George Livadas - A Long Short Discussion
The Business Brew

George Livadas stopped by The Business Brew to discuss his background, investing framework, and investment strategy. George is the founder and CIO of Upslope Capital Management. Bill really likes how George looks at the world. You can find George's work at https://www.upslopecapital.com/.

George's portfolio tends to be focused on industries he covered in the past. Bill was curious to discuss how George thinks of his gross exposure (long exposure minus short exposure) and whether shorting has been, and will be, a good idea in the future. A reason for Bill's interest in long/short strategies is thinking about whether long/short strategies are a better method of diversification relative to the traditional 60/40 stock/bond allocation.

In this conversation George talks about his investment theories, position sizing, how he sees risk/reward, and much more. The Business Brew is happy to feature him this week.

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[The Business Brew Theme]

Bill: Ladies and gentlemen, welcome to The Business Brew. I'm your host, Bill Brewster. Thrilled to be joined this week by George Livadas, founder and PM at Upslope Capital Management. As always, none of this is investment advice. Nothing in this podcast is an invitation or a solicitation to purchase or sell any security mentioned. Do your own due diligence. This is for entertainment purposes only. I can't stress enough that this is not investment advice. With that out of the way, George, do you have any disclaimers we need to get in front of [crosstalk] I’ve become aware of compliance as I've done this longer and longer.

George: Yeah, no, I think you covered most of it. Obviously, depending on where the discussion goes. Most likely, I and my clients have positions in the stocks that we probably talk about, should be pretty obvious, though.

Bill: Yeah, and I've been told by other compliance departments that you shouldn't assume any gains will be or have been realized or something like that. I don't know.

George: That’s right.

Bill: As I said, what started out as a fun little podcast on the side has morphed into something where I've started to have to worry about communicating with compliance departments or whatnot. So, I'm getting more and more cognizant of other people's needs. Anyway, how's it going?

George: Good. Been an interesting year so far.

Bill: It was an interesting 2020, also.

George: Yeah, 2020 and 2021, the fun continues. [chuckles]

Bill: Something that I've wanted to talk to you since I started reading your letters was probably 2019 was when I stumbled upon some of your first letters, and I've always been interested by the long-short world. But I guess it's interesting to watch you run it, it's interesting to watch your gross exposure and I was hoping that maybe you could give people a little bit of a sense of where you came from, and how you got to where you're going and then we can get into the conversation as it flows.

George: Sure. So, my background-- I always tell people, I was a pretty late bloomer to the investing world, was not somebody who grew up reading Buffett letters when I was 12 years old or anything like that. I was a Russian major in college, just wanted to do something different and interesting, but knew I eventually wanted to go into the business and finance in some form. The first half of my career, I sort of tag as more investment banking oriented. So, I started at Citigroup right before the financial crisis doing securitization, which was [crosstalk]

George: So, you found yourself in the middle of it.

George: Yeah, so, it was interesting to be a 23-year-old doing that. Then eventually broadened out. I knew right away, I didn't want to do securitization for the rest of my life, and eventually went back to business school. It started in 2008 and I had some sense for-- by that time, I had started investing on my own, but nothing particularly formal or sophisticated. I knew I had some interest in it and it was really while I was in business school right in the middle of the financial crisis that I fell in love with it. It was somewhat by accident. I was managing my own money, and just the intensity of the financial crisis and, frankly, just staring at the screen all day kept me captivated.

I was always interested in not just the traditional long-only stuff but learning about other tools that you could use. I still remember back-- actually, it was before I started my first job, I had to take the Series 7 and it was the first time I'd learned about options, and not that I'm a big options guy by any means, but I was just fascinated by the fact that you could do all these other things other than just be 100% long all the time, and just take what the market throws at you. So, during the financial crisis, I managed my own money. Like I said, still nothing sophisticated. I barely had any idea what I was doing but became interested in-- at the time I remember they had the double-levered short ETF. They had all these products that you could use to protect yourself in a crisis. So, I was just glued to my screen the whole time. I think probably at the detriment of my job search in a way. But at the same time, it was a tough time to be looking for a buy side job anyways. So, I did that during business school and decided to come out the other side and, frankly, hide out in investment banking for a bit more and viewed investment banking as this really broad field where you can get a bunch of technical skills, obviously, get the work ethic, and keep as many doors open as possible. I think if I remember correctly, I think you spent some time at BMO also.

Bill: Yeah, I was on the credit side of the commercial bank. So, technically, I was actually at BMO Harris, but we shared a floor with the investment bankers. So, I got to see what that stuff is like.

George: Yeah, I probably walked by you at some point. I was in the New York office, but came by Chicago pretty regularly.

Bill: Oh, okay. Yeah. I was up on 19 for a while. It was fun times. I like that place. I got a lot of good people over there.

George: Yeah, definitely.

Bill: What were you doing investment banking in, what sectors?

George: So, I joined-- and it was just took the opportunity is, as I found it. I joined the Financial Institutions group.

Bill: Oh, yeah.

George: So, general big coverage-

Bill: Sure.

George: -all products. Our group was unique-- I always tell people that people think of financials, first thing they think of is banks and insurance and when I got there, we did neither of those things. So, our biggest focus was on-- they called it market structure, so brokers and exchanges. That's where I was introduced to that world and became fascinated by it. Then we did some other stuff, too, like specialty finance.

Bill: This makes sense. Is this where your introduction to an idea like market access came from?

George: Exactly.

Bill: Yeah.

George: I can't say that we did a lot of business with them. I don't think market access is not a-- they're not deal junkies by any means, but we pitched the CEO regularly and sort of I met him probably a dozen times while I was there and became fascinated by the story.

Bill: That's cool. So, you were doing M&A more than anything, were you doing a lot of DCM?

George: It was a little bit of everything.

Bill: Yeah.

George: I think on the investment banking side, BMO is probably a nice way to put it as an up and comer, at least back then. I've thought a lot about it. I think a lot of junior investment bankers, what they want more than anything is deal experience. But BMO is a lot of pitching frankly. But in a way, I worked

with some really smart people and I think being forced to be scrappy and pitching ideas and instead of-- we didn't just show up and somebody would give us a deal. We had to show up and have good ideas. and they needed to be interesting and thoughtful, and we might not get the deal anyways, but at least it was a great learning experience to go through all that.

Bill: Yeah, when I was there, I was fortunate to start in the food and consumer group.

George: Okay.

Bill: The one thing that I think BMO's got right, or at least had right when I was there, is the focus on verticals and I know FIG was a vertical that they had a pretty good toehold in.

George: Yeah, on food too. Food was probably their best area.

Bill: And for a while they had energy too, but I don't know [laughs] exactly what they've loved. Okay, so you come out of BMO and how did you figure out how you wanted to-- how do you get into long-short management from like, how does that evolution--[crosstalk]

George: From investment banking?

Bill: Yeah. I understand how investment banking gets you connected to markets and interested, but then go to long-short is interesting.

George: Yeah, so, after four years of banking, I really still had the itch to get back to the original plan and get back to public markets. So, I asked them to move me to research and this will connect the other side of the weird sectors that I focus on, but they happen to hire a 30-year veteran that had been covering the packaging sector. And so, I joined his team and again, I was looking to do packaging, but I wanted to do something other than FIG, just to branch out. I joined him and unfortunately, I was only on the packaging research team for a year before I just for personal reasons, my wife and I wanted to move out of New York. So, did that for a year, moved out of New York to Denver when rip the band aid and found myself a buy-side job at a startup long-short fund. I can get into wide long-short more, but that was the literal evolution from banking to the buy side.

For me long-short, as I've mentioned before, I've always been enamored with the fact that you don't have to just be long only. Part of it is that I remember during the financial crisis learning-- I was pretty young and maybe naive, but learning that hedge funds, the phrase is more about the structure than it is about the strategy and most people assume hedge funds hedge, and a lot of them don't or they're really pretty [crosstalk]

Bill: [crosstalk] become more of a payment mechanism than an actual strategy in many instances.

George: Yeah, exactly. So, for me, I always loved the idea of going back to the just the absolute classic, like long-short strategy that you don't necessarily make money in all markets, but you're

uncorrelated, you protect the downside in a bad market. You're probably going to underperform in up markets, but over the long run, you still deliver an attractive return.

Bill: Yeah, it hasn't exactly been the best time to be short anything. [laughs]

George: No.

Bill: Yeah. It's wild, man. How do you think through what this past decade has trained people to-- the takeaways that investors have right now, I think is like, “Well, why would you short?” One of the questions that we got, I solicited some questions on Twitter, and one of them was, “Does he regret shorting?” When those are the questions that are coming in, I guess I have two questions for you. One, how do you see the environment and what it's training investors for? And two-- I guess that's the best question to ask.

George: Yeah, maybe I'll just answer that specific question that came in. For me, obviously, everybody that has a short book wishes they converted it all to cash last March and we're just going to long only or long cash, but that's easy to say in hindsight. For me, I still believe that markets have real cycles, even though I think we've had these flash bear markets over the last few years and then before that, you have to go all the way back to the financial crisis. So, I think there's still value to be had, because I think long-term markets are still going to do what they're going to do, they're not-- I don't think we've gotten rid of-- just because we haven't had an extended bear market or sideways period in markets for a long time, doesn't mean that we won't ever have one again, though. I don't know.

Bill: Yeah, no, I think that makes a lot of sense. I'm asking you, because you also run from what I've seen, and I don't mean to put a specific-- I’ll put a range that seems to me that you run somewhere between 45% and 60% net long on most occasions, is that a fair thing to say, or am I mistaken?

George: Probably towards the bottom of that range.

Bill: Okay.

George: Yeah.

Bill: So, a lot of long-short guys that I see right are almost 130 long, 30 short, and net 100 long. So, on top of running long-short, you're also for those that don't understand we're saying, it's basically the percentage of beta capture that you're exposed to. Is that accurate, how you would say it?

George: I think that's right. Yep.

Bill: So, on top of running long-short, you also have a substantially reduced overall beta exposure. So, it's an interesting time to implement your strategy and I think you've done it well from what I can see.

George: Thank you.

Bill: So, I’m just interested to hear why that's where you've settled and how you think through adding exposure, and maybe what makes you go up higher on the on the net long, or how you think through that?

George: Yeah, when I think about the goals that I set out for Upslope in the long-short strategy, I want downside protection, which I think is-- you can marginally outperform while being 100% net long on the downside, but it's tough. So, I think having a real short book and low net exposure is essential for that. I think low correlation is the other big factor that I'm trying to deliver. I want my portfolio to deliver a return that is relatively similar to equities over the long run, so call it double digit percent. But to me, there are different ways you can get low correlation. Obviously, one is by picking unique sectors and unique stocks and trying to do it that way, but the other is by also having low net exposure so your portfolio does something pretty different from the market on most days and. For me, obviously, I have almost all my money in the strategy and the goal is to just to deliver equity-like returns, but with the downside protection and almost no correlation to the index and I think it's tough to do that without a real short book.

Bill: Yeah. It's funny because I sort of taught myself-- Well, I didn't sort of, I taught myself by reading the typical value investing manuals and I'm at the point where I think I need to take a step back from what I'm doing to reassess what I'm trying to accomplish and part of why is, I've been pretty dogmatic in how I think about investing and this long only, just prepare yourself for 50% drawdowns, who cares? Go all-- not all out. I don't mean it in that way, shape or form, but buy a company and who cares if it draws down, the more I'm exposed to people like you, the more I'm realizing like, “Well, maybe that's one way of looking at the world that's not necessarily--“ There's no bible in investing. There's no true truth. I don’t think a lot of people get to different places, or the same place in different ways. It's all about figuring out what works for you. So, I’ve heard it’s said that long-short is the new 60/40, because it seems like, what I've seen over a couple times is, when there's a selloff now, all correlations go to one. So, I don't know how much asset classes actually protect you, whereas the short book seems to.

George: Yeah, I think that's right. I'm definitely not a fixed income pro, but when I set out at the beginning of forming Upslope and the strategy, that was definitely a part of the thought, was that in a world where if one thinks stocks are expensive, and rates are really low, it's tough to be comfortable with the 60/40 portfolio and feel like you're really going to be protected or diversified that way.

Bill: So, I guess one of the thoughts that I have is, “Well, you could just carry some cash and deal with cash drag.” When you're looking at what's gone on in the market over the past year or so, how do you protect yourself from shorting the stocks that become meme stocks and just move, know what I mean? It seems crazy.

George: I think the biggest thing is having, no, shame is the right word, but not hesitating to cover and move on even if temporarily from a stock. I've developed the reaction where if I see a stock like, GameStop, my first reaction isn't to just jump in and short it, I might have the thought, buts I know that it's not a great idea--[crosstalk]

Bill: [crosstalk] repress that thought. [laughs]

George: Yeah, because the first thought should be, is this a place where my business goes to die and those are the places where that happens. You might eventually decide to short something that's crazy like that and we're short some stuff that is pretty crazy, but you have to do it in really small size, and you have to move really slowly. The goal isn't to be some kind of hero. The goal is to make money on it. I don't need to prove to anybody that I'm right about GameStop or something else.

Bill: When you have to think about these types of dynamics, when you have to think about risk management on the short side, how did you get comfortable? I guess the real question for me, if I was implementing it is, I find the long side hard enough to do. I can't imagine trying to implement the short side. How do you manage that in your brain? Because I think it's two very different skill sets.

George: Yeah, I have some pretty basic guidelines for sizing on both sides of the book, but for sure, no short is ever more than 5% of the portfolio at market, which actually probably sounds really large to some people, but for me, a 5% short is like American Express. I'm not worried that American Express is going to do what GameStop does. In theory, someone could buy them, but they're not going to buy them for 100% premium or anything crazy like that. The typical high beta shorts that I have, they tend to be in the 1% range and if they're really high beta, like some of the sketchy SPACs that we’re short, they're more like, 25 or 50 basis points.

I've learned over time-- and sort of know it in advance, but you have to get burned a few times, frankly, for it to really be seared in your mind, but I've learned that sizing those shorts that small, you need to do not just for risk management, but also so that you're not tempted to mess with them all the time. I was short Tesla for too long, probably a year plus and that was one of my mistakes with it, is that it wasn't a huge short, but it was it was big enough that it was such a distraction every day. If I had just put it on at 50 basis points and left it that way, sure, I would have lost some money on it, but it would not have been as much of a distraction as it was.

Bill: No, that makes sense. Just thinking through what you just said. When I hear you say American Express, are you currently short it, or is that an example?

George: I am currently short it. Yep.

Bill: Okay, so, as somebody who doesn't think through this, I don't really know why you're short right, but I would think, okay, big established brand, reasonably big market cap, as you said, probably can't get taken out at some massive premium exposure to traveling business spend and like, a setup where it could disappoint to the downside, I think maybe easier than it could up surprise the upside and the skew is probably favorable to the downside. Is that how you're thinking about? It reminds me a lot of CPG a couple years ago.

George: Generally. American Express, I have a framework and is sort of unique among shorts. It's very specific to American Express, but I’ve a specific valuation framework for American Express, where I'll take a look at it and I agree with everything you said about the prospect of just disappointing. It's been one of these reopening stocks.

Bill: Yeah.

George: Reopening plus rates. On top of that, I've also got this valuation framework where to me it's at the upper bound revaluation and it's this played out reopening play.

Bill: Okay.

George: So, I'd say, it's-- [crosstalk]

Bill: I don't want you to feel the need to talk deeply about it. I'm just trying to get in your brain a little bit about why that would be the type of company that you'd be looking for. And then, on the SPAC side, I assume you're going after some of these really frothy types SPACs that have maybe $10 in trust, but they're trading at $18, or something like that, or is it even more nuts than that?

George: It's a mix. Most of them, I'm sure, about 10 of them, I think two of them that are really tiny are pretty close. So, they've got the trust backstop. I'm sorry, one of them just closed, one is preclosed. In generally, try to not short preclosed SPAC**,** because the way the event path works around closing, historically closing meant that the SPAC actually fell post close. Over the last year, it's been the opposite. It sounds like a joke, but a lot of retail investors literally get excited about the ticker change.

Bill: That is crazy.

George: They buy it up. I think that's died down over the last two months, but there were times where I was short at SPAC. It closed and it went up 20% the next day on the day of closing and there's no rhyme or reason for it. Normally, you'd expect the opposite to happen, but that was happening for a while.

Bill: Why would you expect the opposite? Do you mind explaining that?

George: I won't claim to be the world's foremost expert on SPAC, ARB or the actual players that buys SPAC IPOs, but I think in general, you have the rotation from institutional SPAC IPO buyers to more retail buyers post close. My understanding is some of that occurs pre-close, but I think a bunch of it can happen at close, or shortly after.

Bill: I didn't know if it was the point where you go from relying on the trust value to seeing the person that you're actually marrying, and maybe the actual deal becomes a little less than anything than what you thought you may own or something like that.

George: Yeah, I think that's definitely a valid observation too. I think that’s the case too.

Bill: It's very fascinating. SPACs are something that I didn't know anything about and then I did some research on and I saw the founder’s economics, and I was like, “Oh, this is all a grift.” Now, I've really

morphed. I do think that there's definitely a purpose for them, but all good things in finance, it's probably been taken a bit too far.

George: Yeah, I think that's right.

Bill: Yeah. Huh. I guess the overarching thought that I'm having is-- here, we're talking about SPACs and we're talking about mooning and sexy stories. Are you comfortable talking about WeWork at all?

George: A little bit. Yeah, it's a--

Bill: Because that's the marriage of a lot of these concepts and I think you found yourself a little bit more open to that idea whereas, just a year ago, it was a laughingstock, right?

George: Yeah, that's part of the reason I got interested in it. So, for what it's worth, WeWork is-- I think I mentioned in the letter, but I do view it as more of almost a hedge to this back short book that we have. I looked at it, and, frankly, I hadn't considered-- I don't remember what the press reports said about WeWork were going public, but hadn't really considered it that much until really the day that they announced they were being acquired by the SPAC. I looked at the stock and it was trading just above 10 bucks the trust value and I thought about what WeWork represented and to me, it ticked a lot of the boxes-- not necessarily on what I wanted to be long, but on what I did not want to be short. So, it's got this-- you can rightfully laugh at me saying this, but this open-ended growth story, all real estate around the world, completely hated company, very well known to retail investors, potentially a "reopening play," and on top of it, you had the $10 backstop.

So, to me, it's just a completely asymmetric trade where you could buy it and sure, you could have some mark to market losses below 10 bucks, but eventually you'd probably break even. In the meantime, you get this optionality on the stock either actually performing better than people expected, because expectations were really low, or something else, if this SPAC market as a whole takes off. So, I viewed it as, if the SPAC market continues booming, I'll be really happy that I own it, because it's protecting me against the SPAC shorts that are probably not so fun and if the SPAC market collapses or continues to deteriorate, the downside is almost nothing and my other SPAC shorts will be in good shape.

Bill: I like how you frame that. That makes sense to me. The other thing that's interesting about WeWork is, I would think that actually in a weird way, some of your FIG experience comes into it, because it is a marketplace of sorts. I understand that's so easy to laugh at. I get what it might become and I also understand why Sam Zell has said, "We've seen this movie before." I understand both those things. But even I was really closed off until actually I saw your letter and I was like, "Oh--," and also Scott Galloway had said that he was shifting, and it was one of those names that I had put into this bucket of never look at again, and then I realized, that's actually a really stupid bucket to ever even have in your mind. A better bucket is probably bookmark this and come back to it if the facts change. It seems as though that maybe Uber was in a somewhat similar type of setup at some point. So, it'd be interesting to see how it all turns out.

George: Yeah, I've found myself over the years referring to past recurrent shorts, talking to people and every now and then I inadvertently spit out, “Well, I would never ever be long this stock no matter what,” and I've gotten to the point where when I catch myself saying that, I realized that if I'm short, I should probably cover right then and there. Basically, it's not a thing that I should be saying.

Bill: Yeah, I almost wonder if that thought is a reasonably good trigger to revisit something as a long, I think, almost certainly to cover a short but I've noticed whenever I have strong opinions, and I haven't done the work in a while, I'm almost certainly not correct.

George: Yeah.

Bill: I've been trying to use the opportunity of this media platform to have conversations that have pushed me in different ways and the more conversations I've had, the more I've realized, I don't know anything. It's almost terrifying, because I had a lot more confidence before all this started than I do now, but that's okay. That's probably a good thing. A healthy dose of reality is probably healthy as I said.

George: Yeah. [chuckles]

Bill: Do you mind going into how Hampton has influenced you, because I thought that was interesting to see and Hampton's a guy that I've read, but not nearly enough, but he's sharp as a whip. So, I'd be curious to hear what he's meant to you as a mentor, even if not, not like formally whatever. [crosstalk]

George: Any podcasts he's on, I'll listen to, I always enjoy listening to him speak. I can't say I've read all of his letters, but read a lot, and definitely all the recent ones. I think to me, he's just a very clear thinker. But that's part of the enjoyment that I get out of listening to him, but I respect the fact that he has a very real short book. It's a completely different-- My understanding is the strategy is pretty unique and pretty different. I forget how many shorts he says that he has, but I think we're talking in the hundreds, 100 or 200. And has this unique approach to for the most part following bad actors around the world and seeing where they land and it's not exactly-- it's definitely not how I run my short book, but it's opened my eyes to different ways of managing a short book and I think in the most concrete way, I think it’s influenced how I've dealt with SPACs.

At the end of last year, I was looking around at this SPAC universe for shorts, and it was especially as a one-man band, it was just overwhelming the amount of potential short opportunities and seemed like, there could be. Historically, I don't take a basket approach to shorts, where I short a bunch of them where it's really almost more of a macro call in a group rather than an individual company call. But I came up with a framework for that SPAC basket and it was influenced by how my understanding of how Hampton goes at all of his shorts. But I'd say that's at the high level. On the long side, frankly, I haven't paid as close attention to his long-book as his commentary around shorts but he does seem to be invested in relatively unique and interesting stuff. I'm pretty sure he’d had Google in there and at the same time as Herbalife. So, to me that's something that also resonates with me is just this extremely diverse, unusual-looking long book.

Bill: Yeah, for sure. You mentioned him being a clear thinker, something that I-- one of the reasons that I think I need to take a bit of a break is I have been on a non-stop push and I feel like maybe my brain just needs to rest for a little bit. I need to figure out what I really want and where I'm really going. How do you manage some of the stress of starting up a fund and also running long-short and remaining clear? How do you do that? Because that's not the easiest thing in the world to do.

George: Yeah, honestly, with some hindsight, it feels like it was easy before COVID.

Bill: Huh, yeah.

George: The last year I think it was really stressful with managing the strategy and kids at home every other day and trying to deal with volatile markets and just everything that everybody has been dealing with. I think before that I probably didn't feel the need for anything too concrete to manage stress other than playing hockey once a week and go to the gym, stuff like that. Now, I'd say, when it feels like stress is getting to the extreme end, is probably every other month or so at this point, but I'll do some meditation, it's one of the meditation apps, which I would absolutely have made fun of myself for a year or two ago.

Bill: [laughs] You need both. [crosstalk]

George: Sometimes, even if it's 5 or 10 minutes, it's a good reset. And so, that's about it, though.

Bill: You know what's funny is, as you're talking about a meditation app that you would have made fun of yourself for, I found myself on the Peloton app doing their meditation thing. It's funny, because the companies that I'm open to-- and I'm not long Peloton, but when it traded down, if it had like, a mid-20 billion valuation, I'd get much more interest. Part of it is, I think that for a long time, I viewed the world through my own lens and thought that was reality and as I've gotten a little more experience and a little older, I've realized that N=1 is not exactly the truth. So, Peloton , I actually have come to appreciate the value that the app gives and I think a lot of people that really dismiss it are hung up on the cost of the bike and maybe not holistically looking at what the app subscription value-- if you utilize it, it's pretty cheap on a per-usage basis and I know that that sounds nuts, and it's hard to get your head around when you look at the price of the bike, but the amount of value it adds to my life, even when I'm not riding the bike, I still use it and it's like-- I don't know, that the pull towards a subscription service is very real and COVID definitely accelerated that. I was not open to that thought prior.

George: Yeah, I kicked myself a lot, speaking of Peloton, and I think leading into COVID, to me, it was a classic example of just a really bad short thesis. I'm not really a growth investor and so, it was tough for me to get my arms around valuation and not being profitable, and all that stuff. I'm a simpleton on that stuff, but I could see very clearly that the short thesis was bad, when you see people making jokes about, “Okay, it's an iPad duct taped to a bike.” and I knew right away and then we got one, two and COVID made it clear that it was really not that. Especially having kids, and again, it cuts a big chunk out of your day, unless you live in New York and right next to the gym be able to go into your basement or the other room and work out and not have to travel adds a lot.

Bill: Yeah, that's right and I think with Peloton too, the communal aspect has really allowed to thrive and forced to thrive in COVID, which is quite different. Now, I have to push back on something that you said, because you said you're not really a growth investor and I look at Market Access and I see it as a core position of yours, hard to argue that's not a growth stock.

George: It's the exception, though. [laughs]

Bill: Okay. All right. That's fair. I think I know and the reason I think I know why it's the exception I have a friend who works in debt, and he has been telling me forever to get long Market Access and it's always got one of those valuations on current fundamentals that I can't ever fully understand and I have never ever, ever been right saying no to buying it. I should have bought it when he said it, but he said, "Look, man, this thing's going to swallow up a lot of the debt market, and you just don't get it." He said, "You don't get it, because you don't live it, and that's fine. But I'm telling you as someone that lives it that you should be long this." But I've never been able to buy the valuation. How did you think through these--? It sounds to me just from talking that your background gave you a good sense of where they could go, but how do you manage a position like that, that's still nascent and monitoring the growth prospects and stuff like that?

George: It's a high-class problem, but it's been challenging over the years. I'm definitely squeamish about valuation today, and from where it's been historically. I think when I initiated the position pretty much at the outset of this, when I started the strategy, I don't remember the exact number, but I want to say it was trading for maybe 30 times EBITDA, and that felt like a stretch to me, but I could see the runway for where they could go and back then it was just-- so their businesses, they've got a few segments, but back then the focus was really on hybrid fixed income trading, and where that market could grow and eventually, it's turned into-- So, that they've chugged along taking share in high grade and then eventually, they've started doing really well in high yield, and in Europe and emerging markets.

At the very beginning, it was just taking the leap that, "Okay, this is going to be different from most of our other stocks that are trading for 12 times or 15 times earnings." I don't know, it seems quaint, though, looking back then. At the time, it was trading for 28 times EBITDA and today it's at 40. But it was really just a leap on, "I know this thing can grow. I know it's going to grow almost no matter what, what is happening in the world." It's been hard to manage the position because there have been times where evaluation--

Today, the position is completely subscale. It's less than half of a normal position and there have been other times, like today, evaluation is so rich that-- I hate that I'm not a hardcore never-sell person, but I hate to sell a good business just purely for valuation. I think of it like shorting. You don't just short something purely on valuation. Same way, you don't sell something purely on that, but this particular stock has tested my upper bound limit on sticking to something.

Bill: So, if you don't sell something on valuation purely, then what else would you be looking for to sell? You looking for valuation combined with a variant perception on qualitative stuff?

George: Yeah, Market Access, while evaluation has been really hard, the fundamental picture for me has always been really easy. I basically look at market share. So, the story is most of the bond market today is still done over the phone manually and Market Access is all electronic and they have most of the electronic market wrapped up. So, all I care about, and all I've really cared about since the beginning, has been, are they continuing to take shares, the market continuing to convert to electronic? Are they still, they have Tradeweb as a competitor, but they're pretty distant competitor. As long as market access continues to be the dominant player in electronic trading and electronic continues to take share from voice, I just don't care about much else. Obviously, margins fell off a cliff or something happened on that front, I would care but they haven't. I really just look at market share and margins and as long as those things are both healthy, I'm happy.

Bill: The crazy thing about a market going from the phone to electronic is it's hard to believe that doesn't expand the total volume traded also over time, right?

George: Yeah.

Bill: You would think that, not only are they taking share but the market’s expanding and that's a powerful dynamic when you get those two things working together.

George: Yeah. One funny thing that you reminded me of about Market Access, you mentioned your friend has been telling you to buy it, that they're obviously going to keep growing and dominating, over the years I've actually had fixed income people tell me that, “Oh, this market’s never going to go fully electronic like--" our market, that stocks expensive, like, I hate the word TAM. TAM is limited. You can only have X% of hybrid electronic, because bonds are unique, every bond is different, they've got all these features. Eventually I realized that, it was people effectively talking their own book, they're unclear, like, “Oh, my market special--?

Bill: “My job can't go away.”

George: It's not going to do what every major asset classes done forever. You didn't know how market access could do it and how they could continue converting, but you could see that management had a good idea of keeping their share growing.

Bill: Kind of wild that there hasn't been a marriage between them and Bloomberg. That seems like one that could be made in heaven.

George: Yeah, I mean, I don't know Bloomberg. It’s [crosstalk]

Bill: I mean, I don't know that makes sound well, but I'm saying that I'm just thinking of two places that fixed income, like, was built on or that has built their businesses around fixed income. I shouldn't say fixed, anyway.

George: Yeah, in the early days, I always assumed Market Access would get bought by ICE or CME, but it never happened.

Bill: Yeah, well, I think some of us are hoping that CBOE gets bought.

George: Some of us are. Yes.

[laughter]

Bill: How do you think through the value add that tactical longs give you as opposed to your core positions?

George: I think for core longs, the goal is to just sit on them as long as I'm happy with fundamentals. So, Market Access is obviously a perfect example there. But sometimes the market doesn't like the core longs, the high quality, more expensive stocks and so, to me tactical offers an opportunity to generate returns a little bit more actively, I guess, is probably how I'd put it, and to get exposure to different types of market regimes. So, if the market-- I don't think of core longs is necessarily growth Market Access aside. They're not necessarily growth stocks for me, but there's a particular flavor that I lean towards and my tactical longs, I describe them as a little bit more traditional value investments.

I realized that we've had a long stretch till pretty recently where traditional value investments in value stocks have underperformed. So, it was really a nod to the fact that's not going to last forever. No regime is going to last forever and I don't want to be wedded to just one. I still remember some of the movements in, I think it was early 2016 when-- if I remember correctly, value energy cratered and then coming out of it, value investments flew at least for a period. To me, stuff like that, and even bigger regime changes, it's important not to just get stuck on one note the whole time.

Bill: I've been fortunate to get an advanced copy of William Greene's new book, which is a cool book, and it's fun to read, Templeton, how he danced in and out of different spots of the market and how he ran his book like that. I'll just personalize it. I think I have been somewhat influenced over the past five years of watching these compounders get ever more expensive and grow into, the fundamentals in many of them have backed up the valuations. Sometimes, it's hard to remember that things do ebb and flow in cycle after basically my formative years as a professional have just been watching the rich get richer, and some of these value stocks just not catch a bid. So. it's something that I'm trying to be cognizant of and I like how it sounds like you built your portfolio and to me, a lot of the reason is probably because you're heavily invested in your own book. You want to make sure that your family is benefiting from different regimes, and that you're not just sitting there waiting.

George: Yeah. I think I mentioned it a quarter or two ago, but for me personally, it's also the practice. I think if you're too focused on one type of stock, or if you're too focused on growth stocks, or compounders, or deep value and that's all that you do, I think when the time comes, if there is a regime change, you can't just flick the switch and move over to the new regime necessarily. So, to me, I think it's even if it's tough sledding for a while with that particular pocket of your longs, it's good practice to keep at it, because you're going to need to be good at it and you're going to need to be good at it fast when it happens.

Bill: Yeah, keeps you flexible and ready.

George: Mm-hmm.

Bill: And somewhat anti-fragile, I guess. Are you okay? I'm going to do something that I want to do, I hope that you want to do it. I read your "Core Investment Tenants" and this is one of my favorite documents that I found on the internet. So, tenant, general and personal, first of all, I love how you laid all this out.

George: Thank you.

Bill: I may just steal this from you if it's okay?

George: By all means. Please.

Bill: You put it on the internet, and it's not an NFT. So, I'm making it my own. Number 10 is, don't do stupid shit and then number 11 is occasionally break some of your rules. How do you reconcile occasionally breaking some of your rules from not doing things that are silly?

George: I think an example of probably, that hopefully fits both. Both things here is WeWork. To me that breaks a lot of the rules in that document, I'm sure. But to me, it's pretty clear if you lay out the risk reward and the downside versus upside, or even ignoring the upside. I'd say it goes in the category of not stupid. Hopefully, I don't regret it for some unforeseen reason, but I think that's probably an example.

Bill: No, that makes sense to me. One thing that you had said in that document that I really like is you said, "Some risks shouldn't have mitigants."

George: Yeah.

Bill: When I read that, I read that as those are the risks that you're actually getting paid for and if you're seeing them, you probably are identifying the opportunity properly. Am I interpreting what you said in the right way?

George: Yeah, I think part of my reason for including that is just to force oneself to be realistic about it. So, if you're going to buy a cyclical stock, like you're taking cyclical risk, that's okay. I think I was influenced in a way-- I started my career in fixed income capital markets, was in investment banking for a while, and whenever we do memos, there were always internal memos, there's always the risk section and every risk had a mitigant that just hand waved it away. And to me, that's what I'm getting at is, that sometimes it's just the risk.

Bill: Yeah, and I think with the cyclical risk, maybe the mitigant doesn't have to exist in that particular investment. But within a book, you can diversify some of that risk away.

George: Yeah, you can manage it.

Bill: Having an entire book of cyclicals probably isn't the best idea, unless, they cycle at different times. But yeah, I agree with that. Let's see, what are some of my other ones, man? I thought this was such a great document. Oh, when you said that you thought that it was important to study how stocks move to breaking news, market moves, macro data in conjunction with a deep understanding of fundamentals, then it says, "That will teach you far more about investing than any book will." How have you learned and your framework on wind initiate a position and why stocks move, like, what do you mean, when you're saying that?

George: It's a pretty simple point, but the classic example is a stock going down on good news or going up on bad news, just really simple things like that. I think the broader point that I'm trying to make there is just that I really deeply believe that you're going to learn a lot more by doing than just by reading what others have done. Obviously, you can learn a lot from what others have done, but I think there's nothing better than getting in there and doing it yourself. I go back to my experience in the financial crisis, where I didn't spend the time reading books or anything, I spent my time staring at the screen and seeing, trying to figure out what was going on and that's what I'm getting at.

Bill: Yeah, that makes sense to me. I like the idea of stocks going up on bad news and down on good news. There's the purist in me that says like, "Well, who cares how the stock reacts?" But then, there's the part of me that's that learned enough to know that if I perceive news to be good, or it is objectively good but the stock is selling off, then there's probably something there that I don't understand.

George: Yeah.

Bill: The market is way smarter than I used to give it credit for.

George: Yeah, or it's not necessarily that. It could be that the stock is-- everybody already knows that good news. Everybody's already long for that exact piece of news that just came out and now they're done with the trade and they're going to move on and it doesn't-- I think it tells you a lot about positioning which is an important-- Not the biggest thing necessarily, but an important factor in looking at any investment.

Bill: As you're saying that, I'm thinking it may just be that we're trying to do different things. That's like a totally acceptable answer that I've started to understand. But when you think about positioning, how have you prevented yourself or have you prevented yourself from sometimes getting too focused on the positioning versus the underlying business? I know that you can't decouple the things, but one of the skills that I've come to admire a lot of you like true pros for is marrying the two concepts without overcomplicating things.

For me sometimes I've-- again, just going back to the Buffett-Munger thing, it's been like, "Don't worry about the positioning, just buy good companies and let them run," but I don't know how much I believe that anymore. I still fundamentally pray to that church, but I also think that's a little bit too simple.

George: I consider it and I think a lot more for tactical longs and shorts, I think there's room for that leave it alone and try to forget it exists that bucket that won't say never sell, but the never sell bucket. But for tactical longs, I think it's important for shorts. I think it's really important-- I've probably focused too much on this over the years, but I get very honed in on when I see a stock that I perceive as really popular among hedge funds, and everybody's telling you the exact same thing about it. I have a really hard time being long that stock and resisting shorting it.

Bill: So, you're itching to short cable companies right now? Because that seems like a pretty consensus trade.

George: No, I've always stayed away from the cable companies, just because-- my perception could be totally wrong, but I've always thought of them, maybe biased by the liberty complex. But I've always thought of them as complicated and crowded, and those are the two things I want to avoid at all costs. I don't mind some complexity, but the combination of being complicated and having lots of eyes on, I don't necessarily need to get involved.

Bill: Yeah. One of the things that I need to think about for myself is, when I got into Charter, they were going through-- it was a billing integration issue. I don't know that it's even an integration issue. They had said, "This is a key risk, we're moving billing systems," and then that risks materialized, and they had some churn and I think people got a little scared. One of the things that I have realized over time is that I am definitely not the smartest person in that space. I am concerned that my sizing is too large in that space and I've gotten to the point that I don't even know if I bought it for the wrong reason. I think not that I didn't understand, but I don't know if that billing integration issue is actually the issue that people were afraid of, or if it was the issue that I saw that I thought people were afraid of. I don't know, man, it's been really interesting to be in the game long enough to start to look at why I have one when I've won, whether or not the bed sizes lucky or not and decoupling skill from luck and I don't know that I've ever been less confident in the markets. [laughs] It is hard. So, how do you review it? Make sure that you're going the right way, what are some of your best practices?

George: I think, just being intellectually honest is, there's no magic formula for getting there, but being honest with yourself that sometimes you're lucky, and you're maybe a lot of the time, and other times not. When I get feel less confident in how things are going with this portfolio in the market and you mentioned you've never felt less confident in yourself in the market than today. To me, that's when I start to feel that way I pull back. So, I make positions smaller. I cut stuff that's marginal, get rid of it entirely, if I have a short that, maybe I still like the thesis, but it's just not that exciting and the risk reward isn't as obvious, just get rid of it. Then just make fewer bets in general, fewer in smaller, until I feel better. But there's no magic formula, though.

Bill: Well, when I say that, I don't mean to short sell myself or whatever, but I have a lot of respect for what we're up against and I think it's funny, a lot of people will tell retail like, "Oh, you got to watch out. You're walking into the gladiator's ring." and I think that's easy to dismiss that advice, or it was for me, and the more gladiators I'm meeting, the more I'm realizing like that's actually really good advice. So, we'll see. I'm glad that I started on this journey, but I definitely think I underestimated the competition.

So far, I've been learning in a market that's been forgiving of mistakes. I'm grateful for that. Hopefully, I'm not learning the wrong stuff.

George: I do think there's something to be said though on not getting too hung up on the competition and, there are obviously, lots of thousands, millions of extremely smart people in the markets. I'm a firm believer in, if you're competent, and you put your head down and don't get obsessed with what other people are doing, I think you can do just fine.

Bill: Well, going back to the document that you have that I like that I recommend everybody pulls up, knowing yourself and then also realizing that there's a lot of other people playing other games. You don't have to play the same game everybody else is playing. So, that's one of the things I tell myself. I've got to go to one of the Twitter questions, this is very important from my man, *@JerryCap*, "What percentage of your portfolio is exposed to cryptocurrencies, Dogecoin specifically?" and he'd like a real thought-out answer on 2025 estimates, please? [laughs]

George: Unfortunately, my computer's broken, so I can't pull up the model now. I think it rounds down to zero, though.

Bill: [laughs] What do you mean, dude? What do you think's going on with some of this stuff?

George: I have no idea. At times, I've bought a very token amount of bitcoin outside on my own, has nothing to do with the strategy, purely as a sanity hedge. I don't own any today and have really no long-term interest in it other than as a spectator.

Bill: I understand the idea of it from a store of value in the same way that I think that there's some art that has a store of value, I don't what inherently makes a piece of art that valuable other than people believe it's that valuable. I do think that's a real thing. I do think that the mathematical elegance of bitcoin provides people security within their feeling of how many units are going to be distributed. I don't fully understand why bitcoin is the store of value, but I don't know that it has to be *the* store. It's just got to be *a* store. I don't even know why gold is either. To be honest, everybody's like, "Oh, well, gold's got industrial use. Nobody that's buying gold is selling it to corporations," everybody's just trying to avoid inflation.

George: Yeah. If everyone agrees on [crosstalk] it can work for-

Bill: That's right.

George: -a while at least.

Bill: Yeah. But I can't get any further than that. It's something that people have agreed to agree on. That's where I'm at with it.

George: Yeah, same here.

Bill: Yeah. All right. Well, there you go. One more for you and then if you want to talk about anything else, let's do it. Otherwise, I'm not trying to stretch out conversations just for the purpose of it. I've enjoyed this very much, though. Emerging manager, do or don't? What do you think?

George: I laughed at the debate a little bit, because I did a short Twitter thread on little bit on the topic, a week or two ago. I think a lot of people, when they say emerging manager, it means so many different-- To me, it can mean a lot of different things. When I first started out, started thinking about launching on my own, I did what everybody does, went out and got a bunch of advice from people that were on the buy side and in the industry and had a lot of experience and pretty universally, the response was, "Do not do it. You can never do it. It only works if you start with $100 million, at least. The only way you survive is if you get to hundreds of millions of dollars." I was fortunate in that I'd been exposed to a bunch of emerging managers already that were one-person bands, and I knew that there was this other model out there that it's not raising hundreds of millions of dollars, you can have a one-person shop and you can manage $10, $20, $30, $50 million on your own, and the model works very well and you can focus on investing, and it's a totally different game than building a real large institution with a big team.

So, I think neither path is easy. I think that the big institution, I agree that it's close to impossible. It's really, really hard. If you're spinning out from a big fund and you're seeded by a fund or mentors, then the bigger institutional route makes sense, but I'm not an expert on it. The one-man band part though, I think it's really, really hard, but I think it's completely worth it for some people. For me, I wouldn't do anything differently, and I wouldn't tell somebody not to do it. You just have to-- For me, the most important thing is you need to give yourself runway. That means if you're not raising significant money right out the gate, you keep your costs as low as possible, assume you're not going to raise any real money for years and that way, if you can survive those wilderness years, whether it's two years or five years or even more than that, then you can focus on performance and then you can eventually get somewhere with that. That's been my approach. It hasn't been an easy-- I started the strategy five years ago and officially started underneath another fund and then officially launched Upslope four years ago. I think fundraising, I think of it like, I don't know if you've ever done home renovations, but--

Bill: I have. I actually sold flooring to people and I was horribly, horribly bad at it. I can't imagine somebody that had to buy the floor for me. I'm sorry, especially Bob and Judy Gold, my apologies to you.

George: Yeah. I haven't done it that often, but my general sense is that a good rule of thumb is assumed that the estimate is going to be double or twice as bad is a good starting point and it's going to take twice as long and I think it's a similar thing to fundraising. As an emerging manager, assume that your worst-case scenario will be even worse than that, and it's going to take twice as long. But if you can survive that, and you can establish a base of AUM that stabilizes the business, you can focus on performance and then you're-- As far as I'm concerned, I'm left with the dream job that I've always had. I get to wake up every day and focus on stocks, and the business is still tiny, but it's at a stable point where I can focus on performance, and I don't really care about much else.

Bill: That reminds me of-- the Christmas episode that I did was my family member, Jack Rohrbach, and the reason that I had highlighted him was, to me, he's a story of a guy that just always kept his nose to the grindstone and did the best that he possibly could in the situation that he had. When he finished that, he read at the very end, he read, like, career advice, or whatever. He was really upset after he wrote me an email and he was like, “I can't believe I forgot this.” He said, “Most ideas are pretty good ideas that you'll have. But everything is going to take twice the capital and twice the time that you plan on. You got to make sure that when you're starting out, you understand that.” I think that some of the-- I don't know what the emerging managers are really going through, but I have a sense and I do think that one of the things about the failure rates is it becomes an entrepreneurial endeavor and you're marrying investing which is really hard and entrepreneurship which is really hard, and those are two really hard things and it's at the intersection of it. So, of course, the base rates are going to suck. It can't be an easy game. Otherwise,-

George: Everybody.

Bill: -anyone could do it. [laughs]

George: Nobody has any right to go and manage a bunch of money on their own and doing it exactly how they want to do it. If that's what you want to do, you do have to suffer for a while to get there.

Bill: Yeah, that's right. When I was starting the flooring business, I didn't even set out to start a flooring business, I just set out to start *a* business and for some dumb ass reason, I got myself in the headspace of, “Well, I'd rather sell a big product with decent amount of margin as opposed to sandwiches.” And I probably should have just done sandwiches. Because that's a true franchise model and what I built, or what I bought, was closer to a branding company that required a lot of actual-- the institutional knowledge in the product that I bought from the franchise space was lower by definition, and by a function of what I was selling than the knowledge I needed to have, but the reason I was trying to partner with a franchise was I needed the institutional knowledge and there was a fundamental mismatch of my idiocracy and what I perceive them to be mitigator. I don't know, man, it just gave me a real appreciation for how hard it is to get things off the ground. There were nights that I was sleeping at the office. I was often coming home at, I don't know, call it 11 PM to not overexaggerate anything, but to get back up, to come back out to the office. It's funny because my buddy and I that started the business together, we failed horribly together. It was just a catastrophic-- It was disgusting. I wouldn't even call it a business. But now, we're both doing what we want and we're both pretty successful. So, I guess that , if anybody is not successful as an emerging manager and they've taken that risk, what I would tell them is, your life's definitely not over and your worth isn't set up by whether or not your investment firm worked right. My two cents for whatever it's worth if anybody's listening is don't sacrifice your integrity and try to do the best you can, but entrepreneurship is a tough game.

George: Yeah. Right.

Bill: But the rewards are great.

George: Yeah. For me, the biggest thing is just getting to do the job that you want to do, and I always set out at the beginning, if it's something that I love, it doesn't even feel like a job and if I'm good at it, I'll stick my head down and keep going and work through it. If it turns out that I'm not good at it, so be it. But like I said, to me, it's completely worth the sacrifice if it's really what you want to do long term.

Bill: Yeah, well, and something that I respect about you is you're investing alongside your partners.

George: Yeah.

Bill: So, it's or your investors however it's structured. You're doing it for you too. So, there's almost no choice once you walk the Rubicon.

George: Yeah.

Bill: Where can people find you?

Bill: Website is really simple, just *upslopecapital.com*. Also on Twitter *@UpslopeCapital.* I think those are the two main places.

Bill: That works. Do you want to cover anything else or you want to wrap it up? You're always welcome to come back on.

George: I appreciate it.

Bill: I'll start up Season 2 and you’ve got an evergreen invite.

George: I appreciate it. No, I think I'm good on my end. I really appreciate you having me, Bill.

Bill: All right, cool. Well, thank you, George. Ladies and gentlemen, George Livadas and Upslope Capital. All right, have a good one.

George: Thank you.