Tayor Pearson:

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Jason Buck:

So I know you did your undergrad and philosophy. Did you do postgrad work and philosophy or is it just undergrad?

Travis Kimmel:

No, I got tempted down that path by a professor of mine. But the funny thing about philosophy is, it's really good. It's a good framework for understanding the world, but then if you want to actually get out there and mix it up in the world, you just got to get out there. You can get cloistered pretty easily, you see these guys go for a PhD and then they never leave the university. And I just didn't think that was the path, money is...

Jason Buck:

You just allied three questions for me to go in. So I got to choose IO direction. It's like, we'll get into maybe the guys that just stay in there because they like that ivory tower philosophy or continental style or you're just debating what the definition of it is, which is just annoying. But I find that when people go for the undergrad side, it's either you actually love philosophy, which is probably a red flag or you want to be a lawyer or like you said, it's a way to think and build up that postgraduate work. But it sounds like you were actually somebody that loves philosophy.

Travis Kimmel:

Yeah. I started in international relations. I was thinking that could be an interesting path, I still think it might have been. And then got pulled into philosophy because it was sort of the keys to the kingdom on winning arguments, which at the time, I mean, I still love debating. As I met this guy, this professor of mine, he was doing his doctorate at the time and it was just an awesome professor. The guy made me think more than anybody else really had until that point, in a meaningful way. And he was just an absolute gangster on the words as weapons front. And so, I just sort of followed that thread for a little while. Got deeper into, I think I sort of majored in philosophy on accident. I just started taking all the philosophy classes, majored in English for a while. But the thing that I like about it is the way that it allows you to intake ideas and filter them in a disciplined way.

Travis Kimmel:

So ideas come from all sorts of sources. There's just kind of floating out there in the world and a lot of them are just weird and toxic. And so it gives you this kind of mechanism for filtering out the good from the bad. I love that, it's super, it wasn't useful for a very long time. And then I got into to business and as you climb up the career ladder, it sort of kicks in your late '30s, philosophy becomes useful. So it's a weird, like an alarm bell on yourself that you're going to make it to a level where it's actually useful.

Jason Buck:

You almost have to in your '20s, while you work your web corporate ladder, figure out what you want to do is you almost have to shut off that philosophy brain. You don't want to be asking too many questions because you want to maintain those paychecks and that's addictive.

Travis Kimmel:

Yeah. I mean the first thing when you're junior, I mean, people hate it when say this, but when you're junior, it was a very hard lesson for me to learn. The first lesson is like, you just got to learn to obey. You know what I mean? You get into this hierarchy and you just need to learn from others what the local domain knowledge is and how you can fit in there. And that it's just an exercise in fitting in, which is very frustrating. Especially, if you've got inquisitive mind and you get in there all fired up to make a difference and all that. You just can't, until you learn the ropes. And a lot of that is taking dictation from others, it took me a while to get that one.

Jason Buck:

Yeah. It's interesting how, like you said, most of schooling, especially K through 12 and then even into undergrad and postgrad is about creating cogs in the machine, learning to obey. But then if you're studying philosophy the right way, you're actually learning the opposite. You need to learn new question, everything define your priors. Like you said, it's an amazing way to build an infrastructure for debate. And actually, I didn't realize we were that close in the ideas of, I actually started an international business and then was taking all the 400 level comparative religion classes. And they're like, "you should just major in comparative religion. You've already done all the work." And even though, to me, religion incorporated philosophy, especially I was specialized in Eastern mysticism, like Sufis, Daos, etc.

Jason Buck:

But then I went back later in life and read philosophy because in school, my first teacher it's always dependent on that teacher. Like you said, you had a great one. That first class I had was like, that more continental style philosophy, like define what is in this sentence. And it was just a bad teacher and I was like, "this is terrible." So I went away from it and then came back later. And like you said, I like that autodidact learning, because then I was just a veracious reader of philosophy. Because like you said, it makes you define your terms. But part of that, I wonder, we're going to come back to the philosophy, especially your philosophy on Twitter. But part of that is, I always wonder why the skeptical tradition doesn't do as well as any sort of additive tradition. Is it just because we love to create mental frameworks and everything and we don't like ones that destroy them?

Travis Kimmel:

I think that's part of it. It's hard to sell. It is almost a pure antithesis. So you're walking around the world with this framing of what's wrong about this? And I think that it's good hygiene, but it doesn't really get anywhere. It's fundamentally non generative. You're just sort stripping away the things that would hold an idea back. It's a very useful thing to have in an organization. But by itself, it doesn't make anything. So

in a way, a skeptic is almost always, it's a weird way to frame it. But it's almost always a team player as a skeptic, by some broad definition of team.

Jason Buck:

You think you're always are or you're not a team player?

Travis Kimmel:

I think you are. I think you have to be.

Jason Buck:

Yeah.

Travis Kimmel:

I think so, because you're effectively looking to strip the chaff away from the wheat. The goal of a skeptic is to almost enforce discipline, but that's non-generative. You're not creating anything, you're taking an idea, it's a refinement process. And so, I think that it's similar to when you do these brainstorming exercises, the brainstorming comes first and you don't really want skeptics in the room there. And then once you have that seed of an idea, then you bring in the skepticism and you refine it down into something that is hardened and more world ready. It's basically the function of it.

Jason Buck:

No, this is beautiful. I love that you brought it up this way and think about it. I never thought in the team player sense, but I get what you're saying. I wonder do you think though then, people like us are maybe bipolar or schizophrenics, because you just said it's like when you're having that generative discussion, I always say at my firm is the improvisierend and just, don't kill this baby. Like this thing's so incoherent, it needs to be nurtured and watered. So we can't be skeptical, we got to get this idea out there. Then once I can get it to a place where I can almost feel, man, it then the other part of my personality comes in and goes highly skeptical and tries to tear it down. And like you're saying, it's a refinement or a honing of that process. But to have those two people in one mind is kind of, people think they're competing forces. I just wonder how you deal with it as well.

Travis Kimmel:

I had a long stretch of my career where I'm not sure I have dealt with it. I had a long stretch of my career where it was hard to make forward progress until I started partnering with people. And the guy I founded our startup with, this guy, Ben, he is a prolific creator. He's high output. He and I generated ideas together and we sort of swap back and forth between the refinement and the output hats. But for me, a lot of that's just working with people. It's so great to have an external sounding board for ideas so that you're not sitting there trying to wear gear shift between these hats all the time. And then these days, I just try to always hire people who are high output players and ideally better at what they do than I am.

Jason Buck:

That's the wisdom of age, is we just start surrounding ourselves with just great people. But at the same time you had to build that world. It's an interesting thing too, it's like you're essentially creating to go from zero to one. You're taking an idea from your head and bringing it into the real world. And that is

almost like creating a hologram. And even though you then search out people that are much better at you at doing their individual tasks, you are still that energy that holds that hologram together. So it's a really weird feeling to every day you wake up and you almost have to animate this hologram. And the amount of energy that takes, even if most of the people are actually doing the actual physical work so to speak. It's a weird construct where you're basically building a worldview.

Travis Kimmel:

And I think that skeptical framing comes into play when have, if you find yourself as a manager of a team. It's a very useful skillset because oftentimes in business, you've got a team they've got objectives and there is sort of cross-team chatter around, well, is this the way to do it? Should we do it this way? And if you can stand there as the skeptic and can sort of protect that little pocket that the team works in, that's pretty valuable. Do we really need to pause here and think about what we're doing or can we just keep running? The skeptic is the warrior at the gates. And if you've got a group of creatives who you're working with, it can be a really useful skill to be the blast shield for them.

Jason Buck:

But we're almost like, we were talking about right before we hit record is about the idea of shiny object syndrome, is like, but how do you maintain that? Being skeptical and knowing this may be refining the business and we need to go in this direction, but I also may be falling for shiny object syndrome. How do you deal with those two trade offs?

Travis Kimmel:

It's a challenge. I mean, some of that probably comes down to the industry sort of traditions. I mean, in software, we've got, I think agile was a really interesting evolution. In the beginning, there was this waterfall thing where it's like, you have this massive design and then you spend many years implementing it and then the design comes out. Well, the world picked up the pace so fast that there were legitimate critiques. There were sort of a legitimate, shiny object syndrome in response to that, which is the industry changes so fast, this isn't working. We need to be able to move midstream. And so, agile is this notion of we're going to sort decide on a couple weeks worth of work here. We'll do that work uninterrupted and then, we'll pause and have a period of feedback. And so, you get these rapid iteration cycles.

Travis Kimmel:

And I think that at some level, protecting against shiny object syndrome is defining a span of time that everyone is bought in on, where it's like just the work happens in there. And then you pause and you shift for feedback and agile done half well, allows for this intentional gear shifting. It's like build mode, take input mode, build mode, take input mode. We separate those, super effective.

Jason Buck:

But that's why I wonder if that's a particular thing with software development is, as you've start to play in all these other fields, besides just the software industry, especially you start getting into global macro and you set to deal with all these nebulous things. It feels like that's a great function of software, is you can actually go on these sprints and actually get that feedback where you can't really get that in a lot of other industries.

Travis Kimmel:

Yeah. I think the closest analog in trading is probably just knowing the timeline that you're playing on. The funniest thing on Twitter is you get most of the vicious arguments on there are literally just people disagreeing on timeframe. You got a day trader who's laughing at someone who has a two year thesis on something because it's going the wrong direction that day. And I think that, that's probably the closest analog to agile, which is if you got a trade, know when you're wrong. Sure, maybe there are indicators that come in there and invalidate that ahead of time. But in general, if it's a two year trade, put that thing on and then kind of wait. And I think that spins people out a little bit on the trading front, sometimes. Like two years, you got to be able to wait for a long time and have a bigger pain threshold sometimes with those.

Travis Kimmel:

A dollar trade's a great example. Everybody's bullish the dollar out on the back of COVID, the thing sank. Now it's ripping again. And I think that for those that were in that thesis over the right timeframe, that's ultimately validation of the view. And if you were trying to trade that thing as somebody who has to do quarterly reports or something, that would've been pretty challenging.

Jason Buck:

Well, as you see with Brent all the time, clients or other people just want to hate on an end to month basis versus, what's the thesis. The way I always talk about it these days is, everybody's got all of these thesis about whether it's dollar, which is a much broader or an individual public equity. And I'm like, "you're going to put together Steelman thesis, I get it." And I'm probably going to fall for due to behavioral functions or I can try to Steelman the other side, but that leaves us with nowhere. Good philosophies is almost like Carney '80s in a way. So I keep saying it's like, "I don't care what your thesis is. Tell me your position size and tell me what the rest of your book looks like. And then we can talk about if it's hedge properly or whatever." And if you're taking a flyer on that small percentage, but you just said, I also need to add into those two dynamics is the time horizon, tell me the time horizon of your trade.

Jason Buck:

But at the same time, I think that's the one thing that retail has advantage on. You just alluded to it, is time horizon. Yes, they don't have that sharp stick of clients at their back and monthly liquidity or a quarterly earnings report. It's like, if you have a different time horizon, then it's a different thing. So to your point on Twitter, I think like you said, people are arguing about time horizon, but I think even more importantly, it's people are always arguing about a singular trade and I find it completely pointless unless we're talking about the overall portfolio.

Travis Kimmel:

Totally agree with that.

Jason Buck:

As you and I know even to just use Brent again, it's like he has a very convex way of trading that dollar position. That's a tiny fraction of his book, but nobody talks about, they think he's just all in on the dollar or something. It just doesn't work like that.

Travis Kimmel:

Not at all. And I think the flip side of that is you get into these, back to your point about the advantage of retail. I think that's the only advantage retail has.

Jason Buck:

Yes.

Travis Kimmel:

This time horizon.

Jason Buck:

I agree.

Travis Kimmel:

The ability to just sit there and the ability to do something else, to not focus on it, which is a powerful advantage. I think it is, the more you self-identify as a trader, the less you're able to realize that advantage. Because there's this desire to have a wall of seven screens, watch every little tick on 10,000 different things. But the beauty of macro is, ideally it's set it and forget it. And you're planning for every scenario you can see and you're constructing a book from more of an allocator than a trader. And you're constructing this big book, that's just a bulletproof as you can make it and then, you tune that.

Jason Buck:

Yeah. I keep frequently talking about, everybody thinks I hate global macro, which is not true. I just hate that everybody has these global macro narratives. It's almost like a philosophy of everything.

Travis Kimmel:

Yes.

Jason Buck:

And I'm just like, it just doesn't work like that. What you just pointed out is that to me, the best global macro traders in the world are great micro traders, right? And they're great trade constructors and portfolio constructors, because like you said, they're thinking maybe 2, 3, 5 years out, what can happen. And then, they look at the secondary or tertiary effects to try to construct trades with large asymmetric convexity to the upside. And Hugh Henry used to talk about extended pit. He doesn't mind chopping off 5 to 10 of his legs because he is got 90 left.

Travis Kimmel:

Totally.

Jason Buck:

And it's also, once again, it comes back to what's trade construction, position size in your overall book? I don't care about your big theory, philosophy of everything, about how you think the world works. That's just self aggrandizement.

Travis Kimmel:

Yes.

Jason Buck:

But that's what everybody focuses on, not the actual trade construction of their book. So people, feels like they're focusing on the wrong thing.

Travis Kimmel:

It's easy to just sell stories. All this, to me, it comes back to the business model. And I think if you're looking for somebody to hand a chunk of money to them, I guess, the thing that I would sort on is probably their mechanics around risk management. When do they have a framework for being wrong? If they have a framework for being wrong, it's like, okay, well I'm just going to pull that off. That is going to be, you're going to get a better outcome with them, than you will with somebody who is deeply invested in their beliefs. Which is a very weird thing, you want this sort of light touch. Like, "maybe I'll take a shot at this FX trade or whatever." And it goes south on and they're like, "all right, well, I either messed up the entry or they just pull it off."

Travis Kimmel:

That is a powerful skillset. And it is almost the opposite of the skillset of narrative trading. I mean, narrative trading is very... I always think of it as, you're out there in the ocean and instead of just riding the waves, you're pulling boulders out there with you on your surfboard, trying to drop them in and make the wave. They just seem so feud up, it's really wow.

Jason Buck:

What scares me even more though, is it's different as an institutional allocator and you have people that trade very niche strategies. It's really great to pick up on those. But my issue is more the newsletter. I'm not going to pick on anybody specifically, but the newsletter writer luminaries and global macrospace that talk about dollar monetary operations, etc, is how many clients or potential clients I've talked to where they're like, they just follow that one person religiously. And to your point, I'm always like, "what if they're wrong?" If they're betting everything on inflation, what if they're wrong, or the opposite? If they're betting everything on deflation or deflation, what if they're wrong? And they never think about that. And I think you're just me, is like the idea of following somebody else religiously and doing everything they say, and then not seeing their trades or anything just doesn't make it sense.

Travis Kimmel:

It doesn't make any sense.

Jason Buck:

Any sense to me at all. But why do you think that? So maybe we'll get into this. So why you find global macro so fascinating? I think about it as, there's nothing more enticing for older white males, that if I made a modicum of money in life to then become a global macro trader and have a philosophy of everything. Because it's like, you become a thunder God, right? It's nothing more, because we said, it's become a philosophy of everything. And so, it's just the most enticing thing. And I'm just wondering what dragged you in.

Travis Kimmel:

I think a lot of it is, it's the way a liberal arts degree was designed to be used. So if you go back, think about where liberal arts comes from. Liberal arts was essentially a generalist education for the ruling class. And so, you get a little bit of money and you feel like you're finally able to make use of this weird BA that you got a long time ago, right? You're like, "oh man, I know a little bit about all this shit." And so, it's seductive in that way. It feels like you can put that education to work. And I think that some of that is just an outright mirage. I think it's certainly a part, there's a truth in it. But you have to take all of that with a grain of salt because, unless you're approaching trading in a way where being wrong, doesn't hurt you. You're going to get hurt, because you're mostly wrong.

Travis Kimmel:

If you can do macro in a way where you're seeing a lot of these opportunities, you're planning for, I don't know, 80% of your trades to be wrong and you still make money, that's a powerful thing. But I feel like that becomes this afterthought and all of the narrative, I've cracked the case here, detective crap gets put in front of that and that mangles people.

Jason Buck:

Yeah, it's not a Dan Brown book. That's how people need to learn. My partner Taylor, always talks about what you just nailed is like, he talks about capital allocation is the Apigee of a liberal arts education done right. But at the same time though, I wonder what I deal with. I don't know if you deal with this, is if you're a founder, CEO or you run a total portfolio solution book or whatever it is, it's part of our maybe insecurity about where Jack of all trades, master of none and we can't actually apply for a job. So we create these jobs that like, no I'm good at capital allocation, says the laziest man ever.

Travis Kimmel:

Totally. I'm more of an idea guy, really.

Jason Buck:

Exactly.

Travis Kimmel:

Yeah. It's the same thing. and I think inside of that, there are these fun little things that you can unpack. And the reason I got so obsessed with treasuries as a structure is that it's like, it's a hedge that's positive carry, that's awesome. And people come back and say, "well, it's not a hedge in inflationary environment with a real..." And that sure, it still is. It's a hedge against an environment where there are are bunch of people going and solvent, because it's the only place to run, it's money. And I find that to be fascinating. I even wonder, I guess, spend time thinking about these systems, should that even exist or should a hedge always be negative real return? Have we finally found equilibrium in the system, now that we're seeing treasuries be negative real return? I think perhaps, a hedge should bleed you a little bit. Otherwise, there's something wrong, something off in the systems dynamic there.

Jason Buck:

No, you nailed the end. To have a positive carry hedge for the last four decades is like you said, it shouldn't exist.

Travis Kimmel:

It's broken.

Jason Buck:

So then, do you pay for an inflationary environment or you just, we go so negative that you're still getting that hedge. But also once we get towards the zero bond, you start losing convexity of that hedge. When it rates like 6, 7, 8%, you have a lot of actually convexity in that hedge, which is really nice. You not only positive carry, but a lot of convexity. But that's actually one of the things I definitely want to dive into is, it's really rare I think for somebody with an entrepreneur mindset to then be obsessed with treasuries. It's almost anathema to, that's not usually the creative people that are so fascinated by treasuries.

Jason Buck:

But kind of break that, I think you actually said it really succinctly, but kind of break that down more is you just view it as this is essentially cash. Or you and I have talked about privately, it's the time value of money or all these things. But do you think about it more as a barbell where you're just looking to put most of your portfolio and treasuries because you look at it as like a positive carry hedge? Or talk to a little bit more and dive into this.

Jason Buck:

Good carry hedge, or talk to me a little bit more and dive into this.

Travis Kimmel:

Well now, so let's lean into the theory of everything.

Jason Buck:

Okay. Yeah.

Travis Kimmel:

All of the economy is treasuries. Everything is a derivative of the price of money. All of it. So part of my interest comes from a background and as a current gig as an operator, where you're thinking about what does the price of money mean for business? So if the price of money goes up, let's say tomorrow, The Fed gets sick of all the bullshit and just whatever, sets rates to 5%. What does that mean? That means that if you're running a business, you have to get a risk adjusted return of more than 5%, otherwise investing in is irrational.

Travis Kimmel:

Now, what happens if we push it down to nothing, like we just did recently? Well, it's pretty damn easy to get a risk adjusted, 1, 2% return. So much stuff. If you create a basket of companies to invest in, you're probably going to win. It's not that hard to carve a couple points out of the economy. So the more expensive money is, the more disciplined operators have to be. So all of this just ties back into the price of money. The price of labor ties into the price of money. So I look at the treasury market as the spine of the economy. Whatever happens there, ripples outward into all decisions that economic participants make, independent of whether or not they're aware of them. And I don't even know if it's possible to see all those little ripples, but it's an endlessly fascinating thing to attempt.

Jason Buck:

So I want to push back a little bit, because I think this is great. Because this is the question I always have, especially, this is why I said, it's rare for an entrepreneur, founder, operator mindset to love treasuries as much as you do, in the sense that, I remember back when I was a commercial real estate developer, I don't really care what the price of money is. I care about the delta of my return over the price of money. And so, we've had cap rate compression in commercial real estate, but that's because the price of money comes down, but the delta has never changed, that percentage delta. So if rates are 6% and my project can make 10%, I have a 4% delta. If rates are 1% and my project makes 5%, I have a 4% delta. The delta has not changed.

Jason Buck:

And then as in software, it doesn't matter really where Fed fund rates are at, lately, if you wanted to use Pipe or some other source of financing, as a software company, it's going to be run at 12 to 18% interest only. That hurdle rate's huge. What I'm saying is, I've never understood if the hurdle rate jumps up or down, you still need to be able to make a delta. And I'm not sure if that follows the economy, or if funds runs economy. To me, those rates are following the directional arrow of disinflation or whatever. And it's like, so as a company like you said, as a company, if you're now previously let's say in the eighties and nineties, you can make a double digit return on your cash flow, on your CapEx spending. Well, now you can maybe only make 4 or 5%. So you're hurdling that 1 to 2%. But I'm saying, I'm not sure the delta changes. This is the thing that ruminates at my mind all the time. So please push back on it.

Travis Kimmel:

So I think it matters. And I would say, I'd be willing to take the strong stance that rates are causal, and things emanate outward from rates. And so here's how I think that happens. Let's say you got... The real estate example's fine, but let's just say you're financing CapEx. Right? So I got a book. I build a book around, I just put out a bunch of business loans. I'm lending it out at whatever, 8% or something. Rates are 2%. And I look at that and I'm like damn, this is great. I'm getting 6% gravy here. But I could go borrow at 4 or 5%. Lever this shit up, right? Like three to one, and get, I don't know, 12, 15%.

Travis Kimmel:

So I go out and take the money. I take seven year money, lever it up. The reason rates are causal, and the reason there's a lag is people get caught out in that refi moment. So it is, if you're making spread and you can take cheap money to make a little more, the effect of rates rippling out is whoever gets caught in between where they need to refi their leverage to catch that gravy, and it's not there. Right? And I think this is the way that the rate movements translate into the economy, is you catch operators out, and you catch operators out when they're pretending to be financiers.

Jason Buck:

That's a great way of putting it. But as the banks create the money, not the Fed, so they're just using that hurdle rate. And now we have shadow banks that are doing lending on top of banks, and they just look for the risk to reward, like you said. So if they feel they're going to finance SaaS companies, they're going to look for that 12 to 13% return, even if they're borrowing at 2 to 3%. Because like you said, they don't want to get caught out.

Jason Buck:

But part of that though, I've always been fascinated by that, and I'm curious on your take on is, as an entrepreneur operator, we both know that cash flows are lumpy. They unfortunately don't come on the first of the month or by on a bi-monthly basis. So it's always been fascinating to me is like, why do we have financing structures that have deterministic pay down dates, or deterministic cash flows, when none of us have deterministic cash flows? And that's why people get caught out, like you're saying. So it's like, from an entrepreneur, if I'm thinking about running a lending company, how do I make it amenable to entrepreneurs, to almost time with their cash flows? I think some people do it with convertible notes and maybe taking a percentage of profits or all that kind of stuff. But don't you think that's the largest function, and that's maybe how the Elliot's of the world or whatever, that lend to own is because they know people are going to default, because of just structural payments on a bi-monthly or monthly basis.

Travis Kimmel:

Yeah.

Jason Buck:

Yeah. It's inevitable.

Travis Kimmel:

I think, whenever you see big rates, it's like a bunch of people hit a bump. It's really trippy. I think this is one of the things that, if you're a participant in the economy, you want to look for those broken structures, like the positive carry hedge, and you want to seek them out. And I think, SaaS is one of them currently. It's getting a little more efficient. But the brilliant-

Jason Buck:

Why do you think SaaS is... Yeah.

Travis Kimmel:

It's to create a deterministic cash flow. It's awesome. It's the best business model ever. And when you look at these companies, who's hitting the bump right now, and who's already hit a bump and who hasn't? Apple hasn't hit a bump. That's a little weird. You'd think. You look at that and you're like, it's a hardware company. You think they'd be getting hit. Well, if you unpack that a little bit, part of what they've done is they've put a bunch of their users on subscription plans for iPhones. So you pay a monthly and every couple years they just ship you the latest variant of whatever phone comes out. It's brilliant. So they SaaSified their hardware to a certain extent. They made their cash flows more deterministic. You have all this app store income, which is in aggregate as a basket, fairly deterministic. And they've just smoothed out their entire P&L. And I think that it's almost like cheating. If you can make your own business very deterministic, it's really, really powerful stuff. The SaaS P&L is beautiful. You can just crank that thing up or down. So many levers.

Jason Buck:

And that's why the multiples keep going up on SaaS P&L's but that's what I wonder, because Buffet made this whole insurance and float model that everybody loves. But then I think, as other hedge funds tried to get into owning insurance companies, it's easier said than done. So the same with SaaS. It's like, yeah, everybody would like a SaaS like income, but that's the other part, it's like easier said than done. Right? And you have this red queen principle to it. And maybe everything's what you pay And then these

multiples expand, because everybody wants that SaaS like income. Does that drive down the abilities to where they then, if they hit a bump, we're either over levered or we can't maintain those cash flows.

Travis Kimmel:

So let's talk about the risk of SaaS businesses. So I think that the danger of SaaS is that you have to be a pretty savage operator in SaaS. And you can fall asleep pretty easily during bull markets, which this one has been very long. And I'd argue that we're still in the same one since 08, maybe coming out of it here. And a SaaS company is essentially an extremely high beta organization at the organization level. So when GDP is growing, what SaaS does is go and compete for disproportionate share of that GDP with these awesome models that are easy to scale and you lever up, you lever up hard. Typically, we do it with equity capital, but it's the same thing, you're levering up. Right? You have a burn rate. You're spending it into a deficit continually to take ground.

Travis Kimmel:

And then, when the economy turns, you have to be high beta that way too. So you got to cut quick, because if it becomes a dog eat dog game, you have a P&L that is designed to capture a disproportionate percentage of the upside. And now what we're talking about is an environment where it's down. Someone's going to lose. When GDP contracts, people go out of business, there's just less business. And so if you're hyper levered, as GDP is contracting, you're going to have a bad time. You can still pull it out. You can still compete hard and all that stuff, but typically it's why you see techs start to cut first. We're seeing this now. A lot of tech companies are pausing hiring, they're doing cuts. Nobody's really sure where the economy goes next. I still think we're headed into a recession, because it's due or whatever. It's doesn't have to be traumatic. It just happens. And so you're seeing people adjust to that.

Travis Kimmel:

Now the challenge is that during COVID, there's a real recency bias problem here, because during COVID a lot of these same companies, they did the thing. They pulled out their little shelf plan. They made a bunch of cuts. And then we turned around and said, you know what? We're going to kick this recession out a little bit, because it seems like there might be an ethical problem with allowing it to happen now. And so all these companies had to turn around and rehire. And so, the inflationary burst that you saw in goods and services happened with labor as well. Companies got caught out.

Travis Kimmel:

We did the right thing as operators, we made cuts. And then the economy hit the gas and it's like, oh damn. Now there's this hyper-competitive labor environment. Everyone had to staff up. And so now all these operators are sitting there looking at, what looks to be the time where you start to do some cuts again. But the last time we did that, The Fed came in and saved the day-ish. And so I think that's why you hear that in the economic narrative. Well, maybe The Fed's got our back. The Fed's going to pivot. This is the big meme right now. Right? The Fed's going to pivot. I'm not so sure.

Travis Kimmel:

The reason they did it last time, it was arguably a societal ethical reason, to experience an end of cycle recession during a pandemic, which we didn't have a lot of information about, it felt wrong. I don't know that it feels wrong right now. I think it's okay to rinse the balance sheets right now. And I think The Fed's fine with it. It's been a little ham-fisted. They're out of phase. They probably should have started

tightening six months into COVID. And there's, all sorts of arguments around that, but I don't know that they're going to be squeamish. We'll find out. What's your take?

Jason Buck:

Well, I my first question's always, would you want that job?

Travis Kimmel:

Wow.

Jason Buck:

Everybody likes to pick on The Fed and I'm just like, I can't imagine being a human in that scenario, especially during COVID and all those things. And like you said, it was an ethical thing. And I honestly think they actually probably did the right thing. And then like you're saying, you're kicking the can down the road. I understand all the arguments around both sides, but it's just like, I can't imagine having that job. What a nightmare of a job.

Travis Kimmel:

It's a terrible job. I don't know if I would want it. I don't know that I would do anything differently, but I would probably do it quicker, just because of where I think we are. The moves they're making are not bad. They're just doing it at an academic pace, not an operator pace. And I think that, that's where the source of the damage will come from. I think that they're going to create damage here with this tightening. Right now, if I were The Fed, I'd probably... Everyone's going to hate this. I'd probably stop tightening. We're pretty tight here. I think you just let it run out over four or five years, because there's this choice here. Do we grow into the liquidity push, or do we squash it down and wash it out?

Travis Kimmel:

And there's, all sorts of arguments, both sides. I think there are some good ones for either one, but I think the extreme political response here, it's like, oh my God, inflation, this is going to be Weimar Germany. It's not. And that feeling that we're having about it could create something that is decidedly the opposite of Weimar Germany, if we're not careful about our approach.

Jason Buck:

But also thinking about what you said about the SaaS cuts, is once again, going back to this, where we started with the idea of time horizons. And to me it's like, I think this is what you're saying, it's basically, there's a dichotomy in the economy right now, is service jobs are looking for employees, raising that wage price spiral on the minimum wage on the service side. But like you said, the tech SaaS companies here and Silicon Valley, they're cutting as fast as possible, because that's what they should be doing. But it's interesting how then on Twitter or Fintwit, the value investors are looking at those tech companies, or even Coinbase, or especially the FTX Coinbase crypto side. And they're like, look at these guys. They had the cut, they're losing all these employees. They don't know how to run a business. And you're saying, no, they're doing the right thing in this scenario. They have different time horizons.

Travis Kimmel:

Yeah. It's the right move. Because if you don't cut, there's two things that can happen. One, you can die, because that P&L in the same way that SaaS businesses and to a greater extent, even payments

businesses, they're like super SaaS, they ramp really slow, but you have a ton of momentum behind them. If that forward, presumption of momentum is going to change, you need to be ahead of that change. So you need to start adjusting when you see that at the top of your pipeline. You get these deal pipelines through multi month long, and the minute you see weakness there, you got to adjust your plan, because otherwise your headcount growth and your spend will get way out of phase with revenue six months down the line. So the SaaS operator is a forecaster. Always. You're always forecasting where your revenue's going to be down the line. You're trying to pull forward deals, get people to do yearly stuff and all that to manage cash flows.

Travis Kimmel:

But if you find yourself caught out, it can be deadly. And the second thing is, you could fail to capture an advantage. So let's say you have plenty of cash. There's no risk of whatever. If you're in an environment where labor's really tight, which we have been, and you are nobly heading into an environment where there will be a bigger labor pool to choose from, and you hire those hires in the tight environment, versus the future environment where it's more competitive, you've lost an edge. You were hiring from a smaller set of potential candidates. And there's lost edge in that. And so I think a really good SaaS operator almost has to have a macro view, because you can't really get all the juice out of that business without it.

Jason Buck:

Yeah. Matthew and I were having this discussion yesterday is, the idea of VC's, if anybody should be able to invest counter-cyclically, because they do so much better, but none of them do, right? They're always just riding that ramp up. And it's like, so as an operator of a SaaS company, it's hard to invest counter-cyclically or turn those taps on and off, because like you're saying, lagging effects and because it's real human beings involved. So do you then hedge the treasury with being long treasuries, or derivatives that can give you a pop, like maybe you're buying puts on the NASDAQ as a proxy with basis risk for that drawdown, that way you can actually invest counter-cyclically. Like you said, if you can hire into that trough, you can just out compete everybody. How do you think about that on operating the business? How do you operate your internal treasury balance sheet counter-cyclically with those kind of environments, but when you're ramping up, you need ramp up. So it's really hard to do that.

Travis Kimmel:

Yeah. The treasury function in software companies, it's an interesting thing. I suspect it's under optimized, but I would be wary of attempts to optimize it. So a good SaaS business can, even at scale can experience a hundred percent growth a year. What are you going to try to get a couple points on there? You're talking psychotic growth already, by digging deeper into the specialization of operating. And so, I don't think there's anything wrong with just leaving the treasury in actual cash, for three month intervals or something. That's fine.

Travis Kimmel:

Could you get more out of that? You could, but the risk of fucking that up is extreme, because if you lose money that could have been put toward a hundred percent year on your growth business, because you're trying to get an extra three or four points, that's bad. So I guess I would say there's probably un-captured opportunity there that shouldn't be sought. I think even the most clever treasurer, maybe you're doing a little currency hedging. I don't know. You have to be huge to make it worth that. How many headcounts? What do you buy? Four or five engineers? What are they going to do?

Jason Buck:

Or the way I would think about it, I think it is incredibly difficult, but if you're having that a hundred percent year over year growth, if you carved off 2 to 3% to buy some [inaudible 00:42:40] the money puts on NASDAQ, that will give you some explosive convexity that then you can maintain that balance sheet or even maintain that payroll, if something like COVID hits. Or buy-up competitors or start going on a buying spree, and building out even the asset side. It's something I think about often, but obviously I have a one track mind when it comes to that.

Travis Kimmel:

Yeah. I can see your arguments for doing it. Okay, so let's say you're the CEO of a company like that. And you advocate for that. And people are like, okay. How do you get caught out there?

Jason Buck:

It's different if like you said, you're not using CapEx and maybe because of treasuries, you need to use such large amounts of that cash, maybe it doesn't make sense. But if you're using derivatives that have enormous amount of convexity to them, you can carve off a little bit of that. And you're going to take basis risk on NASDAQ, because it's not going to perfectly align with SaaS, but it may give you an ability to balance your treasury or balance sheet, so it's a little more fortified in case of a downturn. Because, we saw that downturn representative in NASDAQ.

Travis Kimmel:

We did. Yeah. And again, most of my experience is private companies, so there's no tradable equity involved.

Jason Buck:

Right.

Travis Kimmel:

So I would say, there's probably a pretty interesting business in outsourcing the treasury function for software companies. I just don't think they should be doing it. There's so much for the finance team to do, you can gain triple whatever you would get from this effort over time, from just being really good at running your P&L, keeping expenses tight. The finance team inside the company should probably not take this on. It's low risk reward. But if you were to build a company that did this and offer an outsource treasury function for startups, I think that might be interesting.

Jason Buck:

Yeah. So like you said, it's too much of a distraction internally. And then the last thing you want is your internal finance department to destroy the company while you have this high growth SaaS business.

Travis Kimmel:

Yeah. Because they get obsessed with macro.

Jason Buck:

Yeah. You're like, just keep it in cash. I don't want to fuck this up.

Travis Kimmel:

Yeah, exactly. I just want to know it's there. And along the lines of this, the debt markets are endlessly fascinating. I think some of the other stuff that gets overlooked is, there are probably things that are really close to treasuries that offer a little more. So the example I always use is JP Morgan bonds, two, three year, new issue stuff. You're probably going to get an extra point on there over treasuries, and they probably are like treasuries. You know what I mean? I don't think we're going to let JP Morgan go under. We've tested that thesis and there's no appetite for that. So I think you can do little things like that, that are relatively simple and relatively smart, and get a couple points with very little effort. And then if you're doing anything more advanced than that, and you're an operator, you really got to ask yourself whether you're getting distracted by shiny object syndrome, at the finance level

Jason Buck:

Right. And you just don't want to get too cute. You start getting into JP Morgan. It starts opening that Overton window. Maybe we could take a little more risk, I'll get a few more points. It's like, why are you trying to get a few points, where we have a hundred percent year over year growth? But that's why-

Travis Kimmel:

Yeah. I heard it was treasury that was in these yield coves. So they got venture money, all the LP money, and they're putting a portion of their treasury into these defied yield coves. And you got to imagine these people are getting rinsed. That's a career ender. If you do it wrong, you are getting set back a decade in your career.

Jason Buck:

Yeah. That's why my partner, Taylor and I originally got together, because we were talking about Stablecoin's back in 2017, 2018. And I was obsessed with them. But to me, what we build with our cockroach fund is a form of Stablecoin, right? If you hold all the world's asset classes, you hold global stock, global bonds, you hedge it with long volatility and commodity trend, and you own gold and a little bit of crypto, to me, that's the world's inflation basket. We don't need to debate CPI or core PCE. And then if I just hold all the world's assets and rebalance, that is a stable coin, but more importantly is, you can lever it or de-lever it however you want it. So to me, it's a beautiful thing to run a treasury with, because you could toggle down... Like if you had a 4 or 5% real return, with a 5 or 6 vol, with a 7 or 8% draw down, that's a form of stable currency.

Jason Buck:

Because people don't realize cash can go into... You had a 17% draw down in a single year on cash in the seventies, so people don't realize how much cash can get hit. So you just want to outpace inflation. And that's my argument. If you had a stable coin that outpaces inflation, that's all you need your savings to do, which personally savings and for a company as your treasury is your savings, and that's what you want to be. Incredibly boring.

Travis Kimmel:

It's the whole goal of a hedge fund, right? Blunted beta.

Jason Buck:

Right.

Travis Kimmel:

That's it.

Jason Buck:

Rebalance the betas and you'll be just fine.

Travis Kimmel:

Yeah. Just cut the tails off. And the thing, I think it's very difficult right now for two reasons, there's pressure on fees, which I think is very silly. And then there is this

Travis Kimmel:

... Very silly. And then there is this just crazy desire to chase those ride tails. And you can't do both. I think through, on a big picture, look here, the fees are worth it for all of those reasons we were just talking about. Unless you're like... You can't afford to do it right. What? Are you going to go out there into the world and compete against a bunch of math PhDs? Maybe you're smart, but you're not that smart. They're doing it full time. You don't have that kind of bandwidth. And then-

Jason Buck:

I wonder, you've been part of... Go ahead. Sorry, sorry.

Travis Kimmel:

And then the other piece is if you're chasing upside as an operator, you should be doing that on your daily job. You should not be doing that with your finances. It's just bad. A lot of people, they put a big win on the board. They get their ass handed it to them afterwards.

Jason Buck:

So this leads to an interesting question. I remember Ferran Adria, the chef at El Bulli, used to talk about, if we didn't have to eat food three times a day, it wasn't a quotidian thing, then his art would be seen as a high art. It'd be like a painting on the wall. You'd go, "Wow. I can't do that." But because we eat three times a day, we figure, oh, I can be like Ferran Adria and I could be like El Bulli. And so I wonder like you're saying, they transition from being an operator to then thinking about being an investor and looking at global macro, it is amazing to me how people think they can dabble in their part-time job and compete with the smartest minds in the world. But it's still always enticing.

Travis Kimmel:

And you know what, it's fine to go have a gamble. Get out there, try it a little bit. Get yourself a little trading account, ponce a little bit. On balance, you're probably going to lose. But that's a fine hobby. Yeah, it's rational to think that you can now compete someone with even a small staff, who's running a proper hedge fund.

Jason Buck:

I'm in these long volume derivatives guys, and it's like, they're staff are PhDs trying to figure out just this tiniest details. And then somebody thinks they can find stuff publicly available on the internet to compete with them and buy options. I'm like, "Don't trade derivatives. It's not DIY. That's a terrible idea."

Travis Kimmel:

Yeah. It's a terrible idea. Yeah.

Jason Buck:

There's one last question I had about SaaS before we go, to change subjects. So like you said, the right move at the company level as an operator is to cut quickly. But you're a human being, and headcount has a way of saying, "But that's real people." It's unbelievably crushing and keeps me up at night to manage people's savings, but I can't imagine having to fire dozens or hundreds of people that you've created friendships with. So how much does that weigh on you? Even though it's the right move for the company, it's a horrible move from a humanitarian perspective.

Travis Kimmel:

It's like voting, where you don't necessarily like one or the other, but sometimes you've just got to get out there and pick the lesser of two evils. If you're cutting staff, it's oftentimes from a belief that if you don't, you're effectively cutting all the staff. You're saving jobs.

Jason Buck:

Exactly.

Travis Kimmel:

If it's a real draw down. It sucks. Firing people sucks. When we were running our company, I think we would get flack for not spending the money fast enough, which sounds funny. But also, there's a logic to it. If you're in a run up, you really want to hit the gas as fast as you can or you'll get beat on the field. But I think in the past, this was when was CEO of this company, I think we ran more defensively for this reason. We were understaffed, almost perpetually. Part of it was just I wanted more control. I didn't want to ever have to raise money, because the first few you have to, and it's just unpleasant. The dynamic is unpleasant. And then when you go raise money, when you don't really need it, it's a conversation amongst equals about the future of the company. Not someone grinding you for what they can get out of you. So I think that there's a whole range of ways to play that. One is to just run a little tighter.

Travis Kimmel:

The other is, I think what I'm seeing a lot of people do right now is when you get a little whisper of doubt, you just cut the forward headcount. Which doesn't really impact anybody, right?

Jason Buck:

Yeah.

Travis Kimmel:

You cut the forward headcount, if people leave, maybe you don't those roles. It's similar to the FED, letting treasuries roll off versus selling them. There's a default of reduction in an operating business that doesn't involve firing people just because you get some turnover. And the question is, are we going to replace that turnover? If the answer is no, there's an organic shrinking that happens that doesn't really involve ruining anyone's day or firing people, any of that stuff. So there's a wide range of controls to deploy there and I think that part of the advantage of looking farther out into the future when you're a

SaaS operator is you can pull those levers quickly, the easy ones. You cut back your marketing spend, that's another classic one. You can tell when SaaS companies are feeling a little weird, because they'll cut the marketing budget. Literally just what you spend on paper click ads and stuff.

Jason Buck:

That's cause you shut down so quickly, which is nice.

Travis Kimmel:

Yeah.

Jason Buck:

Yeah.

Travis Kimmel:

Yeah, that's right. Anything to toggle, you just turn it off.

Jason Buck:

But I was trying to remember who wrote it prior to COVID, there was an article that was really making the rounds, that SaaS is the most Citadel business because the last thing people are going to cut is their SaaS products because they need them to run their business. But I think we found during COVID that might have changed. I was just curious what you thought before and after and during, if you debated that ability that SaaS was the last things that people would cut.

Travis Kimmel:

I always thought it depends on the status. It's very situational. As someone inside the industry, it's hard for me to see it in as a pure aggregate, just because there's such a zoo-

Jason Buck:

Not a monolith?

Travis Kimmel:

... To live in. Yeah, exactly. So I think it really depends. So let's take an example, Salesforce. It's very hard to turn off Salesforce. Once you're in there, they've done a really good job of this. It's very useful software. I know everybody likes to hate on it, but if you're on a sales team at scale, you're using it. So I don't think they're going to cut that back. But what they will do, so let's say you got a big company that's on Salesforce or whatever. 1500 people. Salesforce is priced by seat. So if that company trims 300 people, that is an organic reduction in Salesforce's revenue. And this is the thing that SaaS companies are a little more exposed to, is that if you see a wave of unemployment, it almost necessarily structurally hits SaaS revenues.

Jason Buck:

No, that's a great way of thinking about it. It's not a on-off switch, it's a toggle switch and you can pre-predict, especially if you're paying per seat how that toggle's going to change. And at least they don't lose the entire contract. I mean they are losing some of that revenue, but they're not losing the entirety of that revenue. It's not on-off switch. I always wondered, have you ever invested in constellation

software? Or do you maybe think about that as your benchmark? Or you're like, "I'm trying to internally create vertical SaaS companies so I'm competing with constellation and I believe my hubris thinks I can beat them."

Travis Kimmel:

Gosh, there's a lot of schools of thought on this one. One of my favorite books on management, because it's the one I'd reach for if I just had one book to recommend somebody, it's called 12: The Elements of Great Managing. It's Gallup, they did a bunch of research. It's what causes people to stick around at their job. And they have a bunch of stuff in there and it's fascinating. Like having a best friend at work is really important. There's a few things that show up in the data as what makes employees happy and you can just do those things, and it's pretty great. Makes everybody enjoy work more. One of them is, I have the tools I need to do my job. And you see this a lot with engineering teams, which, I work with a lot of engineers. If you are building SaaS as a derivative of that observation, I think you should be building best in class software, not all in one software.

Travis Kimmel:

So there's these differing approaches. Sometimes these SaaS companies try to come in with an all in one package where it's like, "We do everything." Those companies tend to hit bumps more often than companies who come in and do, "We do this one thing really well." So the one thing really well example, Carta is a great company. They do cap table stuff. They'll do your 409A, it's very niche. And they're bolting things on that are narrowly adjacent. But they're not trying, at this point, to be the full back office suite. Because when you become the full software solution for a department, it gets a little weird. It means that that package was forced on someone by finance because it was a good deal. And I think that those companies probably are a little more resilient in down times.

Travis Kimmel:

But I think that a SaaS company that builds itself to be able to play well with an adjacent ecosystem and say, "Yeah, you want to use our X, Y, Z features and use this other company's other thing?" I just think that that's a better play. I think it makes employees happier and you're not going against that friction all the time in sales.

Jason Buck:

And a part of it is, by niche-ing down, you almost become an even more integral part of the business, so they're less likely to cut you in a downturn.

Travis Kimmel:

That's right.

Jason Buck:

You get the dual function there, that goal. I want go back to bonds and treasuries and everything.

Travis Kimmel:

Yeah.

Jason Buck:

I think you and I, we've texted about this before. But it's one of those areas, it's just always been hard for me to understand. That's why I also said it's interesting to me for you as a founder-operator-entrepreneur to like treasuries so much, just because when I think about my commercial real estate days, if you think about... Howard Marx has talked about if you're a fixed income or trader, all that stuff, you only have downside risk. You don't really have upside. The only thing that can go well is that the determinist was exactly what you thought it was. But the path along there is going to be a nightmare and it only has downside risk.

Travis Kimmel:

Love that framing. Marx is great.

Jason Buck:

Then for me as a commercial real estate developer, to me those loans were essentially dumb money because there's no upside to it. And I get to take all the upside in a leverage fashion. But then I have the commensurate risk on the downside. Except for so do they, right?

Travis Kimmel:

Yeah.

Jason Buck:

If it disastered, the keys goes back to the banks. So that's why it was always hard for me to always understand treasury at bonds. But then looking at the entire history of it, especially sovereigns, is it looks like the Rothschilds. Nathan Rothschild came up with the idea of really advocating for government bonds, because they got totally tired of financing despots and going after wars and then getting the reparations after the war, so they created this entire market. And so that way they had something tradable, and it was also allegedly unlocking the landed gentry of England, because you couldn't get access to that capital. But if you could get them to bet on government bonds, now we open up that capital that was previously almost buried in the soil, so to speak, because it was part of their landed gentry purposes.

Travis Kimmel:

Totally.

Jason Buck:

So when I think about though, then those structures and then this game, is part of that game. I always wonder why we even have them or why they exist, is what my real question is. But part of that, like you were saying, is the size. Is that why we have them? Because you can move such large size and this is the one instrument that can handle massive size. And that's maybe really the point of, like you said, people never want to really hold cash. We're looking at diversifying or distributing our collateral in times of needs. And this is the one place, especially with maybe US treasuries, is where you can actually get in size. And that's why it makes sense. It's more just a sizing market, even though it's a fictitious market in my mind. Yeah, I think you probably think it's much more real than I do.

Travis Kimmel:

So I think that you're right, and I think I would frame it slightly differently. But it's the same insight. So arguably the original, not bull case, but, I don't know, reason for being of markets is to help business succeed. That's why we still think that they're a good trope. So the simplest version of that to think about is futures markets on commodities. People get obsessed with this at a micro scale, because people love to be Luddites with old ideas. So CSAs. A CSA is a futures market for one person. That's what it is. You're pre-buying the produce. It's October wheat or whatever, but the farmer has a little more discretion and they just give you whatever the hell they have. But basically, you're buying October wheat. You're pre-buying this farmer's produce so that that farmer can de-risk their cash flows. And so there are different prices. In CSAs you see these futures market structures evolve.

Travis Kimmel:

If you buy in early in the CSA, you're taking more risk, it's cheaper. And then the people who buy in later and later pay a more expensive price, then the season starts and things closed. These concepts keep resurging even on these small scales where people think they're being unique. But the treasury market is just that for money. It's just that for money. It is a commodity market for money, and a big liquid market lets people de-risk their business. It's awesome to have a big liquid market for operators. So if I know that I have $100 million of cash in the bank and I only need 10 for the next few months, I can buy treasuries, get a little yield on it. That's awesome. And all of that stuff allows people to move in and out from cash to financing, to deploying the money.

Travis Kimmel:

Otherwise, if you have a non-liquid market, you get the same problem you had with the gold standard, which is, there is an incentive to hoard capital. And if you get an incentive to hoard capital, what you get is these really jagged markets. And the more jagged pricing in markets is, the more operators just get bodied. That's the real problem. That's what we're trying to solve. We want to smooth markets. We want highly liquid markets that don't jump around a lot. And I think that if we're to bring this back to the challenges that the FED is going through right now, and the reason why it probably would've been good to raise rates earlier, we got jagged up market. Just this huge ripper. And now we have to decide whether we want to address that by a big down jag, which is the current plan. Seems a little weird. Or whether we just want to have, I don't know, 10 years of low growth, where we grow into that liquidity. That's just not very American and people don't want to do that. You know what I mean?

Travis Kimmel:

That's not how America rolls. America takes the pain economically. We always do. Because we want to get back into that growth mode. The growth mode makes us happy and we just had too much growth mode, so now we can either have a long protracted period of non growth. Or we can take a bunch of pain and get back to the growth thing as fast as possible. I think we're going to do it.

Jason Buck:

And then do you think in that scenario, by front running... And we take a little bit of pain, but that little bit of pain ends up spiking the dollar quite a bit as we've seen, which absolutely destroys the rest of the world. So then we can get back to growth mode even faster because we cycled it through. We worked on a faster OODA loop than the rest of the world. Is that the way the thinking works?

Travis Kimmel:

There's a lot of accidental stuff in international finance that is ultimately fairly unfortunate. But when we think about the dollar, why is the dollar the reserve currency? There's a lot of hot takes on this stuff. If you observe what makes the reserve currencies historically, it's whoever controls the trade lanes. Rome had roads, they invented roads. They were the reserve currency because they controlled the trade lanes. And if there was a dispute, they were going to resolve it. This is the way it exists today. America has the biggest stick. So if you bank with America, you eliminate one of the main risks in banking, which is that America will come along and invalidate your holdings. Which is what just happened with Russia. What happened with Russia is a doubling down on the power of America is the reserve currency and the banker to the world.

Travis Kimmel:

Because if you're banking with America, America will not come along and invalidate your bank. If you're banking with Russia, they might. That's just this preexisting dynamic. Now, as a derivative of that, the things that America does has these crazy ripples in the rest of the world. And I think what we're doing now is we're solving a domestic problem. The domestic problem is we have inflation and people don't like it. So we're going to crank rates up and that is going to explode a bunch of other economies, and I don't know if we care. This is one of the perils of banking with us. And if you want to go try and bank somewhere else, you're welcome to, but it's going to suck more. One of the best books I've read in finance is Trade Wars Are Class Wars. Have you read that one? So good.

Jason Buck:

Yep. Yeah.

Travis Kimmel:

The open capital count creates this dynamic where people are constantly saving with us. They deploy capital in America to save it. It's just a very strange loop here where when we do this thing here to solve inflation, it's going to hurt a bunch of other economies, which is going to reduce the amount of capital inflows, which is going to hurt us. There is a recursive loop there. It's really wild. I think it'll sting. But at the end of the day, the American geography will bounce back better than everybody else. We are always going to bounce back really fast. We can trade with anybody, it's cheaper for us to get goods to market. Yeah, we're going to cause a lot of global pain and then we're going to emerge the victors on a relative basis. It's going to be weird. It's going to be real weird.

Jason Buck:

Relative basis and American geography will bounce back. And you started with the blue ocean Navy. And as you're saying, I think both you and I have to deal with the idea that you have complexity dynamics, but then when you have complex systems integrating complex systems, you have integrative complexity and then you have these recurrences of feedback loops. So there's no free launches and you don't know what the secondary tertiary effects. I always say [inaudible 01:06:55] proved that with billiard balls, but yet we think we can understand the global macro environment. But part of what you said though, is I don't think it's quite as easy and I'm curious if you disagree with this. I like that Peter Zeihan approach of, we have a blue ocean Navy, we have this unbelievable geography, which gives us this unbelievable ability to grow food.

Jason Buck:

We have all of these powers. And then we have demographics that are up and down the chain, where most people don't. But then there's all these other things that people I don't think factor in, it's all of our soft power. Everything that Hollywood ever produces, all that the tech companies that Silicon Valley produces. So it's not like the dollar is just this one... Once again, it's not just this monolith that's enforced by our military. It's enforced by so many different things. And then there's so many secondary or tertiary effects that are psychological, that why people want to invest in the US, and not look at a reserve currency in another world. We don't think about the soft power effects.

Travis Kimmel:

Think you had to leverage that gives us. Let's say we had a demographic problem. What do we do? Turn on immigration. Solved.

Jason Buck:

Right.

Travis Kimmel:

It's unbelievable.

Jason Buck:

And nobody else can do that.

Travis Kimmel:

Nobody else can do that. Russia's turned on immigration by going and freaking kidnapping people. That's a little bit of an intense way to do it. I don't know. I think there might be some backlash there. Yeah. There is a ton of advantage. And I think that I can't see that shifting within our lifetime. I had a whole little Twitter thing. I was sort of like, "What would it take? What would it take to have another reserve currency?" You have to have a meaningful shift in trade at a very basic level. The best I could come up with was it was space. So let's say, first imagine we solve power with some nuclear thing, whatever. Power's very cheap now. And now we have space elevators. Little, I don't know, what's the thing. The carbon chains that everybody talks about.

Jason Buck:

Yeah.

Travis Kimmel:

So you get stuff in space very cheaply. You push it over to somewhere else and then they drop it down and as it drops down, it raises the other thing, whatever. So oceans are no longer the thing. There's a new trade lane and it's space. Then I think whoever controlled space would be the reserve currency. That's my best case for the dollar is not the reserve currency.

Jason Buck:

So it's always so hard when we talk about this, because you have to admit your priors. We're both Americans. So everybody will be like, "Oh, of course you're into American exceptionalism." And I'm like, "I'm not at all." But maybe there's a bias I don't see there.

Travis Kimmel:

Yeah.

Jason Buck:

But just being circumspect about that even basis, that we may be biased in that sense, is it's still as simple as, based on history, eventually one day the US will not be the reserve currency. But based on the current environment and the inertia in the current environment, that's going to be a long ways off and we'll be able to adjust. So the idea that we're going away tomorrow as the reserve currency just doesn't make any sense to me.

Travis Kimmel:

Yeah. The biggest, best-

Jason Buck:

It's, play the hand that is laid.

Travis Kimmel:

... is bargainisation. So America breaks apart or we shatter this beautiful geography, and I think you could even make that case. The cultural fracturing finally gets us. We break apart this thing. We now have to trade with one another. That involves a bunch of friction. We disintegrate into a bunch of micro cultures. And I'm like, "Okay, that's probably the best case for the dollar is not a reserve currency within our lifetime." I'm still not betting on that shit. That is such a remote possibility.

Jason Buck:

It'd take decades, too.

Travis Kimmel:

Exactly. It's not within our-

Jason Buck:

What's your time horizon, right? Yeah.

Travis Kimmel:

Maybe we see it. I don't know. But I'd offer odds that I never see it in my lifetime. There's so much that would have to happen. It's almost absurd to talk about.

Jason Buck:

Yeah, exactly. And over what time horizon? So when I think about it, I get my inner Travis going. When I feel like I actually feel poking and prodding and trolling people a little bit. One of the ones I always bring up is you and I both know that they don't print money. They print reserves, so we don't need to get into that debate. But if I really want to poke and prod people when they say it, I go, "They didn't print enough." And they go, "Excuse me?" And everybody gets upset about that. And I go, "If you don't know the size of the Euro dollar market, and nobody does, it could be argued that they haven't printed

enough to balance the Euro dollar market." And I was hoping you wouldn't agree with me, but you're shaking your head.

Travis Kimmel:

Well, I don't know. How do you make a claim about something that's unmeasurable? I think you could make inferential arguments, which are always a little weak, about the shape of the Euro dollar curve currently, and suggest that there's not enough. And you can also have this a priori observation that at some point there will not be enough. Because when you create money through debt, you're creating more forward demand than you're creating supply of money. Always, structurally. Unless rates are zero. So if rates are at all positive, you are creating more forward demand than you're originating supply. So at some point there won't be enough.

Travis Kimmel:

... Originating supply. So, at some point there won't be enough. Now timing that, impossible. It's a chaotic system.

Jason Buck:

But like you said, you brought up trade wars or class wars. I just find a lot of people on Fintwit fall for this. They're always really domestic in their thinking. And then part of the domestic thinking, a lot of times... Actually I'll use domestic in both sense. They both think about it in a US-centric basis, but then they also think about it, domestic in the sense that they think that the government is run like a household, and that you can just pull these levers of savings and expenses. They don't realize that government accumulating debt is our savings on the private side.

Travis Kimmel:

Yes.

Jason Buck:

And then you start adding in current accounts and all of these offsetting forces. And like you're saying, if we don't know the size of the Euro dollar market, and we don't know how the disruptions in that market, and then the repatriation of dollars, et cetera, these are cascades and levers that you really can't address if you don't know the size of. But people seem to be pretty strong in their opinions of they know the size and they know that we're doing the wrong thing. And it's just like, I'm not so certain.

Travis Kimmel:

I have not yet seen that case made in a way that I believe. Open to the idea that someone could measure that market, but I don't know how you do it. I mean there's no...

Jason Buck:

It's got to be impossible.

Travis Kimmel:

It's got to be impossible. Yeah.

Jason Buck:

It's a Hayekian problem, right? Because you would need accurate data from every country that's issuing US dollar loans, and you would have to assume it's good data and not garbage in, garbage out.

Travis Kimmel:

Yeah. I mean, then you could loan me a million dollars, right now. We could have a private contract. So in order to have that data be exposed, you have to be authoritarian about economics. You have to say private market lending is illegal. Because otherwise you can't get a complete data set, right?

Jason Buck:

Right.

Travis Kimmel:

It is immeasurable, based on our cultural values. It will always be immeasurable, unless our values change.

Jason Buck:

Well, part of that, that just made me think of that is, I've never thought about this before, is we even have different legal systems. We just happen to live under English common law, where other countries have completely different legal systems. So contract law is completely different in different countries.

Travis Kimmel:

That's right.

Jason Buck:

So once again, like you're saying, if you were seeing loans on a contract, it might not be amenable to figuring out the aggregate data sense in the way that we think about it. And one of our exorbitant privileges is actually that we are on that English system so we can create enforceable contracts. And then you've got bankruptcy laws and everything that most other countries just simply don't have. People have no idea how... I always think about how lucky we are with just 30-year mortgages and most countries don't even have that. And non-recourse 30 year mortgages, this is insane.

Travis Kimmel:

Yeah, it's bananas. It's one of the greatest financial innovations, is bankruptcy. It allows people to take a shot. It's pro liquidity. You can go out and you can take a shot. And if you fail, it doesn't ruin your life. That's a brand new thing. 500 years ago that didn't happen.

Jason Buck:

Right. And it creates elasticity, and opens us up for failure. And I actually didn't want to talk about crypto at all, but do you think that's probably one of the primary problems with sound money in the elasticity, is you basically end up with debtor's prison and people are fucked for life?

Travis Kimmel:

I don't know that the concept of sound money survives meaningful investigation... I think it's a meme. And that's fine. As a meme, it represents something. What it represents is disenfranchisement and a feeling like the current system is not including a bunch of people. And that meme is right. All memes are

right. Because it's representing something real. There's a reason people feel to how they rally around this thing. I think that-

Jason Buck:

It's like the meme of communism, right?

Travis Kimmel:

Yeah. And I think that the thing that crypto is trying to fix, we need to fix, I agree with... It's part of why I'm such a bastard about the solutions they're proposing, because we actually need to fix it. And instead, you have these childlike regressive tropes that are not going to fix the problem, and are going to get a bunch of people invested in the idea that somebody's working on it when they're not. It won't add out to an outcome. It's a very big problem. We've got an economic system that's leaving a bunch of people out. And so they're going to try to make their own, but they're not doing a good job. And what we really need to do, is help them access a system that will work for them. I mean, if they want to do it, that's great. But as an observer, it's not going great.

Jason Buck:

That part to me that benefits everybody, is if we upgrade the FinTech plumbing, if we upgrade chain of custody sorts of things, if we upgrade the ability like Cantillon effects, where the farmer in Columbia growing my coffee has access to the same cheap loans that Starbucks has. Or when the actual purchase of that cup, it cascades through maybe a blockchain scenario like that. Are those are the kind of solutions you're interested in, or am I just even getting too Pollyannish about that as well?

Travis Kimmel:

I don't see any strong case for blockchain at all. So set that aside and focus on the bigger stuff. You have peer-to-peer lending platforms, Prosper, LendingTree. I can go on there and apply.

Jason Buck:

All failed.

Travis Kimmel:

Well, why though? I mean they're still out there.

Jason Buck:

Yeah.

Travis Kimmel:

I don't know if they've failed. I would say-

Jason Buck:

I don't think most people have made the returns they think they've made on those platforms, as far as the investors on that platform.

Travis Kimmel:

Yes. So they have a pretty interesting data science practice. You're going to get 5%, 6% in a blended basket. And if you go too far above that, the defaults make up for... Somebody wants to borrow 20%, there's a reason. So what is revealed-

Jason Buck:

I love those, data sets are great.

Travis Kimmel:

They're so good. What was revealed by that, is that even a peer-to-peer market is relatively efficient in aggregate. Not efficient market theory efficient, but it trends toward, markets converge on a similar price of money. And there's almost nothing fundamental that we can do to change that price of money, because it is an emergent property of the system.

Travis Kimmel:

So I think then we have to ask the question, who are the people who need access that aren't getting access? What are they trying to use those funds for? And is it being better served by SBA loans? Those things are cheap. You can make a half-decent case for a lemonade stand and get an SBA loan. So what is the rage here? Do people not want to make the case? Do they not want to do the work? I see some of that, and I'm like, tough shit, work is work.

Travis Kimmel:

I hear these arguments about the disenfranchised and all that. And if you look through the history of finance, those same arguments happen during manias. It is predatory inclusion. So during manias you have this, "Oh, we're empowering people," towards the end of them. I mean, manias last a long time as we're seeing. But towards the end of them, you get this predatory inclusion stuff. And I am aligned with what the narrative says it's trying to do. But I think it is likely going to be destructive, and is part of this overall hype fest.

Jason Buck:

Yeah, there's several things, actually, you touched on there that I want to pull out. One is nothing resets the genie coefficient like an asset market crash. And people don't want admit that-

Travis Kimmel:

Yes.

Jason Buck:

It's [inaudible 01:20:02] market.

Travis Kimmel:

It's the best way. It's the old America does it.

Jason Buck:

The market will take care of itself. And then the whole downstream effects. Everybody's like, "Well, we're really saving the people of Argentina or Turkey." And I'm always like, "Have you ever lived there? Because I have. And there's money changers on every corner. The rich actually have amazing banking

system in the US, that's the best tax haven for them. Who do you actually think you're saving? Because you're not doing what you think you're doing."

Jason Buck:

The third though, what I wondered, is you just said there's an emergent property that takes effect where we find out the price of money. But then would that negate what you said earlier about you believe that maybe interest rates are causal in the fed funds rate?

Travis Kimmel:

That's a good question. So let me amend it. Interest rates are causal, inclusive of the fed funds rate. They cause the fed funds rate.

Jason Buck:

So that's what I'm saying. What's the chicken and egg? Who's the primary function? Is it the market sets the interest rate or does the fed funds rate set the interest rate that then the interest rate plays off of?

Travis Kimmel:

I think market dynamics set an interest rate as the aggregate output of all economic activity, which the fed then follows along and takes credit for. And that aggregate output of the activity then shapes forward activity. This is one of these chaotic loops. It's just one of those things.

Jason Buck:

You just said it eloquently. But okay, so now it makes sense, because I thought you were disagreeing with that, but the way you just put it's exactly the way I think about it. So I thought we were in disagreement previously, but that makes more sense.

Travis Kimmel:

Here's the really funny thing with the whole bond thing. So what the hell is reverse repo? You get this huge pool of money that's sort of like a side car. So you get this buffer stock mechanism on either side, right? Reverse repo, standing repo facility and they're raising rates. And what that's causing, is money to pool into reverse repo. Where would that money be if that facility didn't exist? Well, it would be in short-term treasuries, right?

Jason Buck:

T-bills. Yeah, I would say 90-day T-bills or...

Travis Kimmel:

Yeah. So what does the curve look like right now, really? It's hard to say, right? It's hard to say whether our historical comps for the curve that we're seeing here are good or giving signal without accounting for this new facility. So I think that a lot of what the fed does is this Wizard of Oz dance, where we have introduced a bunch of stuff to manicure the optics around what's going on in the bond market and a lot of different things. But I'm not convinced that the crushing weight of economic gravity can be modified by anyone. It can be dressed up, it can be presented in different ways. But ultimately I think that thing's bigger than us. I'm like a free market [inaudible 01:23:05] not as a moral thing. I just think it's an observable truth.

Travis Kimmel:

You read some of Adam Smith, it's like he was talking about free markets not as a political position. It was just a thing, like gravity. It's like this stuff happens. Things flow downhill. If we want to put a rock in the way of it, it will flow around the rock.

Jason Buck:

What's interesting is when you just brought up the descriptive nature of Adam Smith, or the descriptive nature of monetary operations, nobody actually wants to talk about that. They want to talk about the politics on top of that.

Travis Kimmel:

That's right.

Jason Buck:

And they don't want to actually talk about the descriptive qualities, and that's where the arguments start to begin. And speaking of which, I want to circle back to the beginning of our conversation about philosophy and business and adding on this discussion. It's the idea of, you are an epic troll in the most positive way, on Twitter. I mean, it's unbelievable. And I watch with just awe, because even though... So you were saying, if you're trained in philosophy and those sorts of things, you're trained in debate, clear thinking, defining terms, all of those sorts of things, which gives you that love maybe for the trolling and the debate. To me, I just like to observe, I just don't have the energy or the capacity to deal with the counter trolls on that.

Jason Buck:

But one of the things I wanted to maybe touch on there, is the idea of, I've been thinking about this recently, I have, I'm sure you do too, I have a lot of friends that are writers. And writers are going to write. And writers are going to tell you that the clearest way to think is to write. And that's how you get your thoughts out. And that's how you debate yourself. I would actually argue, the premise of the original construct of philosophy, was actually a dialogue that you had to debate your ideas in real time. And that feedback loops gave you a tighter iterative feedback loop, where then you got to really test your ideas in the fire-up dialogue, and really sharpen and hone your ideas through dialogue.

Jason Buck:

And seems to me, we've gotten far away from that where it's like, if I write and then I edit 20 times and it comes out a year later, they think it's a well-honed idea, but you are just debating yourself, and you didn't get outside of your own ego. And so does that also... To you it's just a way of taking your, because I know you're a great cook too, it is a way of you're honing your kitchen knives. You're just honing your mind and your debate and your philosophy skills on Twitter in real time.

Travis Kimmel:

Absolutely, that's what it's for. It's why I like finance too. People fight back. There's a bunch of topics on there. You can go in there and people are just like, "Oh, well that's a nice opinion." Not finance. Finance is great, because an opinion has downstream consequences, they're financial. And so if you go on there and you're chatting about financial things, people get really into it. I think it is the best arena for honing

the mind, just for that reason. People are very invested. And so you get a lot of pushback. It's a dojo that people are always down to roll in. It's great.

Jason Buck:

But how many times do you wake up and you're like, "I'm going to troll the crypto community. This going to be a fun day."

Travis Kimmel:

It sort of happens a lot, but usually these are... I don't really put a ton of thought into Twitter. It's what I like about it. So I get this suggestion I should write a book. I'm like, "Oh God." I mean, maybe I will someday. I always want to be a writer as a kid. It's like, "That sounds heavy." What I really want to do is go, I'm walking to lunch and I'm hammering out an eight-tweet thread. And I just want to see if anybody thinks it's wrong. I love it when people come in thinking it's wrong. Somebody telling you you're wrong is the greatest gift, right? Because if they're correct, you're about to learn about a blind spot you had. And then you can incorporate that, and it should be T2, The Terminator. People come at you with bullets and you just get bigger. That's what Twitter offers.

Jason Buck:

It's an anti-fragile process. Or the way I like to think about finance, for me at least, or life in general in finance, is I'm trying to unlearn all the stupid stuff I've learned. If I can figure out what things mean in a simplistic sense, if I can explain it to a five year old, I actually finally understand it. So there's a lot of autodidact nature to that. But then the other part of it, is if I can steal men both sides of the argument in the Carneades sense, then I shouldn't negate that argument. But that leaves you in a world of hurt of, "How do I construct portfolios if I don't have a definitive opinion in one direction or the other?" And then that's what I love creating, is portfolios if I can't predict the future and I know nothing, what do I do with my savings? And that's just exciting to me.

Travis Kimmel:

I love that. I think that is the proper way to approach markets, is you have to account for any thesis that you can't destroy, in your allocation.

Jason Buck:

As an operator, do you feel you're ever distracted by Twitter or global macro?

Travis Kimmel:

I'm able to put it down pretty easily. It's what I like, it's so fast paced. It's the anti-golf. Golf is, you're going to go out onto the freaking range and play 18 hole for a whole day. I'm bored thinking about golf. Twitter is so bursty. I takes two minutes to engage on Twitter. It's like I'm waiting for someone to show up on a Zoom meeting. Boom, that's my Twitter engagement. I think that I do get fairly obsessed about global macro, and I'll go on these long sort learning curves. But I typically go into those when I'm going on a road trip, but I need an audio book. Mostly when I'm in the saddle, any sort of incoming coms from my team at work takes priority over everything during the work day. And that's just like, it's so deeply wired, I don't even think I could turn that off.

Travis Kimmel:

Twitter's just not that important. It's the delight of it. It's not that important. I'm not selling anything on there. Maybe if I was trying to hawk a book or I don't know. Again, if I wrote a book, I might ruin my Twitter experience and I like my Twitter experience.

Jason Buck:

If you wrote a book, here's what I would want to see. One, I think about, I say all the time that commercial real estate development is actually a good precursor for learning about business and global macro, because you have to understand debt markets and you have to understand the delta between the project and the different time horizons and the time cycles. And then a global macro liquidity event can erase your entire proforma P&L for the next two to three years. So there's issues with that. So I think to me, it's, if you wrote a book, is your autodidact journey to really understanding treasuries. Because if some people can really learn that, then that gives you the foundation to maybe understand everything else. And I think that's the least talked about part of finance or the area of finance. And I might be biased about that.

Travis Kimmel:

I like that idea a lot. I like the idea of, if you start with the core structures and go out from there, a treasury book could be fun. There aren't very many. Sometimes I get asked, "What's a good way to go and learn treasuries?" I don't even know. It's a very weird market.

Jason Buck:

Yeah. I've been thinking about doing a podcast or video series where you just go interview as many people, and take them along that learning journey process, as you and I love those kind of things. But it's like, it's all your homies that you know, whether it's Brent, Steven, Lynn, all of them are like... But you got to bricolage that together over years. And that's a hard way to learn. There's no A to B to C to D. And this is the problem with finance in general. The only way to learn it is by just dumping into the deep end and spending years in it. Because there is no education process. And every time we talk internally, "How would you build up that education?" I really have no clue. It's really hard.

Travis Kimmel:

No idea. It's very hard to think about. It's similar to business. There's no end-all, be-all business book. There's these business books that are little fragments. And you get a little nugget here and there and you're like, "Damn, that's a really good one." But I think you could do a Treasuries 101. That would be fun.

Jason Buck:

All right, future plans. But I want to thank you for coming on the podcast. I always enjoy our conversations. Well, obviously one day we'll rip off the bandaid and talk about crypto, but that's going to be a two-hour podcast.

Travis Kimmel:

Right.

Jason Buck:

So was trying not to touch on it this time. I just want to thank you for coming on. I always look forward to it.

Travis Kimmel:

Appreciate you having me. This was awesome.

Tayor Pearson:

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Tayor Pearson:

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