actually a good example. I'm going to get flamed if I use that, I don't know. Pick an example of something where there's like a highly varying opinion. Once people start to believe that and it starts to grow like a virus, you start to see people mentioning, it starts to enter into how people are pricing the security and the motivations. That's when you want to start pushing because then all sudden, we agree on how we're valuing the security, which means the other market participants are over time going to start-- and it means at least you're incrementally losing and you're incremental buyers illiquidity, or incremental sellers illiquidity.

When you have a high severity variant view, I think you have to assume it's going to trade on something other than your-- you have to assume it's going to trade on the market’s framework, not your framework. Unless you have a really big catalyst, like I don't know, a short report or a big release or something like that. But you have to-- I really want upsize high severity variant views. The other thing is like high severity variant use a lot of times when you're researching them, it's actually smarter to just put them on the shelf and say, “Okay, look, I could get super deep into this, but I really just need to wait till the market, till I see someone else mentioned this, there's just no reason to spend any more time,” because you can go down super deep rabbit holes, and then you're like, I have this super special secret thing, and nobody cares.

Bill: Yeah. The IRR can suck if you play that game, even if you're right.

Dan: I've seen people put up like 200% years and still have like 8% kegger because of that dynamic.

Bill: Yeah, that's interesting. I'm going to take you back a little bit to when you outed yourself, at least my perception of when you did, the Match paper, which my wife loved.

Dan: It's the dating paper.

Bill: Loved. Okay, the dating paper, my apologies.

Dan: See, that's the only review I care about.

Bill: Dude, she was cracking up. I was like, I know that a hedge fund guy wrote this, but you got to read it. She was cracking up at what you wrote. She did say, she's like, “This is all true.” How did that paper come about? What happened?

Dan: I was thinking about two things happen simultaneously. One, I was seeing some of the things you're describing of how the real world and digital world were colliding. I was like, “This is really interesting. This is a new game that nobody's really cracked.” The second is, we were working on the online dating space, we had been for some time. We thought it's just this fascinating. I mean, they've basically created a monopoly on sex, which, I mean, that food, three or four are the things. It's a crazy event in human history. I was like, I feel like because it's sexual in nature, nobody was talking about it, but as it gets much bigger deal. Then the third was I did a trip to Asia last year, and I was in Bangladesh, and some of these women we were meeting with who are starting startups, were telling us how this was-- there, and other places, were saying, like, “This is the first time I can date outside of my school friends. My dad's friends' kids,” and other things like that. It was much worse in other countries.

I was like, “Wait a minute,” so I was talking with them. I was like, “Holy shit, in a lot of places, this is the first time women have had agency over their sexuality in the history of the planet.”

Bill: Yeah, I thought that was super insightful.

Dan: Holy shit.

Bill: Super insightful.

Dan: I was just sitting there on the plane back and I was like, “Oh, my God, that is legitimately world-changing event. The other thing is if you go look at what the economic impact is on countries, when women are liberated, it's amazing when half your people can start working and doing things, it's amazing what happens to your economy.

Bill: Well, you get accomplished. Yes, especially when some of them are smarter, right?

Dan: Right. What if we just had half the people start not contributing, or actually, no, that's not a good way. Let me rephrase that. Start being allowed to contribute, and, yeah, and they have a lot of good ideas, because it turns out, we don't know what we're talking about a lot of things **[unintelligible [01:00:07]**. The other thing is, a lot of these countries that are a little more conservative, women still control 80% of household spending. I think 80% is a conservative number because we want to retain a little bit of pride. But I'm not about to buy a flat-screen and not check with the girlfriend. I was like, “This is just a huge thing.”

One of the things I saw was, if you talk about a stock, it gets so tied up in the stock price, and where's the return? I said, “We're not going to write a Match paper. I'm going to write a dating market paper, because I don't really want to talk about the stock. This is just a huge deal.” The other thing is, so many people are working on this problem. It's a big thing. I want to meet all those people. I said, “Why don't we just write this about the market, and we're going to write it in this weird, dry, sarcastic tone.”

Bill: It was fantastic, man. I thought that was one of my favorite papers.

Dan: I don't know if you've seen, I wanted to write almost like a **[unintelligible [01:01:00]**, where it was like a farcical legal document. I said, "Well, let's put it out there." I said, "You know what? Lot of my things is like hedge fund guys are always horrified if I put myself out there, then my edge will be given away, my glorious edge. Then I'll go figure that." One, hilarious. Two, I think online what people get wrong is people obviously intuitively always see the obvious things can go wrong. Yes, anything on the internet is probably permanent. Yes, somebody could come after you in some weird way. They don't really game it, and they go, "The internet's permanent." I'm like, "Okay, well, the internet is permanent, so that means there's also upside to being permanent," meaning like status and that stuff matters, and how you interact, that stuff matters.

When you put stuff out, I don't really think you'd lose much. I think there are huge benefits began, I don't think most people have actually gained out the benefits versus the actual realized losses. I don't really think the realized losses actually occur. I said, we're going to put this out, and I'm in the bet in-house, we had it on the whiteboard was, I said, "I will bet you that everyone who works in this industry is going to reach out and want to collaborate on this paper," and they did. We got 250 emails from people at every one of the dating companies, all these startups, everybody, academics, reporters, all these people who would be covering this stuff, all wanting to debate the paper. "I have data that just confirms this, confirms this, how do you think about this?"

One of the things I try to do when I'm researching companies, I do what I would call 360 Analysis, where I want to talk to everyone in the ecosystem. I don't care about next quarter, I want to understand what are the big strategic questions in the space? I'm going to go talk to some psychopathically aggressive entrepreneur that's trying to shoot match in the back of the knees. How are you trying to go out match? What do you think their weaknesses are? I want to go talk to people at Tinder, OkCupid Bumble and say, "What makes you differentiated? How do you think of this? How is how do you manage matching? How do you manage high key people come back to the app?" How are you dunking it? And how do you think about how you do those things versus how Tinder's doing, and if you're Bumble?" How does Facebook think they're going to compete?

Bill: How are you sourcing that? I think this goes back to your social game. I related to playing wealth games versus status games, but how do you get those interviews for lack of a better term?

Dan: Historically, what we've done is network capital compounds, nobody thinks about network or personal network capital compounding, and it does, and when you have the internet, you can cap, you can compound way faster than you can, otherwise, because you can add these two synergistic elements. One of the things I do is, is what I call recursive interviewing. Recursive interviewing is a lot of people say, let's say, I'm going to call Bill, I'm going to call Toby, I'm going to call five other people, I'm going to say, "What do you think about Qurate?" "What do you think about Qurate?" "What do you think about Qurate?" Then I'm going to call some people who sold products in Qurate, some customers all of this up. At the end, I've got 50 interviews.

Now the issue is, as I go through those, some people might give me bad information. I also might just go on tilt and be like, "I want to buy Qurate, so I'm just going to like, really focus on the bullish stuff." Instead, what I do is, I call you, I say, "What do you think about Qurate?" You tell me your thesis, I'm like, "That's really interesting," and I go do rest of my work, but as I do my rest of the work, I send you and everybody else I talked to my incremental research updates, which is, like, unthinkable for most people in my business. What you find is, all of a sudden, they start to think of you as they go, "This is really good stuff from Dan, he's helping me out, he's sharing the stuff." They start to bring stuff back, you, "Hey, I was thinking about what that person said, I don't think that's true." "Hey, that point she made is really, really interesting. I'm going to ask some people about that, because I hadn't thought of it that way."

What you'll find is that that means if you do 50 calls, by the 50th call, you're sending that 50^{th} call notes to 49 people, and some percentage of them are going to call other people, and all of a sudden by doing that, and again, we're not talking about the stock at all, we're talking about fundamentals, market dynamics, the business. All of a sudden by doing that, all of a sudden, and assuming let's say 5 or 10 of those people, introduce you to one or two other people, I think you should talk to, you do that a few times, and it takes work. Also, you've got 100 people who are on a mailing list or on a list on your email anytime you want to talk to an industry, you do that over five or six or seven years, like I have, you got several thousand people. You literally can't buy that. Then, you augment it with Twitter and with other stuff and it's really, really powerful. Then, you do some podcast-- and the question with the paper was, can we just speed it up? Can I go from instead of having to do our week calls, can I push it out, and then immediately have-- push paper out, and we get **[unintelligible [01:05:42]**.

What we're trying to build at Tyro and really what I'm trying to build high level is like a firm that embraces clever strategies like that, where we want to be a node in the network of the actual industry and the debate and fights within the industry. Then, we're going to try to invest in the long term based on where we see really lopsided advantages. The other thing, going back to quality and why we do it this way is, like, that'll takes a lot of time.

One of the issues with a lot of short selling, and one of the issues a lot of deep value is the work you do for the thesis only works once. Once you done the research, and it works, it's over. Versus if I think online dating or I think social media, whatever, is going to work for 50 years, then I can go spend a huge amount of time on it because then I have an intellectual property asset of a network of all the research, of all the contacts. I provided value to all those people, like in many instances, not many, but in several cases, I'd like through that process of doing those calls, I've introduced entrepreneurs to capital sources because I talked somebody else like, "We're backing startups," I was like, "Hey, I talked to this guy two weeks ago, he seems really smart. I don't know. I thought he had a cool idea." I've gotten a couple of people funded. This is all, at the end of day, just basic, helping people out, the go-giver, or how do you want to say that, type of stuff.

Bill: Yeah. Paying forward type stuff.

Dan: The question is, can you use the digital tools to scale it up? That's what I'm really interested in. I think that is going to overtime my big competitive advantage.

Bill: Yeah, I think you've proven pretty definitively that you know how to do it.

Dan: [crosstalk] -to see if I can do it at scale.

Bill: Yeah, now that you're public persona, that's yourself, and not just SuperMugatu. It may prove a little bit more difficult, but I don't think it will. One thing that I wanted to ask you about is you were super early on COVID. How did you come into that information? How did you process it and why were you earlier than the market was on interpreting that information? It was in that all the headlines, and you were the guy that paid attention to it. There were a couple others, but not many.

Dan: Yeah, I mean, we have a framework for interpreting information-- I'll pull this this thing up **[unintelligible [01:08:06]** written down, so I don't misstate it.

Bill: I remember reading your tweets, and it was basically like you and Chris Irons, Quote the Raven were the two on Twitter, at least that were like, "Ah, this could sort of be a big deal." Meanwhile, the market seemed not to care. It was wild to watch. Watching you think through it, somewhat in real-time was-- in retrospect, very impressive.

Dan: One, I do believe you can time the market, which is a heretical statement. The reason I say that is because I have a different definition of timing. They're going to say classical motte-and-bailey, or whatever it's called, a logical fallacy. The issue there is that people think timing is prediction. Timing is really observation. I don't believe you can predict the market, but I think you can time it, which is a weird thing to say. There's some things about how you can do that. Most of the stuff I've learned there has been by managing risk and studying and looking at losses and figuring out, "Can I reverse those into weapons?" The first phase is moving from losing, playing defense. Now, I think really, in the back half of this year, I'm finally getting to a place where I can go on offense without getting over my skis, because the issue is you don't want to be thrashing about wildly. I'm really focused, and my firm's called Tyro because it's the Latin for novice. Originally, it means soldier and training in the Roman army. I wanted to have this mentality of learning.

We try to go through the self-development process of any consistent form of failure, is always going to be random failures that just happen as a matter of course in any sort of gambling type game or investing, but any consistent form of loss, you should be able to learn things from that. You should basically first try to move them into defensive techniques to avoid that. Then second, you should try to move them into offensive techniques. Usually, moving from defense to offense is harder, because it usually violates your dogma. We think there's six things you've got to pay attention to that are market drivers.

One is the information, and within that there's extant information, what actually exists in the universe. Two, expect it information. Three, believed information. They're different things. The second is information diffusion. The costs of doing that, the biases of doing that, and that has a lot to do with the initial conditions and things like that. Then you have information interpretation frameworks. Once somebody has received the information, how are they going to interpret it. Going back to that low, medium, high severity, bearing view framework, and then you have liquidity positioning and legal mandates. If your legal mandate says you can't sell, even though you know everything's going down, it doesn't matter. If your legal mandate says you have to buy even though you're freaked out, doesn't matter. You got to across all those as well.

In this case, we had a really interesting set up. One, everything had been pretty great. Market was really, really hot. Two, we had had this trade war, we really didn't have a trade war, but we had trade war headlines, that scared the market. It ended up not really mattering. One of the things that happens is as you start to have fear risks that don't actually manifest in anything lasting, you get a boy who cried wolf situation, nobody's willing to hear it.

Bill: Huh. Yeah, that makes sense for where we were at the time.

Dan: Right. The second was, we had the holidays in January. That's just not a very attentive time for a lot of people. You had a lot of things where people were not on the ball. When I think about how to compete with the market, or the market participants, like I never want to compete against Stan Druckenmiller in timing the market, for instance. I never want to compete against David Einhorn in valuing a company. I never want to compete against Dan Loeb in writing an aggressive letter to a board.

Bill: [laughs] He's very good at it.

Dan: Where I might compete with people is I want to find a circumstance where the environmental factors or something else, legal mandate, what's going on, the context. Means that that fighter is not able to perform at their best. If I have to fight Mike Tyson, he had better be asleep and tied to his headboard. That's how it’s important. We won, through the social focus on maintaining social relationships, we have people in China and Asia, we have investments. They're telling us, “Hey, this is really bad.” We looking at it. When we initially flagged it on Twitter, I say, “Look, I'm looking at this. based on what I'm seeing, it least going to be worse than the trade war because supply chains are being completely cut off.” I didn't know at that point that it was going to break out everywhere, how bad it would be, but it's going to at least be a supply chain disruptions. It could be a big deal for industrials and other things like that.

On top of that, the last, I don't know, 25 times basically, there's been a Chinese originated virus. It hasn't mattered at the end of the day for everybody. There have been some scares and things like that, but it's always blown over.

Bill: Yeah, state localized and whatnot.

Dan: Right. If you look at the historical data, you probably assumed that-- right. The market conditions, the social conditions, the timing conditions, where people were in the world, and the base rate of outcomes for a virus in China being scary, were all really, really bad. Those things cause people to make a jump to, we don't need to pay attention to it. I had friends that worked at large investment firms and banks who were calling me and telling me particularly after the tweet, that people were refusing to even listen to the analysis in investment committee meetings. I actually know for a fact that several firms that my tweet triggered several surprisingly large investment firms to do a fire drill internally and go, “Wait a minute, Is this correct?” Oh, holy shit it is.” It's contextual. It's not that-- it wasn't easy to see. A lot of people saw it. I think most people were aware that there was something going on, it was just magnitude of the risk. That's a really poker player type thing to get good at. You really need to understand, and you really need to be speaking to a lot of people who are in a top-down view.

The other thing is at that point, with where volatility was at markets were, VIX all of that, options positioning, everybody was also way over their skis long. That was a big thing because that meant that if positions had to be unwound, this is going to be a really-- [crosstalk]

Bill: Yeah, they're going to go way down.

Dan: Yeah, it's huge oversimplification. If volatility goes up, essentially systematics have to cut equity position. That's way oversimplification. It meant that because of all of these circumstantial factors and social factors and the history of buyers, and all these other things. People said, “Well, they jumped, made that logical jump, I'm all about looking for these logical jumps. Jump to, we don't need pay attention to it. What they miss is, on top of that, there's another thing, which is positioning. The positioning meant that even a modest scare was going to cause a massive unwind.

What I was really concerned at that point was, I was like, “Look, like a little shake here. we're going down pretty hard. That's not happening, and then end up being far worse than I initially thought. Then it was apocalyptic. I was back in Virginia with my family and my family works in the restaurant business, and I watched almost everybody I know lose their jobs, and businesses fold and all these other things. I went from being way ahead of the market, to behind the market in six weeks, because I made this mistake, again, that same context factor I pointed at other people, and I said, “Oh, you're wrong.” I then succumb to it, because I was on the front lines all of a sudden, with all my friends getting butchered. I wasn't in the Hamptons, in a mansion immune to all of it. People were crying, and I was having to comfort people. Then, we have Steve Mnuchin come out and say, “Oh, we're going to just short. Just going to buy everything.” I was like, “You can't fix this.” Logistics of it have to get worked out and the winter’s going to come, and it's getting really bad. In the winter, we get the election. I'm like, “You've got 50 scenarios where this is a complete shit show. And you've got one scenario where this works.”

I missed the spike off the bottom, and that was a mistake. It was because I then succumb to the exact same contextual cognitive failures that most market participants do lot of the] talk. I realized that really quickly, because I felt myself thinking and saying things, and I only caught this through journaling. I felt myself seeing and saying things that I saw people say after 08, who just got murdered for years. I forced myself to write this Devil's Advocate Medium piece, which I--[crosstalk]

Bill: I love that piece, man. I thought that piece was brilliant.

Dan: At first, I was like, “What if we just iced this thing in the face in three weeks,” and people got so mad. So mad.

Bill: Ah, so then did you know you were onto something, where you like, “Oh, shit, I got to get long?”

Dan: Well, it created this odd dynamic because I'm making a case or something about where market prices are. The reality was that so many people were and still are in very bad positions. I understand a lot of people would look at that, and feel that I was grave dancing, which really wasn't my intention. I'm not going to blame those people for interpreting it that way when they're in that position. I don't think many people really want to be living on stimulus checks, and just absolutely brutal for people. And people get really mad there, and then other people in the market get really mad. I didn't really a sediment signal from that so much, but what I did know is--[crosstalk]

Bill: I know who you're referring to money managers, when you'd mentioned that people got angry. I mean, people I understand-- actually, part of the reason I want to do this podcast and do it right is, I want people to understand that some of the money managers out there, like yourself, and this guy Mike, that I interviewed, we're real people. There's a difference between the job versus what you want to happen. I thought that your Medium piece was-- I wrote to you that night that I read it and I was like, “Man, for you to have the courage to come out to be one of the earlier bearish guys to then write a public piece and publish it.” I have a lot of respect for that.

Dan: Yeah. I don't know if it's respectable or not, but I felt--[crosstalk]

Bill: Not a lot of people would do it. I'm not trying to slurp you, man. I like you, we're buddies. I would tell you for real. I really respected that. I thought that that was a solid move.

Dan: One of things that people bring up, as they say, “Well, if you make a statement publicly, then you as a money manager, or whatever else, you're going to anchor to it. That’s, I think, obviously true. You haven't really pulled that string all the way out. I think you can also think about public statements in a certain way. Twitter is a weird thing. It says, I'm not going to **[unintelligible [01:19:31]** and pitching long S&P or something.

Bill: [laughs] Yeah, you’re testing a thought.

Dan: I'm like walking into the city-- I think of Twitter is, I think of it as the city square or something. I'm walking in saying something to see what the reaction is. I think voicing some ideas publicly, is can be a useful psychological exercise, because there's things that you might debate internally with your friends, and there's some useful benefits of putting it out there because you can start to see-- it can expose the veracity of other arguments against that. What I started to see after I put that out was, I started to observe that third leg of our framework for markets, the market driver, the information interpretation frameworks. When we started to see how people were interpreting information where some people were just repeatedly anchoring to bearish, to bearish, bearish, bearish, but it's increasingly I saw a lot of scope creep in the bearish theses.

It went from Doomsday is going to have been, Doomsday happened, what already happened and has to catch up to us. Well, now it's going to be this specific asset class, or this, this, this. It appeared to me that people that were really bearish were really anchoring back to what had happened, which was terrible and really felt-- I think I put this in my last letter [crosstalk]

Bill: It still is a **[unintelligible [01:20:52]** for a lot of people. Right?

Dan: Right. It feels like a lot of things didn't get what's coming to them. You know what I mean?

Bill: Yeah, I do know.

Dan: In the midst of so many people, all these positive things have happened, but also like, no doubt, an enormous number of schmucks have basically robbed the taxpayer and enrich themselves, and all these other things. Generally for us, from a societal standpoint, I think it's not a good look to see a speculative boom, in a year where so many are struggling. It just is a function of where aggregate debt levels are, and as a function of that interest rates, it's very hard to stimulate without pushing the risk curve in that way because if we were at 8% yields, you'd be able to simulate without maybe causing as much of a speculative frenzy, but when you're at 60 basis points, it's harder, because the money's got to flow somewhere. So, yeah, we've done that. We've made several macro calls--

Bill: And to just expand on what you just said, what I think you're saying is, when rates are so low, and the money has to flow somewhere, it can go to long-duration assets that are perceived as safe and growing. Maybe I'm internalizing too much of what you're saying, but it seems to me that that's where the speculative froth is.

Dan: I think it's a few things. One, there's the TINA factor, which is misunderstood, but it's also a thing. The second is, as things rationalize, there's just not that much liquidity. Mark Dow has a great line, that's like people's risk tolerance is driven by their personal feeling of security and how much money they see people around them making. At the same time, we just coincidentally, with this crisis we had, the technological tools available, and I think what people maybe misunderstand right now is having worked with some private technology companies, I can tell you that the issue with technology is rarely what the tech can do. It's generally the user adoption of the technology. To have everyone forced to go through their screens for everything all the time, really changed a lot of things. All of a sudden, you had Robinhood, and all this other stuff, and people had some cash, and they didn't have any anything else to do. The damage was just not as bad as people expected. Savings rates went up massively.

Bill: Yeah, that was wild. Not something I would have expected day one.

Dan: Right. Look, if they had not hold off the stimulus as fast as much and as effectively as they did, I was more concerned about the effectiveness of the stimulus. I was skeptical that the administration would be able to implement this as quickly as effectively as they did. I think almost maybe the main reason, or the most important reasons it worked is that it implemented effectively by being implemented inefficiently. They basically just sprayed money everywhere. A lot of people were like, “Well, this guy got $200,000, and he wasn't supposed to.” It's like, doesn’t matter from policy perspective, doesn't matter, because we're trying to do is make sure everybody feels safe. Everybody has money to spend, at as fewest people as possible are in dire circumstances, and then we don't have a snowball effect. It's a weird dynamic. Then, all that happens, and then there's no liquidity, and then bunch of people sold their equity positions, everybody has to get back in at the same time. Then you have all these other strategies to come back in. Then, there's still the backdrop of why are people investing capital, and there's-- I always think of that is basically, humans are short of assets relative to what they need to retire, a relative what they need to support endowments or other initiatives. If you take that perspective on markets, which is one that like, Mark Dow. Mark Dow calls it an asset shortage, but I just think generally right now, for a variety of factors, we just don't have enough future value, to payout liabilities, and there's a lot of ways you can interpret that.

When, all of a sudden, that need for short term liquidity, that shortening of time horizon goes away. Everybody goes, “Oh, holy shit, on a 10-year basis? We are still not where we need to be.” That is not an immediate emergency, but it is an emergency, being able to pay your retirement, things like that. It makes sense why you see these types of grind up crash down modes because when the need for liquidity moves short term, there's no marginal bid because everybody's like, we have to survive the short term to get to long term. Then when it becomes clear, there is no reason to survive the short term, they got to think how am I going to drive long term returns, they're not there and fixed income, so you got to go equities. The most complicated thing, but it's an important factor to consider.

Bill: I'll tell you the one that hurts, man. When you and I were talking, and we were talking Restoration Hardware was like $95 a share. We were both like, “Man, we should buy this thing.” [chuckles] But, at the time, I mean, I don't know if this happened to you, I think you just said that maybe how personal you were with some of the devastation, maybe precluded some of the thought. I even said to some of my friends, like, I think spending is going to the home, people are inside. I just didn't believe that we could get through it. In that particular entity, you got operating leverage and financial leverage, and I just wasn't really willing to stomach that risk. But, man, does that hurt.

Dan: Yeah. Everything, it was so fast. When you've had issues like this in the past, they were multi-year things or whatever, the little financial crisis, whatever we're going to call it here, we had was like, I don't know, three months, right? Once it starts moving up, it's very hard to accept that it might be over and it's time to invest up, especially with when you're looking back at March, it's really interesting comparing right now to March. In March, it was totally open-ended, and people were making wild claims about therapeutics and vaccines that we were going to build these vaccines faster than human beings have ever built a vaccine. Part of the problem, it was a few things, like Gavin Baker is always on Twitter saying bearish theses always sound smarter, but I'm going to flip it around and be a little more offensive. The bullish thesis in March and April were really dumb. Really, really dumb. They were wrong.

Bill: [chuckles] Ignorance to risk.

Dan: Yeah, there was a couple things that happened. One, people are sending me like-- brokers are sending me bullish thoughts. It's the most asinine nonsense I've ever heard in my life. Two, everyone around me is like their lives are exploding. Three, the only stuff I could really see happening short term were bailouts that seems sketchy to me. The whole thing just looked like a disaster, and the market’s starting to rally. I'm like, “Well, everybody's really short” and whatever. Then all of a sudden, market rips off 15%. [crosstalk]

Bill: So, you're thinking short covering in the beginning of the move?

Dan: Right. Short covering it, then it just keeps growing. Then how do you get yourself to go back into the market? It's a complicated problem. What I should have done was probably go to 50 long, 50 cash or something like that because it made no sense to have any shorts on at the bottom there.

Bill: Do you think that's true? Or, do you think you're looking back at it? If you put me in your shoes, I'd have had shorts on, man?

Dan: Well, look, here's the question at a certain point, what am I hedging?

Bill: Yeah, that's fair.

Dan: The flaw in my thinking, I think at the point looking back at my notes and journals was it looks so bad that if it didn't work out, I don't know that I would have been a collect the money on short the sale.

Bill: Yeah, you got counterparty risk.

Dan: I mean, I don't know. It wasn't clear how I was going to drive real returns there because I'm going to still have some long exposure. I'm not going to be massively short. The rest where it makes not a lot of sense. It's hard to-- also, everything's moving so fast, there's no liquidity. Any portfolio modeling you might use is useless. I don't know if it's 50 long, 50 cash, might have been 100% cash, might have been 20 long, 80 cash. I definitely think in that type of environment, there's a point at which short selling really stops making any sense because what are you really going to be hedging at that point? I was very focused on, I said, “Look, my money's in this, people I know and trust and good friends in this. This is absolutely insane. This has never happened before.” The attempts to fix it have never happened before. I'm in to protect capital.

The one thing that kept me sane through that was, I said, “Look, I've no doubt my punching power, so if things stabilize, I know I can still make money.” Maybe I'll miss a hero move and I turned out missing it. My logic at the time was, I'm not going to bet my clients and my own capital on black because if anything goes wrong here, game. For certain people, they really like that, and they thought that was the right approach, and other people don't like that. I also know a lot of money managers who have blown up before at scale, that's another trauma that I internalize sometimes. I know a lot of people that had the never sell mentality, and they double down at the bottom, and it did not work out for them.

I always go back in my head to that building long term returns is really about avoiding nightmares, more than homeruns. If you can avoid nightmares, and hit homeruns, that's great. You really got to avoid nightmares because very hard to compound out of a minus 50% or minus 40%. I think there were a lot of lessons there in terms of-- one of the things I think is, is a business person or an investor, whatever, when stuff gets completely crazy, I think it's very important to simplify everything as much as possible because the more complexity you have, the more anchoring risk you have. The harder it's going to be to pivot. If I do all again right now, if we've gotten that crazy, I'd probably just gone straight to cash, and just told the investors, “Look, we can't underwrite anything right now. We're going to sit in cash, you're not going to lose any money. If things stabilize, we're going to go back in,” because you always got to think about your positions in terms of how it's going to affect your psychology and your process because there's a loop there.

One of the things you'll notice is when we figure out ways to improve, sometimes we historically didn't make the improvements quickly enough, even though we knew what they were until the market basically forced us to make them. I think if you realize like, there's a situation you can't underwrite or something like that, I'm just very ruthless now. This has been a steady progress for years, but I'm just very ruthless of, when there's something that's really uniquely crazy, I'm going to go to whatever position will give me the most clarity. Then, I'm going to react that way, because I can't ask myself to make decisions, when things are absolutely insane. I need to first get to a place where I have some balance and some clarity, and then I can go and reassess. There were things during that period where you could have bought them that were 60% cash, and they could shut down for two years and be fine. It is somewhat hard to see those things if you have 20 positions, which are, “This one might go bankrupt, or this is this, this, this. God forbid, you are a small-cap only manager and you had stuff that was then 50%, 60%, you can't even get out of one or two.

Bill: Yeah, that'd be tough.

Dan: One of the things to like long term longevity is figuring out how you sync all those processes in your portfolio to your own psychology, your team psychology during those scenarios, because just as that case that the bull case sounds less intelligent, a lot of the good survival strategies that are high Sharpe over time, they sound almost cowardly. They don't sound cool. Like saying, “Hey, I'm going to go to cash for a month because the world might end. I'm just going to buy super high-quality businesses when I think they're cheap on a three-year basis, and I'm going to scale into them over the next few months.” That's not a cool-sounding strategy. Nobody is-- [crosstalk]

Bill: Yeah, it sounds like anyone can do it. [chuckles]

Dan: Michael Lewis is not coming to write a book about you about that strategy, but that strategy is structurally dominant to most of the things. We do a lot of work going back and trying to analyze our own trading and figuring out, is there just a structurally dominant play in this type of scenario? That was my main learning from this year.

Bill: It's interesting that you say that for some reason, when you were talking, I was thinking of Buffett in March, when people are like, “Oh, he missed the bottom.” It's like, “Well, did he really? Or, he was he just putting himself in an anti-fragile state? Maybe your buyback yield doesn't really matter at that time.”

Dan: How many hundred billion dollars is he long the US economy?

Bill: In market cap, what? 500-ish.

Dan: Right. Plus, all the other stuff. The guys do that and the other entities probably, I don't know, plus the insurance exposure [crosstalk] some other stuff. He's built a very robust thing. The other thing, people I think, maybe messed up is, it's not all those technical arms aren't out there doing things because one of the things that he probably recognized that he would never say, is this was going to be in a result that if we got through it was going to result in winners and losers. Winners and losers is the theme of the next five years. That's why I think it's going to be awesome to be a long-short manager. I think Buffett realize anybody that he owns it has his financial backing, it's just going to be able to knife anyone else in their sector. He doesn't need to buy anyone.

Bill: That's right. Yeah, just make sure you get to the next iteration of the world with capital invest.

Dan: Right. Not only that, but his operating businesses, whenever the smoke clears, day one, they have better weaponry, better armor, better transport, better communications, everything better. The other guy, just walking out of Hiroshima just, "Oh my God, what happened?" Warren Buffett has lobbing peanut butter grenades at their competitors. There wasn't a lot of liquidity, also nobody was coming to him for some mega sweet deal.

Bill: Yeah, that's right.

Dan: Why would he gamble a dominant controlling competitive position? I mean, think about the amount of money he had to put to work to really change the percentage--

Bill: Yeah, for some buyback.

Dan: I guarantee you he knew that the returns on his buyback versus the returns of having that cash to deploy operating businesses to compete. I didn't see anybody consider that. At a certain point, if you think businesses are about to die, why are you going to go buy them if you can just roll over the-- it's like, Khan from the Star Trek with Benedict Cumberbatch. Yeah, he goes full psycho mode, and he's like, "I walk over your corpses," that's what Buffett can do. Obviously, he's not going to say that.

Bill: No, well, that would ruin the grandpa image, but that's definitely what he was thinking.

Dan: Right. He has the ability to unleash teams of Navy SEALs against his competitors in all these industries. The other thing is because of this fog of war, his businesses can be far more aggressive in taking market share than they could be normally, because nobody's going to call on him. Fully weaponized Berkshire in normal environments is like, a legal risk waiting to happen. When America is struggling, and they need building products, Uncle Warren is there. Again, it goes back to people not understanding Warren's strategy.

Bill: Yeah, you know, what's interesting, man, is what you're talking about, I think sometimes when we-- like on Twitter or whatever, when we talk stocks, I think some people miss the big picture game, some of these companies are playing. I think valuation gets in the way of people's minds. I'm not even saying that-- it's Netflix is one that I have really like dealt with, from a competitive position. I don't have a real big view on the stock. I have gotten to the point where I'm like, these guys are just playing a different game. Maybe that's stupid of me to only get here now. They're not playing the same cashflow game that everybody else is playing. I think if you're not seeing that, you're not seeing the field clearly, if that makes sense.

Now, whether or not the stock should be higher or lower, I don't know. I just think it precludes the conversation, that is interesting, which is, would you play the same hand in the same spot?

Dan: Right. I think the question was so many of these great businesses, value or not value, **[unintelligible [01:37:43]**, is size them up as competitors as sports teams, as everyone and think about that. As athletes, and teams of athletes. One of things we really pivoted on as we pivoted from thinking about businesses is assets with people managing them, to networks of people. One of the things that got really exposed this year, was that if you had a good culture, well-incentivized team, was able to use technology correctly, you could all communicate, that robustness that builds in is insane. One of the things is like, I spoke to a CEO of a company, multibillion-dollar company who was crying because things were so bad. Then, a couple weeks later, they were crushing it. I was like, "Dude, what happened--?" [crosstalk]

Bill: [laughs] Yeah. I'm happy for you, but lots changed.

Dan: -write that down for me. He's like, "We had all these trade-off position we had to meet, there was no good answer. It was terrible. Then, I have all these late 20s whippersnappers that aren't scared, that are smarter shit. They came into me and said, 'Hey, boss, man, we fixed X, Y, Z. We have this plan, we have this plan. We got this new shiny gun, we can do this. We can go after a competitor this way, we can get to customers this way. We can do this, this, this. We've built all this.'" He's like, "Oh, my God," the team came together and support the quarterback when the quarterback was hurt. Versus a company that prides itself on not having nice coffee.

Bill: Yeah.

Dan: That's the simple explanation. These strong cultures have really integrated teams that can communicate really well that give the right authority down to management, and allow people to make the right calls. I'm obsessed with this book *On Flexibility* by Meir Finkel, it's about military strategies, specifically an adaptation to technical and doctrinal change. It's talking all about how to build organizations that are robust this way. I'm really interested in that dynamic of how do you build these companies? What are these companies? Those companies, especially the more technology comes on-- a lot of people when you say technology, their brain goes bubble. When I hear technology, I'm trying to think connectivity and coordination and adaptivity. If you have 1000 smart people who can all talk to each other and talk to management elevate recommendations that can actually be implement, and they can try out your tools and they can talk with customers and they can iterate and they can take needs from the customers and turn that fast. You're competing against somebody that has an old school, old boy corporate model--

Bill: Yeah, they're going to kill him.

Dan: Murder.

Bill: Yeah.

Dan: Then, on top of that, because of COVID, 80% of consumers' time is spending on one of about five companies web portals, and on a few devices. Also, and all that's going through a very limited number of channels. A lot of legacy modes and assets are completely irrelevant because most people are not going to price compare anything because they don't think before they buy, they just go, I need this. Boy, I have been thinking about it, I don't think when I pick up my phone, my hand thinks information, I go phone, my cabinet, it's open. More and more of the cutting edge of commerce right now is unconscious actions by customers and how to-- it's using technology to program your customers and program your employees and program-- engineering humans using technology. That's the cutting edge.

I said this on Twitter the other day, "The next thing is going to be unconscious buying." I don't know what it's going to look like, but it's going to be like something where you look at something and it's going to automatically added to your cart. You're going to have to opt out, not opt in.

Bill: Yeah, well, it should be from Oculus delivered by an ad via Instagram or some shit like that. Facebook owns a lot of it. I would not be shocked if that's the way the world ends up.

Dan: Right. I think that next thing it's going to happen is-- I've gotten really obsessed with studying strategy as more of an abstract concept away from finance because the way technology is intersecting into businesses right now, traditional models of business, are not going to serve you well to understand what's happening. The best example is, you can have the best prices, best deals, best this, this, this, this, this. If the customer literally never sees your product or isn't aware it exists, it doesn't matter. What's happening right now is companies are realizing, "Okay, here's the value chain, can we insert ourselves at one point and use that as a lever to flip the whole damn thing?" There's this core issue of around aggregation theory and demand. If you own the demand, if you control the customer, need money to get supply, that's basically trade financing. I need money to get A to B, for most things. You need credit, and there is a demand for credit with yield in the market. If you have a thing and you want to go get customers, that's venture money, baby. That's very expensive.

There's not that much demand, especially for mundane products. With the SPAC boom, there's a little bit more of it. People don't price, that's a subtle, but very important thing. Ultimately, is the need of your capital to source demand or source supply. Is it going to enhance demand? Is it going to enhance supply? Why? How do that influence your strategy? When you start to look at businesses that way, you start to look at exactly how sticky-- we're looking for what I call Neurological Inevitability. Something that is almost instinctual and habit forming, and you're not going to disrupt eating, you're not going to disrupt romance, you're not going to disrupt all these other things. Those things are really interesting. When you start to find some of those, and you realize-- especially some of these companies are so far, not just ahead, but so much faster and meaner than their competitors. For example, a lot of companies, these super nice tech companies, they're great, but DoorDash has teams, that their only job is to figure out how to sabotage Grubhub and just knife them. How do we change our ads, change our-- where do we appear? What are we offering? Can we hire tactical employees away from them to make it harder for them to pivot? They're going to figure out the particular person within their competitor that allows them to hire high-quality people and they're going to hire that person, so that that company can't hire new talent] effectively. That's where the cutting edge of really high-level corporate competitiveness is right now. That's the stuff that I'm obsessed with right now.

If I'm seeing that from some of these businesses, not all tech, but a lot of tech, and a lot of others that are that level of savage competitors, every new thing that's happened is become a full-on war and weapon systems that they're advancing. Then, I have another company that's like, “We don't spend money on nice office chairs for our employees, and our employees have been here for 30 years.” I'm like, “You're dead, and you don't even know it. They're going to crush you.” It's like, Terminator, you've got like a little fat kid fighting Terminator. It's absurd. I'm happy to buy things cheap. It has that type of Terminator characteristic I'm looking for. But I really want to be long Terminator and short the children that unfortunately have to fight Arnold Schwarzenegger.

Bill: Yeah, I agree with that. Particular debate I'm in right now is about Netflix. To your point, I totally understand why the financial analyst community would say like, “It's not viable.” I was there, I used to do it too. I'm not saying buy the stock. That's not at all what I'm saying, but I'm saying if you analyze the competitive landscape, the idea that Viacom is somehow going to compete with Netflix. When Netflix has like that shareholder base and the debt markets that are going to finance it, your cash flow matters, but that strategic advantage of focus, plus just unlimited patient capital right now, seems to me to be-- if you're not at least-- if you're considering being long Viacom and you say, “Well, everybody's entitled to something because of bad catalog.” You're not at least accepting the premise that just the constant deluge of content and the attack from Netflix is going to hurt your franchise. We don't see the world similar-- through the same lens. I think that that applies in a lot of different places today.

Dan: The intersection of that dynamic with rates and things like that is really interesting, because more and more businesses are playing to win. Their capital base is, friend of mine, what it is, I forget, he said, like, the anointed ones or chosen ones, something like that. He was talking about, he said, “Look, I think we were talking about Carvana. He said, “Look, a bunch of these funds that are really smart and had a lot of capital, have decided that this company competitively--”

Bill: Is the one we're going to bet on.

Dan: And is the one we are going to support relentlessly with, however much money they need because even way past where you think our current valuation base is, this is the company that has the capacity to win and has the momentum and the KPIs, we think it must lead to winning. So, we're going to continue to fund it. One of the issues there is that comes down to orthogonal market information interpretation framework. [crosstalk]

Bill: Okay, I'm going to ask you to explain that to a five-year-old, what you just said.

Dan: Okay, orthogonal is a math word. It means completely unrelated information interpretation frameworks. What I mean by that is, you and I might look at it and say, “Well, we think the cash flows, the return on invested capital or something like that are not high enough to justify where the stock is priced." That may or may not be a valid argument. But the issue is, if the people who are funding that company are thinking about it as a venture capital bet that happens to be publicly listed, and their reason for investing is that they think in 10 years, that that business will have 60%, 70%, 80% market share in a massive market. The only thing that matters is, one, will those people quit on that or, two, will somebody pull their capital where they can't, doesn't matter if they want to, they can't back it anymore. That tells you like a lot, because then all you need really need to understand, and this is where I've gotten a lot of short cases where I'm looking at, and I'm like, "I totally understand how the short could work. I totally get it. I'm with you. When is Sequoia going to bail on this?" And they're like, "Well, I haven't talked to Sequoia." I'm like, "Okay, well--"

Bill: Then, I don't want to hear-- [laughs]

Dan: Right. Unless you can tell me when Sequoia is going to quit, or why Sequoia is going to quit, I want to hear why the Capital **[unintelligible [01:48:09]** is going to bail because they're going to keep pushing it. Or tell me who's a better competitor, say the thing. I most of my shorting now is competitive base theses were one of the things that happens repeatedly. Now, is there some hot bucket of whatever, and one of them comes public. Everybody goes, we love this theme, we got to get long this one. They miss that maybe a billion of venture money went into that one, and then five billion go into another private company, and the public company all of a sudden has to report earnings, the other one doesn't. The greatest example this was Grubhub versus DoorDash. Where DoorDash did a massive round with the explicit mandate to not care about unit economics just to murder Grubhub.

Bill: That is savage stuff, man. How do you compete against that?

Dan: Right. That's because these guys are betting-- and that's the thing is, you got to-- There's one interpretation. One is these people are fools who are gambling money. The second is, these are very serious people who just bet $1 billion, $2 billion, $5 billion to win a market. You need to consider that in your analysis of whether or not they're going to perpetually, that's a big bet. They are going to do everything, and not just financial. The other thing that people don't realize is like these investors are helping these companies in every way they can and introducing business partners, customers, talent, all this other stuff. All this people making those large bets if they're smart or doing everything they can to help that company--

Bill: All the debt markets, man. The venture firms are putting-- touch with Goldman, Goldman's putting them through to all their best clients. That stuff really matters.

Dan: Or their fund has an LP that owns a big auto business calls Caravana says, "Hey, talk to these guys. They can source inventory." That stuff happens all the time. Again, it goes back to evaluating a company as a network. When you understand that stuff, you understand-- when you look at the full army that that company has versus 10 guys in Georgia are trying to sell cars, you want to say, the guys in Georgia underprice. It's like, dude--

Bill: 100%, man.

Dan: I find it very helpful just to boil it down to handicapping a fight. And I get it. A lot of these, I'm going to pass on because I'm going to go, “Look, I think that's a totally mismatch fight. I think that growth company probably wins.” I'm not comfortable with either of them, I'm going to find an easier game to play, going back to circle confidence. I want to reasonably valued, very unfair fight. I can't get down with a lot of these short theses at a high level unless those things can be worked out because I don't think people really understand how advanced this game has got.

Bill: Or, until you see the crack in that thesis. If you start to say, “Okay, well, why is X firm going to bail on this company?” Once you start to see it, “Okay, fine, I'll short it right.” I'm not sure that stuff before that cracks, because to your point, they're just playing a “crush you game.” I think a lot of people that get hung up, maybe I'm internalizing this because this is who I used to be. I used to look at current economics, and I'd be like, “This is bogus, and it's going to fail.” But now, I've realized the people that I think are going to fail are just playing a different game. I need to adapt my framework to the game they're playing to see what's actually going to happen. The old me would have like some value traps that we're going to attack by these behemoths, maybe you don't want to be long the behemoth but I know you don't want to be long the underpriced guy that's getting attacked.

Dan: Right. Now the exception is, as I said before, if you've got a really good jockey who is going to unlock value there and figure out how to sell it to the behemoths like that, that's an exception. There's a lot of exception edge cases. There are a lot of cases where-- there are two genetics companies. One was called Myriad Genetics, the other ones called Invitae. When I looked at that, Invitae was basically selling the exact same genetic tests as Myriad at 10% or 20% of the cost, and they could do them faster, better, all of that. It was automated. It was just studly, it was incredible, they were way better at everything. I said, “Look, I don't know whether or not there's any terminal cash flow for Invitae, but I know there's none for Myriad, and that's enough for a short thesis for me.” I'm looking it at that way. I think you’ve to sequence your evaluation process, you have to have this discussion about a business. Most of them the answers do nothing.

As an investor, you don't need that money. We've ranted radically against some value set for a while, but then once you're done on this, then you can go back to punch card. Then, yeah, let's look for the ones that we do think are-- there are businesses at 10, 15, 20 times earnings that are just as dominant in their world, as Netflix is in theirs. I for a lot of reasons, in my own biases, whatever, I'm just going to be more comfortable owning a 12 times earnings dominant player than I'm going to be owning Netflix.

Bill: Something that I've noticed about you over the past year, is I have been really impressed with the inflection points that you've been able to identify. There's three specific ideas that I'm not going to name because I don't know if we should, but you bottom tick to retailer, to me that no one else liked, and you liked it for the right reasons. There was an asset management play that I think you're really right on. Then, there's sort of a smaller company and a bigger industry, that's really good. How do you think you got yourself to see the framework of being able to like really-- I don't know, man. I texted it to you. I root for you, I think you're seeing the right things. How did you get yourself to that point?

Dan: When does it get simple? That's the question. My old boss had a phrase where he simplifies, but] there's other things that simplify. One of the mistakes people make, I don't know if it's a mistake other people-- I don't know I can tell people how to cook. The way that I cook is when I'm researching something, I want to make sure, if I asked my analyst or somebody else that's working for me to look at something, I'm going to say, "Look, we're not looking to take a position in this. I just want to know the business." We're going to detach ourselves from-- we're going to try to figure out that competitive dynamics. We're going to try to figure out what we think terminal value is, what we're going to try to think-- we're not really think about the business. We're going to try to figure out what we really need to know to be comfortable with the business long-short, this or that, or whatever. Then, we're going to also try to figure out once you do all that, we're also try to figure out who is in the stock, why are they in the stock? What are their incentives? What else in their book? That whole landscape, talk to people and really get to know-- almost try to become a specialist in the business.

What we like is situations where-- so I pay a lot of attention, like the psychological stuff. I'm looking where I understand the bear-- I want to be able to pitch the stock of both sides. If I can't pitch the bear case hard, I'm not bullish. What I'm looking for is something where the bear case is great. The **[unintelligible [01:55:32]** we mentioned is Colony Capital **[unintelligible [01:55:36]** because we're fully invested in that. Colony, there was a great short thesis, which is Tom Barrack had done a bunch of terrible deals, and it had lost people an enormous amount of money, and it had a bunch of debt and all this other stuff. Then it simplified, and I was first told about this name by another Twitter version. I love the setup because there was all of this mental baggage of how much money had been lost, how had been lost.

Bill: Had some political baggage on it too.

Dan: Political baggage. Every part of this business it was failing, essentially. I don't know failing. It was doing poorly, for very, very definable reasons. What we do is just put a memo together, it can be one page of just what are those reasons. Then, what we're looking for is what are the reasons that the business is not doing well, and also, what are the sources of risk. What you'll find is if you just don't pay attention to the stock price so much, and you can add another section for positioning stuff, if you want, that's what I do, too. There'll be moments where all of the sudden, something will happen and will be like when you solve a math equation in middle school or high school where you also can cross out all the terms. You realize, "Holy shit, when this tweaks, five risk drivers go away, this goes away." And all sudden, we've got one risk thing left., and that's actually the risk we're not really that worried about. If you have that, and at the same time, nobody's long the stock, and everybody's going to have to get long the stock because of its market cap and all this other stuff, that's when you get really good timing insights on how to time when you want to really size a position.

We might own it without all this stuff being perfect, but that's when we really want to punch it. We really got to there from reversing how we had lost because in the past, we buy something because we thought it would work out our way. Then, we would just get whipsawed around for a year, 18 months, or something like that. A lot of people feel good about that, because I'm a disciplined value investor, and I held it for a long time. That's cool. That's fine. I could also be making money in the meantime. It's also hard to hold massive positions, and I want to be massive when I'm right. What I reverse and realize was a lot of these positions, it was very obvious what was wrong with the business. Nobody wanted to own it because X, Y, Z issues were not sorted out. Why was I huge in it before X, Y, Z was sorted out because I was worried, I was going to miss the one day. As a value guy, I suffered and lot of people suffered with the FOMO of missing the gap up-- [crosstalk]

Bill: I've suffered from this with Wells. I see something, I feel I need to own it today, and everybody's like, "No, dude, there's risk, you should avoid." I'm the one that feels like I have to be the smartest.

Dan: The question is, I think there's some gambling concepts that are super-- actually I think poker super useful in this context. It's not just the risk-reward, it's how much absolute money can do that. The ideal circumstance in poker, is if you hit the nuts on the river, and everybody's pot committed, that's neurotic, because you can get everybody all the way in, you can stack five people. Versus you flop the nuts and there's 20 bucks in the pot and everybody's sitting, and there's 10 grand on the table, but there's only 20 bucks in the pot, you just flop.

Bill: Yeah, it doesn't help you that much.

Dan: [crosstalk] -quad aces. It's clear to everybody, you've got quad aces, that's not great. You got to think about that type of sequencing setup, and once those risks goes-- well, you have to game out and it helps to just jot it down on paper. We have to game out is, if those things get fixed, and we're up 20% of the stock, what's the risk-reward post de-risking? What you'll often find is that post de-risking the absolute risk-reward goes bananas, even if the absolute return drops. what you find is you can actually take that position from X to 5X, and that's antithetical to wanting to buy it absolutely as cheap as possible. It also eliminates your nightmare blow-up risk because that means you're always sizing up positions into winning stories that are experiencing inflows as they get batted back into indexes back into mandates and as active managers and pseudoactive and passive, whatever. If people stop wanting to be underweighted.

The other thing is you got to look at, from a holder base perspective. If you can have one of those events where at the same time, the name becomes an easy overweight for mutual funds and things like that, to outperform their bench, it's great. It's like colony, for instance, like sits in a weird financial TMT crossover thing. As the story pivots from this terrible real estate REIT to a pure digital asset thing, compared to what the other things you can own is like a financials manager. If you can own more Ozark bank, or you can own Colony, you're going to buy Colony. You got to think about-- I always try to break it down back into-- and I find it so helpful to think about all this stuff like a game and just think about, "Okay, I make this move, what are they going to move? If that move happens, what happens?" Then, write out this permutations, write out the conditions. The thing is, there are going to be these situations you fear.

Like yesterday, I was trying to build a position, and name got bought out as I was trying to buy. It's frustrating, but that was the discipline move, is to not plow in. I thought I had time before catalysts would happen, but it's frustrating. I hope I can get better at that over time. It was a discipline move. You're cutting off these left-tail nightmare scenarios, and you're always going to be biggest in things that are winning. I think that's going to help your psychology be better. I bet you, I'm really talking to myself, I think that helps psychology be better. I think that helps morale. It also helps dealing-- we're talking about socializing with the managers. There's a risk of socializing mistakes. So, you make a mistake, and you go to the people. You got to be careful with the reason you're going to people is not to justify your mistakes. “I bought this, it went down 20%, I thought it was cheap. Nobody could see it going down, it was cheap.” That's not good for you. If you're buying up when there's a confirming event, and you're sharing that with the people you collaborate with, then it helps build your social credit. You don't have as much risk in your social circle of being the dude who's constantly being like, “Now's the time to buy Fannie and Freddie, Fannie.”

Bill: [laughs] Which by the way, now might be. I don't know. [laughs]

Dan: Having said that, it might be the time [crosstalk] but--

Bill: Not financial advice.

Dan: Right. I mean, I don't know.

Bill: I don't know either. I saw an article today and I was like, “Oh, shit, Fannie and Freddie are still around. That's interesting.”

Dan: Right. In the weird philosophical rambling I’ve done today, I just think you need to really think through the research process, the trading process, your own psychology, how you're documenting, how those things fit together because you want to maintain what I would call rhythm. You want to be in flow state of performing and performing well. The more frictions, and the more you decide to make things harder to feel smarter, you're going to miss these just super obvious things. The other thing is, over time, if you build your process this way, over time, you have such a backlog of stuff you're monitoring that you never need new ideas really. You're constantly going to have stuff happening. Then, it lessens your susceptibility to FOMO, to getting dragged into some meme name. It's really risky to go by. Securities inherit characteristics of their holders.

Bill: Oh, that's very insightful, sir. I like that.

Dan: Examples like BlueLinx Holdings is a great example. Everybody-- [crosstalk]

Bill: Yeah, I used to look at that.

Dan: I liked it. I own some of it. We all own some of it. Let's just [crosstalk] that. It was like eight value funds on the whole damn thing. That stock’s performance was those eight funds’ performance. That's not maybe the case for Apple, but it's really important to look stock to stock because the market it's not really an aggregate, it's maybe an aggregate for certain securities, but for most individual securities, there's probably something unique about the holder base in their motivations or the things. It's going to really depend, that's going to determine how the pricing mechanism works. There are certain names that were 80% of the float is owned by passive. How are you going to argue to me that at any point that thing is going to be valued based [crosstalk].

Bill: Yeah, it's not. Unless you have some allocator. If it's undervalued, you need the CEO that understands how to exploit that advantage. Outside of that, it's just dead.

Dan: On the other hand, if it's overvalued, you've got like a psychopathically aggressive M&A guy that's smarter, I've seen it work before.

Bill: Yeah. That's fair. As long as they're issuing shares as currency.

Dan: Oh, yeah. Spend their stuff.

Bill: I got to close out on one question, I really appreciate you doing this. How do you deal with a position that you're long really working? I think that a lot of times, it's hard to watch a position go from-- it become a really big part your book and never sell at the same time. My bias is against never sell. I have a sense here probably is, but I have a sense we probably lean similarly. I'd be interested to hear your thoughts.

Dan: That's the hardest question.

Bill: Oh, that's why I asked it, man. I got you in the box.

Dan: [crosstalk] Right. I have one right now. Look, I think you need to decide, the optimal solution for how to structure your portfolio depends on what your capital is, who it's from, what the goals are, things like that. If your goal is your own money, to compound it an after-tax rate for 15 years, and you're convinced you have an Amazon or Facebook, whatever. I don't know that you need to really do anything, but you need to be psychologically prepared, need to really be honest with yourself. That if you're up 60%, and you end up about 20% of the year, is that going to mess up your ability to-- are you going to miss the next one, because of the drought on the first one. That's the risk reward people don't price correctly.

The way that FinTwit people manage their PAs is not survivable as a fund manager, it's just not. If you can find somebody who will give you 10 year locked up capital, go to town, baby. Good for you. I respect you. You're a beautiful, beautiful person, and you should just go at it. For the rest of us in the real world, you have to decide where is the ceiling on a position size. For me, it's generally around 20%. I think about this on two levels. One is what is the forward after-tax IRR. If I think forward after-tax IRR went from 40% to 10%. The other thing is in my book, have a forward IRR of me do a scenario-based IRR, and we also do some price implied expectation work and things like that. If the IRR is dropping the positions massive, and the other stuff in the book has a higher IRR, we rebalancing the other stuff. Pretty simple. That's easier if you have multiple things you like. If you only have one thing you like, it can be harder.

The second thing is, there's this concept of, and I also think we need to be clear. If you put on like a 50% position and then you're up 20% or something, that's just not we're talking about here. I'm talking about if you have a 5% or 10%-- [crosstalk]

Bill: Yeah, that's right.

Dan: -5X or 10X [crosstalk] When you have that magnitude of a gain, I think your tax sensitivity needs to take a backseat, practically. You just had a home run, you should be very proud of that

Bill: Yeah, even after tax, you're doing pretty well.

Dan: Right. We're on the after-tax numbers, don't be the guy-- I've seen people with a lot of money being worried about tax sensitivity. I've seen people wipe out portfolios being worried about tax sensitivity, just optimize after tax returns. The other thing is when you're oversized in a position, you are effectively paying for volatility because when there's volatility, you can't add because you blow up your buck. If you have a 50% position, if it draws down, you can't add to it. If the March happens or the 2015 happens, or February 2017 happens or whatever, if any of those things happen, you can't buy-- the other thing is, let's say you think that fundamental story is getting better. The justification, the equal in your stock is where the business is getting better. Sure, but if the business is getting better, and the market has a little snafu, then, well, all of a sudden, you can buy it at a better risk-reward. As I said, fundamental improvement, regardless of price can improve the risk-reward.

My approach is when I get to a big position size, if I don't have timing anymore, I want to take it back to a level where I have some flexibility. I've caught up in my athletic on the balls of my feet position where I can start dip, dive, duck, dodge, whatever the [crosstalk] goal is.

Bill: [laughs] I love it how you use that as the example of athletic ability. [chuckles]

Dan: Yeah, dodgeball, athleticism. I need to be able to dodge a wrench, so I can dodge a ball.

Bill: I like it. That's classic.

Dan: For me, that's like a 4% to 7% or 8% position depending on the thing. For me, 10 at cost is usually the limit. Then, usually I have something else that's now at a higher IRR. I haven't encountered anything after being up 5X or 10X still has a higher IRR than the rest of them-- [crosstalk]

Bill: Yeah.

Dan: I think the other thing is a retail investor because retail investors tend to not keep notes and don't tag them, things like that. When you sell something, you forget about it. The reality is, sometimes you should buy it back higher, if it's actually gotten better, you got to be monitoring the risk-reward more than anything else. For us, it's like 20-ish percent, we're going to be cutting it back to 40, and depending on what's going on there. Mostly depends on what else is in the book. We're also not afraid depending on if you are sensitive at tax, I do think you should be looking at, can you sell some calls? Can you put on risk reversal? Or, some other type of structure to hedge you for some reasonable period of time-- get it next year. Maybe you don't want to get in next year, this year, I don't know. Look at creative way, you don't necessarily need to sell the equity, but do look at ways to take your-- The other thing is, if you're up like that much, the yield on cost you're getting from selling options at that point is like pretty, pretty-- [crosstalk]

Bill: Yeah, it's all gravy. Yeah, no doubt.

Dan: Think about that, because you can take that premium, you can roll it into-- if you've got to **[unintelligible [02:11:06]** at 50% IRR, now, it's a 10% IRR. You're like, I don't want to sell it because taxes, and cool. Sell some options and put it into the other stuff in your book that is 30% IRR, and then buy that. Don't be afraid to buy some puts on name you own, you don't have to do the whole position either. I mean, sometimes we'll hedge the overweight position. We segment our positions by core and then bonus. Bonuses when we've got a view on catalysts and things like that. We're like, no, that's when we're up to max position. Max position for us comprises of a core fundamental allocation. That's what we're willing to white knuckle through any volatility. Then, we're going to really put the pedal down if we've got max conviction on it. What we're going to trade around is that bonus allocation, and there have been things that I really like where I know that something really bad's about to happen, and I've bought puts on things I own. I bought calls on things I was short. One of my best trades a couple months ago as I bought some Nikola calls because there was no--

Bill: Oh, look at you, you ass. Get out of here.

Dan: I'm not bullish on Nikola.

Bill: Oh.

Dan: But I was just like this thing could-- [crosstalk]

Bill: Man, I liked you before this. [chuckles]

Dan: I was like, this thing could squeeze people's faces off here. It was like September 30th, and everyone thought they're going to cancel the GM deal. I was like, "Why would GM cancel it before this fabricated date?" GM for a lot of reasons, I didn't think they could for political reasons. Then there was like, no borrow at half the primes. I'm like, okay--

Bill: Good for you.

Dan: I think I put a 11 basis points on that. I mean, it wasn't like a big position. It was just like, I'm just going to put a little bit of like, "Let's not get murdered here." In full candor, the reason I did that is because I've had my head cut off that way on shorts before. I mean, on a percentage basis, I think that's my best, that was, I don't know, like an 18X or something on the premium because I'm a genius, it was like 11 basis points, but--

Bill: [laughs]

Dan: Yeah, it'd be a much better story if I was like-- so I put 5% of my fund **[unintelligible [02:13:10]**.

Bill: And now I'm on an island.

Dan: Right. No, it's more like, now if you do that, you have a hard time **[unintelligible [02:13:15]** it's a little easier to say, “Hey, we put 10 basis points to hedge just getting murdered on the short side.” I'm like, “Yeah, that was smart.”

Bill: Well look, real talk. That's why I think you're the real deal. That kind of thought is-- I think the reason that I am grateful that you said yes to this, and the reason that I wanted you to be my second guest is I want people to know that I fully believe in you, I root for you. I think that you have a legit shot to be-- you talked about Einhorn and Loeb and Ackman and, man, I think you got a shot to be the next generation of that. I hope that you realize it, and I really appreciate your time.

Dan: Oh, thanks, man. That's very kind of you to say. I'm trying to be the best me that I can be, but I appreciate you having me on and you're one of my favorite people I've gotten to meet with the platform always enjoy talking to you. I just think the best thing about this strange little digital Twitter culture we have is that we all get to hang out and chat and exchange ideas and at least look forwarding to have some beers. I look forward to doing that with you again once the **[unintelligible [02:14:31]**.

Bill: Well, I do as well, and I'll continue to call you with pitches on things like Qurate and, hopefully, it adds some value to your life. It has thus far, that's been a good trade, man.

Dan: Anything that grandmas are going to buy, and I'm here for it. I'm all about the mom game. I'm not even kidding. I'm probably going to hire some moms to just **[unintelligible [02:14:55]**. I don't even know-- [crosstalk]

Bill: It's not a bad idea.

Dan: I have a friend who did it. I was joking about this. My buddy's like, “You know, I actually did that, right?” I was like, “What?” And he said, when he was starting, he didn't have a whole lot of budget. He's now a huge fund. But he said, “I hired a bunch of moms that had just had kids and they wanted to work like halftime and do something, so I hired them to do research on consumer products.” He's like, “I can't pay that much, but what I can do is any consumer product you're betting, I'll pay you what I can. Then, I’ll also buy all those products, and you can keep all the products, you just got to tell me how they are.”

Bill: There you go.

Dan: He had like the mom mafia, and his consumer book, just like crushed it. I'm like, “I might steal that.”

Bill: Yeah, the scuttlebutt machine.

Dan: I mean, not a better scuttlebutt machine than that that I've seen.

Bill: No, sir. All right, man. Well, take care of yourself. I really appreciate you doing this. Congrats on the victories this week, I look forward to many more to come. I have a feeling this is just the beginning.

Dan: Thanks, man. I appreciate it.