SM105 | 1.21.2023
A Smarter Way | Episode 2
Keith McCullough, Founder and CEO Hedgeye

We continue our series *A Smarter Way* with Keith McCullough, the Founder & CEO of Hedgeye. SmarterMarkets™ host David Greely sits down with Keith to discuss the lessons of FTX and the state of financial advice on traditional and social media.

Keith McCullough (00s):
My humble submission is that you need to have a north star. You need to have a process. Every single thing that I do is to fade and/or capitalize on some predictive nature of what has become what I call "the machine." "The machine" includes everything that you said, you know, ostensibly and everything that's going to be because every single day we learn something new.

Announcer (19s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions are we facing a crisis of information or a crisis of trust and will building smarter markets be the antidote?

David Greely (45s):
Welcome back to a Smarter Way on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Keith McCullough, Founder and CEO at Hedgeye. We'll be discussing the lessons of FTX and the state of financial advice on traditional and social media. Hello, Keith. Welcome to SmarterMarkets.

Keith McCullough (01m 05s):
Thanks for having me, David. It's good to, good to be with you for the first time on the other side.

David Greely (01m 09s):
Yeah. Yeah. I got to be on your show last November and it was great. We had a real conversation on Hedgeye. We were talking about the energy transition. You know, had a great conversation with you. Really appreciate having been on your show. I'd hate to say the energy transition was overshadowed at that point in time, but of course a lot of the big news in November was the implosion of Sam Bankman-Fried's Cryptocurrency Exchange FTX and I remember at the time you were getting a lot of well-deserved credit for being in front of that big market event and while you know, Sam was on the cover of Forbes in October, you had had short seller Marc Cohodes on your show in September where he was calling out FTX as a scam and I'd like to pick up our conversation there. You know, , I've read that you created Hedgeye to provide, you know, hedge fund quality research to everyday investors who typically have to rely on brokers or traditional and social financial media for investment ideas and one thing that struck me coming outta the FTX collapse was that there was, you know, a spectacular failure of due diligence, both among professional investors and the financial media. You know, there was really a failure to conduct what would seem like the most basic financial research. So I'm curious, you know, in your opinion, what happened there?

Keith McCullough (02m 31s):
Well, the, the mother of all bubbles happened. I guess we could start with that. I mean, we end up a lot of these things, especially when it comes to a lack of oversight, due diligence, doing your work. I mean, largely has to do with greed on Wall Street, you know, people, you know, hurrying or trying to get things through the door and as you know, you know, David especially, you know, at the end of it, people are just trying to get that next deal. So whatever it was, I, you know, I'll never be able to pinpoint every single person and every single action or lack thereof when it comes to actually, you know, doing the due diligence on something like this because like you said, I mean, it's egregious. It's beyond, it's disgusting. It's beyond anything that anybody that's been in the business for as long as you and I have would even be able to imagine, really.

Keith McCullough (03m 13s):
I mean, it was, it was almost surreal. But, you know, the mother of all bubbles, as I like to call it, was based on, you know, the confluence of, of free money from both the fiscal side or the government side and, and from the Fed. And you ended up with like a 12

and half, almost year over year percent GDP growth rate. So rainbows, puppy dogs, unicorns, crypto, whatever believe this guy on his futon, you know, The Bahamas is the second coming of Christ. I mean, please don't cancel. I know you won't because you're Irish stew. But you know, like this is not Jesus Christ. This is not JP Morgan. This was a fraud.

David Greely (03m 44s):
Yeah and you know fraud that was really missed by, you know, not only a lot of professional investors, but the financial media. I know you received a lot of credit afterwards for your coverage of FTX with Marc Cohodes and why do you think, you know, he was out there banging the drum pretty loud. Why do you think the traditional financial media wasn't listening and was that like a one-time thing, or do you think that's a structural problem we have in how we cover these markets?

Keith McCullough (04m 11s):
There are definitely structural problems, though. One being the most obvious is conflict of interest and, you know, the, you know, people were getting paid. I mean, there's, you know, whether it's directly being paid or the advertising slots that they were paying to support the networks. I mean, in the case of, you know, what I call affectionately call rearvision.com, I mean the whole shooting match was about promoting and pumping all types of crypto crap. I mean, if there's, there's a, compensation is generally the motive for both the fraudster and those who support it. I tweeted it many, many times. Fraud supports fraud. I mean, fraud is paying everyone and they're not frauds, I don't know how you completely disentangle yourself from that, from a moral compass perspective or an integrity, professional integrity perspective. I think it's, it really gets down to, it's just that very basic conflict of interest that people are getting paid and they're, you know, when people are getting paid, they sometimes get paid to be willfully blinded.

David Greely (05m 07s):
And like, I was curious as well, like, did you find that there was pressure for being someone saying that, you know, the emperor has no clothes when it came to FTX. Like is there a, I mean, short selling's hard being the one who stands against the tide is hard. Did you find that there was pressure not to, not to be talking about these issues?

Keith McCullough (05m 28s):
For me, no. I mean I'm fortunate because I have my own media and content platform, right David and you do too here and I think it's, it's one of the most important and liberating things for both you and I or anybody who aspires to be, you know, free market libertarian or not. I mean, somebody who's a truth seeker. I think that if you could just do that, then there's really no pressure. I mean, if you go back and watch that tape, I mean there was no pre. If I appeared to have any pressure, I certainly didn't feel to have any pressure with Cohodes. It was a free flowing f-bomb dropping conversation and I just, it was very typical like, I shouldn't say typical, it was atypical in terms of the conclusion but it was a typical free flowing conversation like you and I had in a real conversation at Hedgeye TV.

Keith McCullough (06m 10s):
That can go anywhere. It goes all the way back to, I mean I had I actually, ironically enough, but maybe not so much, I had, you know, who I called a maestro sailor for micro strategies. I had him on Hedgeye TV. So this goes all the way back to him telling me that my models were gonna be destroyed. And I, Keith, you have to believe in something and I kept saying, yeah, I believe in gravity. Like I believe in like the quads or you know, the cycle and that, you know, when this speculative mania, you know, comes to an end, it's gonna be because the economy's slowing and profits are slowing. And, and this ends the same way all the time. So whether it's Michael Sailor or it's you know, who's, I dunno, let's, I dunno, think we need to get into whether or not, you know, he's a fraud on the scale of sandbank free.

Keith McCullough (06m 51s):
I don't think that that's even remotely close. He's an evangelist and the pressure really, if there was one, but I kinda like it cause I'm a bit of an antagonist as you probably noticed, is that like it was on Twitter. I mean, that's where it all came from. I mean, people come at me all the time, but this was a heavy pipe of I guess sailors smoking the pipe. But on of like hornets and cyber hornets and anonymous things and people and bots and you, there's a pretty heavy, pretty heavy dose of that. But I can handle it.

David Greely (07m 22s):
Yeah. I love that line about you gotta believe something. There's, there isn't an old line about the trouble of people who've lost their faith isn't that they believe nothing, it's that they'll believe anything

Keith McCullough (07m 32s):
Well, isn't that, isn't that it. I mean when you really boil it down to the marketing message like Hodel or Maxi, right? It's as old as Wall Street gets. That's why I called Wall Street, old Wall Street 2.0 what real vision became, because it's quite literally, if you're willing to believe it and hold it, then yeah, let's just tell each other that it's true.

David Greely (07m 55s):
But like, like anything else, I mean, what's interesting is a lot of money was made on the way up too, right, like it's, it's hard to tell people that they're wrong or it's not gonna end well or you know, you've seen this play out before and it ends in tears when everybody else is getting rich yeah and you have a very, as you said, like you've got your process, you've got your framework, you've got your quadrants. Like how important is that to resist the feeling of like, you know, maybe I'm just not the one who's not getting it.

Keith McCullough (08m 25s):
Yeah, well, I mean, to be clear, I was long crypto all the way through, all the way up into the top of the bubble. I got out in December. I didn't get out perfectly at the top. Of course Bitcoin and not ironically Bitcoin peaked on the same day as the Russell 2000. So, so you know, back to the process, like I'm not an evangelist. I'm not a, evaluation purist. I'm not hurdler, I'm not perma anything. I buy assets and asset classes that fit the profile of the rate of change of the economy and when the rate of change of the, the economy is accelerating, which is either in quad one or two, then I'll buy pretty much anything. You could tell me a story and I'd be willing to believe it for not an infinite amount of time. But, but yeah, I, that's what Wall Street is and what crypto became is just epic storytelling, right?

Keith McCullough (09m 10s):
And then when the economy starts to slow, in particular, when you hit what we call quad four, when both the rate of change of growth and inflation are slowing at the same time at the, and therefore profits are slowing at the same time. Things like profitless, tech, crypto, anything that's on that speculative side, you know, crashes, that's the history of markets. And that's, I don't just believe that, you know, just cuz I need to believe in something sailors words. But I believe that cuz that back test as the link between the rate of change of economic history and the speculation of markets,

David Greely (09m 41s):
Warren Buffet's thing about with the tide going out and I guess Quad four is definitely a time when the tide goes out on a lot of things

Keith McCullough (09m 48s):
It did in a hurry. And you don't want to like, it's too bad that CNBC's changed kind of how people think of Buffet and his teachings Munger, but you know, like I, you know, I did my senior thesis on Buffet in college and I always found it was interesting that he always started with risk management even though he didn't call it Berkshire risk management. But you know, rule number one, don't lose money. And I really think that that's the point. I often use the mountaineering example of (**inaudible)**. He's climbed more of the big ones than, than most and most importantly gotten back down. Like that's the analog I use is mountain climbing. Like anyone can get to the top, you know, it gets harder and harder the higher you go and that's optional getting down, that's mandatory.

Keith McCullough (10m 32s):
And you know, that's the lesson of Buffet, that's the lesson of drawdowns. If you lose 70% of of your money in something, you gotta be up 233% to get back to breakeven. I mean that for me is no bueno. So I don't care what it is. If it ticks and I'm long it, the number one thing to do is not have, never mind, you know, 70%, 80%, 100% drawdown. Like 20 to me would be like devastating from a reputational perspective, embarrassing from a professional perspective and just something that I will not do.

David Greely (11m 00s):
I know you give out, you know, a lot of good advice what's the place where you would tell an investor if they want to adhere to that philosophy of preserve the capital, make sure you get back down the mountain. What's the best place to start where they're thinking about their own investments?

Keith McCullough (11m 15s):
For me, I mean there's a series of books that I think you need to have as your base pack. So let's just kind of stay with the mountaineering example or analog. I think you need to appreciate the non-linearity of Marcus. I think you need to start with something that isn't, never mind Wall Street, it's business school, it's linear econ, it's my own education for God's sake. You know, I have a BA in

economics from Yale and 90% of what I learned there I would never do in market. I mean, Bob Schiller's class on mean reversion, long-term mean reversion in cycles. Yeah, that'll do that and he's well regarded I think as a, function of that, but I think the misbehavior of markets by Mandelbrot, even though it's a difficult read if you're new to it, is critical. I think thinking fast and slow is critical.

Keith McCullough (11m 55s):
So you have a behavioral overlay to what you do, have an ability to fade your feelings, fade bubbles, et cetera, et cetera. There are a bunch of books that we put up on the site as a base pack. We also have Hedgeye University that explains the quads because what you're really trying to do and, and it's hard if you start without a foundation like reading and giving yourself a real, real fighting chance at the foundation of why rates of change matter, why they are causal. Then once you can get closer to, okay, when a quad four is coming, that is to use again the analog. That's the avalanche. I will not, even if the probability has risen from 3% to 13%, I'm not gonna take that chance. I'm gonna stay in my tent today and I think that that's a real important thing to do. So we we've tried and we're gonna keep trying as you know, providing like educational content is pretty hard but we've worked on it quite a bit and a lot of that, I mean most of that stuff on our website is free.

David Greely (12m 46s):
That's fantastic. And I know you spend a lot of time putting out the education on social media. When you said earlier that was a rough, it's a rough neighborhood out there on financial Twitter, and I mean a lot of, like a lot of professionals, they won't touch it social media with a 10 foot pole. Like they don't, they don't want to be there and I'm curious, you know, first like why do you go there and two, like what's your experience with it been?

Keith McCullough (13m 13s):
Well, to my lovers and my haters on Twitter, just let, let me say may you never meet but for the haters, I mean they picked the wrong Canadian hockey player I guess cause I like to, I like to scrap a little bit. I like to get, yeah, I like to fight a little bit and I think what my experience, I'm beyond grateful. I gotta say for Twitter as a content platform, YouTube all the different things that we've had. Cause Hedgeye wouldn't exist if we weren't able to communicate in real time and most importantly, build our community in real time and have the community, which you and I talked quite a bit about, have the community be able to engage and debate in real time. And that community involves your haters. You know, that's the whole point about having some bad dudes in your neighborhood or some frauds in your neighborhood.

Keith McCullough (13m 54s):
You know, my dad was a firefighter for 38 years. You know, you gotta like, we need the police, we need the firefighters. We need, I think we need Hedgeye risk management. The whole point of Hedgeye, you know, the eye component is that we want to have our eyes on everything and give a fighting chance to people to, to see it objectively as opposed to within the lens of the conflict of interest. So for me, again, sometimes you gotta, you gotta get in a fight to prove your point and sometimes you have to have people say something that is categorically incorrect by any historical measure, which I think is a huge opportunity, David on Twitter, is to just say, well that's a hundred percent not true. And because you believe it doesn't make it true. Right, so, you know, we do a lot of that on Twitter as well, which is a lot of fact checking.

David Greely (14m 34s):
That's so important because there's so much put out that's spoken with great confidence that does turn out to be wrong and so being able to give a real time fact check, but I love, you know, that you brought it back to the community because that's one thing that a lot of these platforms really help you create, which is a gift. You know, that, I mean, I, you know, know, worked on Wall Street a long time and you become very dependent on all the access that working in a big bank can give you. But be able to get that directly with people is something that did not exist early in my career. So it's really a, a great opportunity.

Keith McCullough (15m 04s):
Isn't that amazing like, if you don't mind me saying like, cause when you and I, we are both in the seat, right, like unlike a lot of like as I affectionately call posers on Twitter or back, or tourists that have never played the game at any institutional level, they've never run other people's money. They've never been in the seat. But they know everything, which is great. They don't have a name, they don't, they know it all and we, and you and I don't know anything according to them. But you know, there's also the dynamic. If you were in the seat, you appreciate that the buy side in particular, it's well the sell side and the buy side, I mean, these are tough places to work. Not everybody wants you to succeed on your team cause they want your seat, they want your capital, they want your title.

Keith McCullough (15m 42s):
I mean, so the community I find on Twitter in particular, if they're of the, the bullish side of the community, the people that support you, like if I spell a word wrong, David, if I use it in the wrong tent, if I have the wrong country, they'll immediately correct me and I wanna be corrected. I don't wanna be like, I had enough issues with my s a t score of going back to college. I wanna get a better score. Like if, if the community helps me get it less wrong faster, awesome. And it, back in our old seats, that was not the case. You sit in, in many ways. We sat you sit alone, not a lot of feedback.

David Greely (16m 18s):
Oh, that's rough. Yeah, I was more research. So my experience was a little bit different in that I remember there, there was nothing that would be in education, like going down and not knowing a lot about commodities when I was new and getting a bunch of seasoned J Aaron traders telling me how little I knew about commodities.

Keith McCullough (16m 33s):
Well that's, that's great. I mean it's, you only learn by making mistakes and or somebody telling you that you're making one and the faster we can make close that loop, the better, the less bad we'll be. Let's just put it that

David Greely (16m 47s):
Absolutely, absolutely and you know, when I went to Bridgewater with Ray's, you know, focus on transparency, to me it always called me back to, you know, if I'm gonna be wrong, I'd rather somebody tell me before I lose a lot of money like, it can be harsh to tell you you're wrong, but it feels worse to lose a lot of money. It feels worse to put out a research report where you say something stupid. So like, hey guy sitting next to me let me know if I'm, if I'm being an idiot. But I wanted to ask you, you know, about, you know, as we said, you know, can be a rough neighborhood on social media as well. And in the wake of the collapse of FTX, you know, you called out a number of other prominent personalities and providers of investment ideas on social media, some professionals, some you know, individuals. What led you to do that?

Keith McCullough (17m 29s):
I was one. I guess I was, even though I'm quite critical of some of these people, you know, cause at least for me, when I see somebody who's, you know, a bullshit artist or somebody who's not being open and honest with people on Wall Street, I have a pretty, at least in my own mind, a high level of conviction that I know, know what I'm looking at and listening to. Right for some of these people to be explicitly and financially tied to Sam Bankman-Fried, the way that they were even surprised me. I mean, and we're talking specifically about Kevin O'Leary, Mr Wonderful or un-wonderful, and Anthony Scaramucci. I mean these, the mooch, it's like, really guys and there's no, I guess there's responsibility and recommendation, which is lacking across the board there or any due diligence, but there's a huge conflict of interest and we're really not willing to be accountable to that. To me, that really got me going, as you could tell on Twitter, you know, so, or Pom liano, this guy, you know, is character who's was pumping all this stuff, all these different crypto schemes. I just had to do it, man. I was like, I've seen enough. I've had enough and you know what my community, at least the one that I, that I, that I'm fortunate to be part of, they supported that. So the more they did, the louder I got

David Greely (18m 43s):
It's hard because if there's, if there's no, you know, regulatory policemen on the beat, for people who haven't been around the block as many times as, as you have and might not recognize what's true or see the conflicts, there's not an easy way for them to know the difference.

Keith McCullough (18m 59s):
No, it's not like they start on CNBC with Mooch and Mr Wonderful with the questions that I'd be asking them and that's not, it's just, and so we're just, we're gonna speak truth to power. I don't consider those powerful people by the way. I just, I think that we're at a very interesting time. If you ask our, my partner and our chief demographer Neil Howell, this is the fourth turning the fourth turning is, is a generational turning. It's where the establishment who has had infinite power in some cases, as it starts to lose it, they lose it through the lens of respect, and then they lose it entirely and I really do this I can see it every day. I've been living it on Twitter since the beginning of Twitter it's there, man, and it's game on. I'm not trying to be mean to people. I'm trying to be just like would in a hockey rink. If somebody hit somebody from behind and, and somebody outright was not accountable to that, then there's a way to make people accountable for that. You know, they're referees. There, there are other players on the ice and we're gonna protect the people. So for me, that that's mostly the point in principle.

David Greely (20m 00s):
And when we look, I wanted to ask you about what lessons you were taking away from the collapse of FTX and I'm curious maybe is it, is it also a, you know a milestone in this fourth turning that you just brought up?

Keith McCullough (20m 13s):
Well, I, I do, I think that in any speculative mania, I mean, the fourth turning is generational demographic. This was what was born out of all of it. I mean, you have both political parties, you know, baby boom generation. I'm not trying to offend people that are the baby boom generation. My dog's name is Boomer for God's sake, but you know, you have, both parties have signed off on all of this money printing and nonsense, you know, debt is good, risk is free. So whether, you know, whether it was, whether Biden or it was Trump, you can go down the line. I mean it, you know, every Federal Reserve had going back to post Paul Walker, I think that it, it was always gonna end in the mother of all bubbles. I suppose in the beginning, I'd like an idiot, I would short bubbles.

Keith McCullough (20m 58s):
Once you realize you're in one now, why don't you just ride it on the long side and then shorten it as it's popping I mean these things, were all born out of the same thing and I think that, I guess that's the one thing when I think about like how, I guess I'd say I'm adequately bearish. But you, of all the things that I'm most bearish about that I have the highest level conviction about is that those chickens have come home to roost and phase one of the bear market we're into phase three now, but I, you know, phase one was blowing that up and revealing the crypto bubble for what it was, or profitless tech or SPACs or you can go down the line. There's so many different bubbles within the bubble or concentric circles inside the bubble. It's getting harder to count. But that's, that's what I think.

David Greely (21m 41s):
So we've got the, the cyclical aspect of this, the quad four aspect. We've got the long-term trend with the fourth turning type episode and I wanted to shift gears a bit because, you know, one of the things I'm trying to do on this particular podcast series is look for some better or smarter ways to deal with some of the chronic issues in markets and, you know, kind of using the FTX episode as a springboard. You know, one of the things that I find most frustrating about the whole episode is that, you know, it wasn't a new thing. You know, it might have been in the crypto space, but what we saw was things we've seen happen over and over again and we've talked about, you know, the failures on research and due diligence and media. I'd like to explore some smarter ways for us to approach investing and where we get our investment ideas from. As I said earlier, you created Hedgeye as a way of providing financial research and investment ideas. It's also become a, a major provider of online finance media content and I'm curious, how do you think about the media content you're providing relative to, you know, what's provided by CNBC or traditional Wall Street, like, what's the need you saw that you're like, this is needed in this, this marketplace, and here's how I'm gonna deliver it?

Keith McCullough (22m 57s):
Well, in the beginning, I don't wanna give you like the five hour treatise on this, but I mean, in, in the beginning, the principal orientation of Hedgeye like I said, if you could put an eye on or provide, give the world the transparency of a world-class hedge fund process and its research process and compare it to Old Wall Street research, which is conflicted and compromised, you know, in nature through banking and broker commissions, just to name a few. Yeah. That's what hedge I started with because we started as an institutional research business and independent research provider with no broker dealer, no bank, right? Still to this day, no ad dollars. So you fast forward to today with a media company that's essentially powered by that independent research processing team, the media opportunity is, is much more glaring. I mean, if you, on Wall Street, let's just start with, if you're a fraud, I mean, and you get indicted, you're not gonna, everybody's gonna know that you're not gonna have a job in the media.

Keith McCullough (23m 51s):
You could last forever. I mean, it's, it's amazing and I think that the, the, at least the service that I think we provide, the community that we're part of, and by the way, the community, you know, has built us in as much as we help support them. I think it's true. I mean, is, you know, cheesy as somebody who might, you know, think that that is, or since they're so polarized politically that they can't hear it. All I care about is finding the rate of change truth. Like if something's gonna accelerate, we'll know within three to six months of it accelerated. If something decelerates obviously the same thing. If I say that something's a fraud, it's either a fraud or it's not a fraud, you know, so I I, I think that, and, and when I'm wrong, which is frequently, you know, hopefully not in the order of magnitude that people were last year, when I'm wrong, everybody knows it's time stamped.

Keith McCullough (24m 38s):
It's a mistake and, and we all learn from it together. And I think that that is the antithesis of the media today. The media is obviously loaded with recency bias, confirmation bias, politics, conflict of interest and everybody knows that. That's why we're having a fourth turning because in the end, I think even the most belligerently, polarized people are biased people. You know, if you get them down to their own account and their own family at home, they're probably gonna act on the truth. So I think that that's, you know, what, what was a shouldn't be a small niche by the way, yeah, I am actually kinda shocked that we don't see more of this, but I guess the business model is, it's hard to recreate.

David Greely (25m 21s):
Yeah and I wanted to ask you a question about the business model, right cause you've brought up a number of times the really important point of the conflicts of interest that exist for so many. But that's also like those conflicts are a way of getting people paid without having to get direct payment from the customer, I guess right. You know, the old Wall Street model, it's kind of incorporated into the, you know, the bid ask or, you know, into the commission as opposed to a direct check being paid for the research and the press. It's how many eyeballs you can get and sell advertising. You know, people don't have a direct subscription. I think you've gone more with a subscription model, but that you gotta provide a, a product that people are like, yeah, I'm gonna write the check for. Yeah. How do you see that like, is that the main way to kind of untangle those conflicts of interest and do people realize that, you know, you need to pay if you're one unbiased?

Keith McCullough (26m 11s):
Well, I think in our case you do. I mean, you, you know, an education you can get for free and learn the hard way if you, if you listen to Wall Street for all of last year, for example, worst year in the aggregate for stocks, bonds, and crypto in the history of all three. So yeah, I think if you want to see somebody play this game at the highest level, just like in any arena of sport, you're gonna pay. And if you want a better seat, you're gonna pay more for those better seats. So yes, that's our business model. To be clear, David, this is not it. It doesn't go without, there's a book that I'm just I just finished reading called Do Hard Things. There are a lot of hard things associated with that. We've been paid by Leon Cooperman and Fired by Leon Cooperman.

Keith McCullough (26m 53s):
Why well, because we went negative on Lynn Energy and he was the number one holder of Lynn Energy, and it was a fraud. It was a zero, but he didn't want us to say that. Yeah. So I've been, I've been on the others. The other, I've, I don't wanna, you know, put out the laundry on everyone. But I mean, the fact of the matter is that I can get paid a lot more, maybe. I don't really think about what I get paid. I really, if in case anybody can, can't tell, I don't really give a what I get paid every year. I get paid plenty enough to provide for my family and our firm and that's what I care about. I care about like, being right in principle with PLE as opposed to a PAL and figuring out what my worth is in this world at the end of the numbers in the bank account. So it's not easy, man. Like when 50% of the things you make calls on are negative and a lot of them are right. That's not easy cuz people will fire you because you're not conflicted and that's a, it's been an interesting part of the journey and to see Wall Street from that lens as well.

David Greely (27m 49s):
Yeah, I remember after my first couple years on Wall Street, I remember coming home during Comm season and telling my wife one of the interesting things about working on Wall Street is you can put a dollar value on your ethics cuz you can see exactly how it impacted your pay at the end of the year.

Keith McCullough (28:04):
Yeah, that's yeah, that's the truth.

David Greely (28m 08s):
And but I wanted to ask you now, cuz to some extent investing has become so much more accessible, you know, the technology for people to trade their own accounts, get access to different financial instruments, it's probably never been easier from a technical standpoint for someone to manage their own money and trade now. It doesn't mean they have the experience to do it and like you said, it can be an, an expensive education, but I was also wondering, you know, when you look at who you're trading against, like, you know, someone, not yourself, but you know, just anyone coming into these markets, you're, you know, you're investing in a world of high frequency algorithms, artificial intelligence, deep pocketed and well-connected competitors, professional investment firms that have huge resources, you know to do research to track what's happening in the economy and so for the small investor who's

enthusiastic about markets and wants to handle some of their own money, actively participate and navigate markets safely, you know, how do they do that without getting taken advantage of?

Keith McCullough (29m 13s):
Well, you're, you're quite right. I mean, and they've been taken advantage of in many more ways than they are from a technical perspective back then, hose with commissions or every single, single execution is an massive commission going all the way back. Obviously, you know, the game has changed materially in terms of both technology, execution costs to name those two very important ones. My humble submission is that you need to have a north star. You need to have a process. You need to have a process that acknowledges everything that you just said. Every single thing that I do is to fade and or capitalize on some predictive nature of what has become what I call the machine. The machine includes everything that you said, you know, ostensibly and everything that's going to be, because every single day we learn something new. I mean, right now there, there's a bubble in zero days to expiration or ODT options.

Keith McCullough (30m 02s):
I mean, it's north of 50% of the options market expires every day within seven hours, or six and a half hours of trading from the open. So now we're dealing with that. We're dealing with who's bullying these options, who's trying to mark who's trying to get these big SMP 500 lines, like 4,000 in the SMP to print. While it's never been easier to be an investor, we like to think that we're full cycle investors. We're gonna stay all the way, try to stay all the way up, and then when we go bearish, try to stay through the whole way down. Of course, you're never gonna nail every top and bottom, but you know, that's our North Star. We look at the game that people are in. While it's the easiest to be a part of the game, it's easiest to lose your money.

Keith McCullough (30m 40s):
It's easiest to be sucked in. It's easiest to see your, your pile, whatever that may be, draw down and crash. So it really, you really need to have somebody at the wheel, you know, that knows, you know, people use the plane analogies as a lining, hard lining, et cetera. Let's just start with who knows how to fly this plane. So, so that's, you know, I think it's in my own mind at least, which is the toughest place for other people to live. That's the clearest thing I can see is that you need to have not only the pilot, but the process, a support team, and something that is consistent and repeatable every day so that you can evaluate something as opposed to what all this noise has become, which is really people with talking points and tweets and theories and, you know, there's, there's no process in that. That's noise. That's what even, you know, the greatest, or at least one of the greatest scientists in American history. Richard Fineman would say, you know, turbulence, even science hasn't been able to solve for that. So I'm not able to solve for that, but I do feel that we are able to give people a better process and path to play against that.

David Greely (31m 46s):
Yes, great advice and you know, people definitely need a way to cut through the, the noise to get to the signal and, you know, one thing I wanted to wrap up with you today is, you know, thinking about this analogy of the pilot, you know, people say, okay, you need a partner, you need a pilot. Sometimes evaluating the pilot is as difficult as evaluating the market. So, you know, when it comes down to that, if you got, you know, whether it's a, a listener who's a private individual looking after their own hard-earned money or professional investors, you know, how do you think about evaluating what's coming in from financial media research or other forms of advice, like how do you think about who you listen to when you're approaching investing?

Keith McCullough (32m 28s):
Well, I, this is why I'm big on, it's not just, you know, saying what I said about Kevin O'Leary. I mean, it's, it's or Sam Bankman- Fried. I have a real hard time believing that you can start answering that question with, oh, it's cool, it's somebody on Twitter without a real name, and you can't, no name, no resume, no track record. Like in what world could we start to answer your question, David, without knowing some basic things mean, if you go back to even Cohodes and I, which is what you started with, all we did was we looked back at the people that were involved, who the relationships were, what their resumes were. I mean, that's what gave you the most basic level of alarm. I mean, so if you can't start with that, what are you really starting with? You're starting with Guru Factor, somebody who had a good call on something, and these aren't even somebody's if you're, it's not their real name.

Keith McCullough (33m 20s):
I don't even know. There, there are reasons why our industry, the one that you and I were born in and continue to be in there's a reason why it's regulated. You know, there're a reason why they're rules. So I think even though that's like a, it's, it's ridiculous that you have to say, you start with that cause like observations of the blazingly obvious by, by me on that, it's amazing that what can get you in the

most trouble is just that, is just not knowing those things. So again, go back, you know, for me at least, I use hash tag timestamp. I have timestamp inside of 8,000 different moves long and short, going back 15 years at Hedgeye of course, my whole track record on the buy side, you know, speaks for itself and if they're for me it's 23 years in counting. I, I love doing it. I also love seeing, like, I, I love seeing what other people you know, what other people have done. This is a hard game, right. I mean, people aren't around anymore that are my age and your age. A lot of people are just starting to hit their stride. It's not an age thing, but I think it's a transparency thing and accountability thing.

David Greely (34m 22s):
Thanks again to Keith McCullough, Founder and CEO at Hedgeye. We hope you enjoyed the episode. Join us next week as we continue our series A Smarter Way with guest Liz Hoffman, Business and Finance Editor at Semafor. We hope you'll join us.

Announcer (34m 39s):
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