# SM159 | 1.27.2024
# Setting Course | Episode 4
## Bob Elliott, CEO & CIO, Unlimited

**This week on Setting Course, we welcome Bob Elliott, CEO & CIO at Unlimited, into the SmarterMarkets™ studio. Host David Greely sits down with Bob to discuss the macro outlook for the economy and markets – and making institutional investment strategies accessible to the individual investor.**

---

**Bob Elliott** (00s):
The real question is, what's the probability that we see an all-out sharp recession in the US economy over the course of the next, you know, six or nine months? It's hard to see the set of dynamics that would align with that given what we are seeing in the real economy.

**Announcer** (16s):
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?
This episode is brought to you in part by Abaxx Exchange, bringing you better benchmarks, better technology, and better tools for risk management.

**David Greely** (57s):
Welcome back to Setting Course on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Bob Elliott, CEO, and CIO at Unlimited. We will be discussing the macro outlook for the economy and markets and making institutional investment strategies accessible to the individual investor. Hello, Bob. Welcome to SmarterMarkets.

**Bob Elliott** (01m 21s):
Dave, it's great to see you.

**David Greely** (01m 22s):
Yeah, it's been quite a while since you and I worked together at Bridgewater, and I've really been looking forward to being able to catch up with you here on SmarterMarkets. I've been enjoying following your discussions online, your discussions of your macro views and investment strategies at your firm Unlimited, and I'm glad you're able to join us today to help orient us to the macro and investment landscape.

**Bob Elliott** (01m 44s):
Yeah, thanks so much for having me. I, you know, one of the things that I always remember about you is coming in and teaching to all of our first year associates, basically how the commodity markets worked for a number of years and I think, you know, that really in many ways a whole generation at the old shop learned how commodities markets function, how cycles work, etc. from, from your teaching. So I still remember that legacy today when I'm, whenever I'm thinking about what's going on in the commodity markets.

**David Greely** (02m 14s):
Well, and they learned the rest of the markets from you. So it was always fun to tag team that with you. It was a really enjoyable moment and you know, as they used to say, let's go back before going forward, if I think about this year, at the start of last year, at the start of 2023, many people in the market were calling for a recession but, you know, to their surprise, instead, we saw a year of continued economic growth and a strong equity market, particularly towards the end of the year. So maybe we can start off with the, the question of what happened?

**Bob Elliott** (02m 47s):
I think a lot of ways folks missed that we were in a very different cycle than what they had experienced through most of their professional lives. I mean, what most of us had experienced basically bubble booms and busts and reflation, whether it was the 20 cycle downturn in reflation or the 2008 downturn or 2000 downturn, all of those cycles kind of looked the same but the reality is,


The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.

following COVID, what we really experienced was a shift to what looked more like a very traditional late cycle income driven economic expansion that led to inflation, you know, those too high because of the supply shocks, but even once those were resolved, the tightness in the economy, the elevated wage growth led to tighter inflation than expectations and led to in many ways, a very typical central bank response to that. The issue is that generally these sorts of economic cycles, when you're talking about non crashes, like they're very slow moving.

**Bob Elliott** (03m 53s):
Like I like to, you know, on every day we go open up Twitter and there's always some incremental piece of news, and it feels like there's something, you know, that's really important that's gonna denote that the cycle is turning in one direction or another. But the reality of the macro economy is just so much more boring. And you know, at the time I said, look, it, the, the economy's slow moving. There's good reasons to believe that the economy is probably more insulated from short-term interest rate moves than it had been in previous cycles and probably we're gonna see not much, not much change in the economy and think in the last 18 months, the unemployment rate in the US has been the same for 18 months and that really indicates both how slow moving these macro, the macro economy really is when it comes to a typical cycle. And also how immune really it has been or how it hasn't been particularly sensitive to the tightening that has come from the Federal Reserve and so where do we stand today? Basically the same place from a macroeconomic perspective that we stood 18 months ago, you know, which growth above potential unemployment at secular lows and inflation, you know, which has come down, but is still probably a little too high for the central bank's comfort on a structural basis.

**David Greely** (05m 05s):
And so is this a story of, you know, Milton Friedman's old line about the, the long and variable lags of monetary policy and there's just a lot of inertia and it takes a while or is there something else that's giving strength to the economy other than waiting for the, the tightening to kick in?

**Bob Elliott** (05m 22s):
Well, I think one of the things that, that folks, that they often focus on the variable and they forget the long right and the long, long lag, long and variable lags is something that, that folks often forget. I mean, even those of us who went through the 2008 cycle, like if you remember how that played out is that housing peaked in the fall of 2005, right? And that's when, that's when there was sort of the, the, the sort of true peak in the cycle. And it wasn't until a financial crisis in September, 2008 that we saw a really significant deterioration in economic conditions. You know, that's, that's three years you know, and that is a lifetime for a trader. And that was in a cycle that was the most over leveraged cycle in a hundred years and so, if you think about it today, we have, we've had the economy's had like a lot of healing that has occurred from the GFC household balance sheets, corporate balance sheets, you know, have healed significantly, have reduced the amount of debt that they're holding relative to their income have turned it out and have reduced the costs of those debts.

**Bob Elliott** (06m 27s):
And so what was even, you know, in a highly debt fueled cycle, a very long lag, a very slow moving cycle, you know, today we've got an even slower moving cycle. And so that's why I think you're spot on. It's the long lags that are typical, and today they're even longer than they have been through most of our career.

**David Greely** (06m 50s):
Yeah, you're, you're taking me back because I just remember the 2006 right, was when the Bear Stearns funds first collapsed, and that was two years or so before the rest of the economy. So I think everybody kind of breathed the sigh of relief that was premature at that time. I wanted to ask you though, like thinking from the, the financial crisis on, right? Like, people know that they need to watch the Fed is the Fed raising or lowering short-term interest rates, but to understand the true financial conditions that are affecting the economy and, and the markets, whether there's a tightening or easing in those conditions requires so much more. It's more complex today, following the financial crisis, it became about quantitative easing when the Fed couldn't lower short-term interest rates any farther it had hit its lower bound with the pandemic. There's so much more happening with fiscal policy and fiscal stimulus and, you know, even regulatory policy. I'm curious, like how do you think about and assess the impact of each of these when you're shaping your macro outlook and investment strategies? How do you, how do you kind of get your head around how all of these different policy responses are impacting the economy?

**Bob Elliott** (07m 58s):
Yeah, I think most people will think about those individual pieces in a way that's relatively discreet and almost in a way that's like a diffusion index. Is this positive? Is this negative? Is it supportive? Is it contractionary and I think the key thing you have to do from a


The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.

macroeconomic perspective is not just understand the nature of the linkages of fiscal policy or quantitative tightening or the rise in interest rates, but you have to translate that into a concrete and numerical understanding of the magnitude of the influence of those activities and I think that's the thing that's a very, you know, it's both a very hard thing to do because you have to work through all of those linkages and the quantification of them and it's also the area that I think a lot of folks will miss and so whether it's the data that you're looking at or the linkages of monetary fiscal and say, regulatory policy, that's what you have to do.

**Bob Elliott** (08m 56s):
And so too often folks look for confirmatory evidence in, say, data that is aligned with their views without going through that process. I think like a funny one that came up recently is, you know, the Empire Fed Manufacturing Index went down a lot earlier this week the week that we're recording, and, you know, how many charts did we see on Twitter about that and that survey, first of all, is a pretty bad survey in terms of quality, but also it only represents 0.6% of the economic activity of the economy. Yet when you get, you know, a positive confirmatory dynamic like initial claims being a two year lows, people don't necessarily want to reject that evidence when that is a high quality, comprehensive coverage of the overall economy and so that's where you have to get into the nuts and bolts and really quantify these things and not rely sort of on the narrative senses of what's likely to be, you know, what, what, what one's data point or set of policies is pointing to versus another.

**David Greely** (09m 58s):
Yeah. Point six doesn't sound much a not too far off from Taylor Swift's effect and I'm curious the confirmation bias is so pernicious. Are there any like favorite measures or data points that you follow to try to honestly assess how conditions are unfolding that other people could, could look at in their own way and time?

**Bob Elliott** (10m 19s):
I think the key thing is to be comprehensive in terms of what you're looking at. I think a lot of folks I learned during the post GFC period that the goal in terms of understanding the data was to find the one thing that was indicating a turn, because the economy was very much sort of rising and falling with the flows of liquidity and so if you could find the thing that denoted a turn, you could get ahead of the rest of the market, but that's not normally how you want to think about it. The macro economy is a highly complex organism you can think about, which has a significant number of cross-cutting factors at any point in time. And not to mention the fact that the data that's measuring any particular one of those dynamics also has a whole range of different quality and information value that's out there as well.

**Bob Elliott** (11m 08s):
And so the key for most macro economists is to think comprehensively as comprehensively as possible about the information that you're seeing. So don't just look at, say, the employment report, don't just look at payrolls, don't just look at the household survey, but also look at the 10 or 15 other data points that are available around the same time that all point to what is going on in the employment situation. And that way you're gonna get a holistic understanding that's not overly reliant on one particular point. There's different ways to quickly and efficiently get access to that. So like, you know, the Atlanta Fed GDP now survey, just as a simple example, is something that at least tries to comprehensively measure what's going on in the economy. There's a, there's a good reason why it, it sort of gets gets top billing when people are trying to think about what's likely to happen. But really it's about just going out there and looking at the overall picture with all the different data points and not trying to be overly wed to one particular outcome or another when you're putting it all together.

**David Greely** (12m 10s):
And when you think about what are the policy makers looking at when they're making these decisions, whether it's the Federal Reserve with monetary policy, fiscal policy coming out of the White House and the Congress, what economic or market decisions do you see as driving the decision making among us policy makers? Is it, you know, straightforward inflation and unemployment? Is it the stock market or you know, something more complex, or is it not even really about the data, it's about some other incentive that they're trying to pursue?

**Bob Elliott** (12m 40s):
Well, I think each different, each different area of the government has different motivations and at different mandate and so you have to think carefully about what their mandate is and then what are they going to do and look at and engage with to fulfill that mandate and so the Fed obviously gets, you know, top billing in terms of what people are focused on and I think they've, the Fed has really shown over time to really take a comprehensive approach to thinking about what's going on in, in the economy and so there's a reason


The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.

why as a simple example, if you were to read the minutes, what you would see, what you see is you see that they're looking at a wide variety of information. They're not looking at one particular data point or what maybe one particular thing that gets mentioned in the press conference as they're discussing the economy, they're discussing it holistically.

**Bob Elliott** (13m 31s):
There's a reason why they have the beige book, which is a holistic or an attempt at least at a holistic understanding of what's going on and so from their perspective, I think really what they want and, and the same I think is true for inflation, where of course they've got a mandate and they've got a specific sort of best version of that mandate with core PCE that they're targeting. But they're definitely not only targeting the literal number that is printed in core PCE, if for whatever reason that's wonky or not sufficiently comprehensive, or there's a divergence in the actual prices that people are seeing, they're going to think comprehensively about it and so that's why in many ways the advantage in trading markets of looking comprehensively, I think is good because it aligns with how particularly the Federal Reserve looks at things.

**David Greely** (14m 16s):
Right and we've been spending a lot of time rightly talking about the situation in the US. I'm curious, you know, what are you watching in other parts of the world in particular I think a lot of people have been confused about what's happening in China. What's your read there?

**Bob Elliott** (14m 31s):
I think China's experienced an interesting transition. If you go back sort of 10 or 15 years, the people who were driving the primary economic policymaking decisions in, you know, primarily the PBOC were highly orthodox western trained economists and very, very smart and integrated into the world economy and also into sort of western thinking about how economies should be run. You could agree or disagree with the policies that they implemented, but as an example, like what they implemented post 2008 sure looked a lot like what the US and other western countries implemented in following COVID, right in terms of a highly coordinated fiscal and monetary stimulation coming out of a crisis. I think the big transition that's occurred in China is that from a policymaking standpoint, those technocrats who were driving policy and were managing the economy to what you'd say is a not perfectly western idea, but certainly a much more, much closer to a western idea have largely been sidelined.

**Bob Elliott** (15m 40s):
You know, the political dynamics that are going on in China way above my pay grade, I'm just observing what's going on and what's, what's occurred and what's, what's happened really over the last couple of years, and I should say really accelerated in the last year, is that politicians, not economists, politicians are at the head of the PBOC and the other economic policymaking engines. They're deciding what should happen and so while China's perfectly capable of stimulating their economy and getting out of this malaise that they're in, because they have the tools and, and policies available to do it, and they've done it in the past, particularly because the debts are primarily denominated in their own currency and they can, they can deal with the banking problems that they face. The issue is that the political figures, the she administration clearly doesn't want that to happen and so is fine with this economic malaise. Now the reasons for that, I think there's good reasons to speculate, but the idea that if they want, they can have not really great growth, but also not weak enough growth for it to be a problem. I think that's basically a policy choice that they've made and what they're accomplishing.

**David Greely** (16m 45s):
And so if you take a step back, you know, and look at the whole picture and all these different forces we've been talking about, you know, when you put it all together, how do you see macro conditions evolving as we move into 2024?

**Bob Elliott** (16m 59s):
In a lot of ways, I think we're on a path, at least in the US economy from the US economy that looks what I'm calling stronger for longer. I think a lot of folks, you know, again, we talked at, at the outset, you know, 18 months ago thought the economy was going into an immediate recession and we're sort of surprised to the upside as the resilience occurred in many ways, I think early 24 is setting up in many of, the same ways that early 23 set up where there was, you know, significant economic you know, economist expectations of weakening economic conditions, as well as market pricing of much weaker economic conditions. I mean, entering the year we had something like a one third probability that we'd see interest rates below 3% by the end of the year priced into the short term interest rate markets.


*The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.*

**Bob Elliott** (17m 49s):
That's not, you know, modest interest rate cuts in response to flagging inflation. That's a sharp recession akin to 2008. That's what was priced in a 35% chance of a 2008 style dynamic going on in the US economy and there's, there's nothing in way in the way of data. If you focus on the data and you look at the linkages that aligns with that type of sharp recession in the economy, growth is above potential unemployment rates at secular lows. If anything, the strength of stocks as well as the, the fall and bond yields at the end of 23 is creating a short-term acceleration in the economy. Which we're seeing in the timeliest stats that are coming out, none of that aligns with an immediate recession and so what we've seen over the course of the last, you know, couple of days is that pricing is starting to come out of the market. We're starting to see those bond selloffs, we're starting to see the two-year market move back up from the lows that we saw and I think all of that around this recognition that maybe the US economy isn't going into the recession nearly as quickly as folks expect.

**David Greely** (18m 58s):
And you brought up the bond market, but I wanted to ask you from an investor standpoint, where do you see the big opportunities and the risks in the coming year?

**Bob Elliott** (19m 07s):
Well, it's, we're still pricing in 140 basis points of easing into the short-term interest rate market at a time when, you know, growth is above potential, unemployment's a secular lows and inflation's a little too hot for the central bank's mandate. Like if you, if you just plopped me into a random time in the world and said, Hey, what do you think if, if you saw this set of economic conditions that are unfolding plus the amount of financial market stimulation that we've seen in the recent period, what do you think the central bank's stance would be? And my my answer would be, well, you know, maybe nothing doing nothing would be, would be a totally reasonable stance for the Central Bank given the set of conditions. I mean, just think about it, if you're in the Fed's shoes and you're getting growth that's pretty good and you're getting labor markets that are aligned with what you want, and even, even if inflation has come down and is close to your mandate, why would you do anything?

**Bob Elliott** (20m 04s):
You're getting, you're accomplishing all of your goals without having to do anything differently. And it's, it's sort of the natural state. Unless there's a big economic, a big growth crash, it's the natural state for central banks to be very slow moving. And so why wouldn't the Fed here be slow moving the way that it has been in the past? And so that I think is the biggest disconnect between what's going on in the real economy and what's going on in markets. And then in particular, as I mentioned, I think the tail event, the pricing of the tail event in the short rate market seems particularly extreme in the context of this. You know, could the fed cut three times? Sure, they could cut three times, to be clear, they said they'd cut three times if unemployment rate was at 4.1% and we're at 3.7, and that might be falling not rising. So it's not clear they'll cut three times necessarily, but look, they could cut a few times. The real question is, you know, what's the probability that we see an all out sharp recession in the US economy over the course of the next, you know, six or nine months. It's hard to see the set of dynamics that would align with that given what we're seeing in the real economy.

**David Greely** (21m 13s):
And where do you see the big risks. So clearly you think the, the recession risk is overpriced in the market right now. Is there anything else that you're, you know, is kind of sitting in the back of your mind is okay, this might be the worrisome thing?

**Bob Elliott** (21m 26s):
I think the biggest risk is that inflation doesn't move back down durably to central banks. 2% targets and put out something a little earlier this week. If you list, if you just scan through the data and you look at those data points related to say, UK inflation, UK inflation, you know, stabilizing core inflation, stabilizing at a level that's, that's, you know, around 5%. The Bank of England's mandate is two, it is not five and so, you know, five is very far from two, and if it stabilizes at five, that's gonna be real problem. And there's some real risks related to that given that wage growth is growing at between six and 7% depending on how you, how you measure it and the UK has real productivity stagnation, the same thing in Europe, although Europe's a little bit better, but we did see a pop in inflation in the most recent print Canada.

**Bob Elliott** (22m 18s):
You're seeing, you know, inflation looks like it's stabilizing in that sort of three to four range. Australia, the timeliest inflation numbers popped and, you know, looks like it's stabilizing in the 5% range like that, that whole USCPI looks like it's stabilizing between three and 4%. Like, you sort of add all those up and you sort of look at it and you go, what's the world gonna be like if in six months we've sort of


*The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.*

stabilized here in inflation and then additionally, what does that world look like if a number of these disinflationary pressures that have been important in bringing and resolving inflation from being very high to where it is today, what if those disinflationary pressures flip inflationary? You know, in the US we've, we've benefited, like gas prices have gone from five to four to three bucks a gallon. That's a big disinflationary impulse in the economy. What happens if gas prices start to rise again, goods prices globally have gone from rising in price to meaningfully contracting in price. What happens if that starts to moderate, go to zero or go to positive as a result of some of these geopolitical tensions that are going on. All of that is a very worrisome circumstance, particularly in the context of a set of global bond markets that are really pricing and expectations of a rapid shift to cuts over the course of 24.

**David Greely** (23m 39s):
Yeah. And in that scenario where inflation stabilizes but stays well above central bank mandates, well above the, you know, the 2% where it's an explicit mandate, well above two, where it's more implicit. What do you think central banks do? Do they just say, well, we got to keep tightening up financial conditions, we got to raise rates?

**Bob Elliott** (23m 59s):
Well, I think the central banks are actually in a pretty good position here in a way to respond to if that circumstance arises, which is the central banks can get a meaningful tightening of conditions simply by doing nothing. So that's a pretty good position to be in, right because they can, they can basically say instead of, you know, cutting in line with what's priced into the markets, they can, they can just not ease consistent with that. They can do, you know, they can just hold current policy, let's say instead of higher for longer. It's high for longer, right? That policy is gonna be a lot more defensible. It's reasonably defensible. Look, we're just taking in more data, we're seeing what's going on, et cetera, and would probably allow them to maintain economic conditions to continue to see that growth while implementing slightly tighter monetary policy, which hopefully could moderate things enough to start to ease some of the pressures off on inflation.

**Bob Elliott** (24m 55s):
But the, the real sticky point, the real sticky point is what happens if two steps down the line, which is these economies are fine inflation settles in a rate that's a little too high, central banks basically, you know, stand back from the easing cycle that's expected. You get a tightening of financial conditions and it's just not enough tightening of financial conditions to then create, you know, inflation moving even further down. You know, that's a sticky point. But you know, between then and where we are today, there's a relatively straightforward policy of doing nothing that could, you know, go a long way.

**David Greely** (25m 29s):
And I, I wanted to ask you as well about the equity market at a very strong finish to the year, and of course people's attention are on the tech stocks. And I'm curious about, when you look at the equity market, how do you think about tech stocks relative to the rest of the equity market you know, we had the FANG stocks and now the magnificent seven. Do you see these as driven in part by different forces than the rest of the market? And should an investor view them differently than they think about the rest of the stock market?

**Bob Elliott** (25m 59s):
Yeah, as a macro guy, I mean, I don't have a particularly strong intuition about any individual name, stock, or even group of stocks, even if they have a nice name like the Magnificent seven. I think when you look at the sort of history of these sorts of high flying equities, I think there's a pretty compelling case to be made that stocks that have the type of valuation pricing that they've experienced often don't meet the expectations in terms of earnings growth that align with realizing that pricing and so therefore that's the basic question is can they realize the type of earnings growth that is being priced in and to be clear not just earnings growth for, you know, one year or two years, we're talking about earnings growth, compounded earnings growth for a decade to align with the type of extreme valuations that you're seeing.

**Bob Elliott** (26m 58s):
And if you look through time, it hasn't really happened before. So the odds are certainly against these stocks with, you know, extremely high PEs delivering significantly positive returns over the long term, over the short term, basically anything can happen. And I think that's one of the challenges is that the short term sentiment and flows can easily extend rallies in these assets well beyond, you know, what would necessarily be the circumstance over longer term period. I think the real question when I, when I look at the, the stock market is thinking about the stock market from a macro perspective, I think what we've seen over the course of the last, you know, three, four months is we've seen stocks have risen, but so have long end bonds in terms of, in terms of their return. And if anything,


The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.

actually long end bonds have rallied more than stocks have rallied over the course of this, this move over the, over the last 10 weeks or so.

**Bob Elliott** (27m 58s):
And that's pretty interesting because essentially what that means with bonds rallying more than stocks, it implies lower growth rates ahead, not higher growth rates ahead at a time when we basically had the biggest easing of financial conditions since, you know, 2009 March, 2009 or 2003 and that's, that is the thing that doesn't quite make sense to me is that why are stocks trailing bonds when we've had such significant stimulation and my guess is, well, my guess is, and my sense is it's a combination of sort of some short-term rebalancing flows away from stocks to bonds, at the end of the year, which sort of pushed those valuations to extremes and also now we're seeing a recognition that maybe this economy isn't as weak as people expect, and that that's starting to flip in the opposite direction. So that really stocks relative to bonds seems much more interesting to me as a positioning than stocks on a particular outright basis.

**David Greely** (28m 55s):
Right and I wanted to ask you, you have your new firm, not really new at this point, unlimited, and you're working to make institutional investment strategies, particularly in alternatives available to the, the retail or the individual investor and I wanted to, you know, ask you why is that important to you?

**Bob Elliott** (29m 14s):
I think most investors are, are basically stuck with some version of the 60/40 portfolio and if you look at the biggest most sophisticated institutions in the world they put about half of their capital into sophisticated alternative investment strategies and there's a reason why they're able to succeed in terms of delivering a higher return with lower risk than the everyday retail investor and while there's been a lot of work to try and sort of democratize alts, the vast majority of that work has been to create ways for particularly rich investors to access, you know, these sorts of funds or, you know, private equity, venture capital hedge funds, but to do it in a way that's basically at rack rate fees in tax inefficient structures and in a way that's super concentrated and so what we're trying to do in unlimited is to say, you know, more fees are not the solution.

**Bob Elliott** (30m 15s):
The idea of democratization is more access and lower fees and we think with our combination of decades of experience in the two and 20 business plus our ability to use modern machine learning, what we're able to do is essentially replicate what those managers are doing in close to real time, take that understanding, translate it into liquid market positions, and package that in ways that are accessible to all investors at a low cost, say with ETFs or other structures in a way that basically does the two parts, which is creates more accessibility to these strategies. And at the same time, lowers cost, lowers all in costs, both fees and taxes when investors do allocate to them.

**David Greely** (31m 03s):
Right and anyone who's worked at a, a large professional asset manager like Bridgewater, understands the massive amounts of resources they can bring to their investment decisions. Professional asset managers have the people, the teams, the experience, the technology, the data. And because of that, I think an individual a retail investor needs to approach their own investment decisions differently. They need to think about their investment process differently and I wanted to ask you, you know, in your opinion, what should the individual investor do. Is it as simple as well stay passive, stay in industry, stay diversified, or is there a way for them to be able to do more than that? Like as you said, trying to democratize access at lower fees? So I guess the question is, in your opinion, what should the in individual investor do and what would you like them to have the tools to be able to do?

**Bob Elliott** (32m 00s):
The story for the, for the, for the everyday investor in many ways hasn't changed, which is diversified low cost indexing, that is the solution for the everyday investor. But the problem that most investors and most advisors are struggling with in terms of implementing that is they've come a long way. I think in general they've come a long, long way in in getting the low cost, particularly with stocks and bonds you know, not paying those high fee mutual funds anymore and buying index ETFs, but they haven't extended that to build a holistic portfolio and so the 60:40 portfolio, which is, you know, 95% driven by equity returns from a volatility perspective, is still far too concentrated in equity risk for the everyday investors. So looking at opportunities that can help diversify that portfolio by adding higher volatility or longer duration bonds, adding, you know, so to increase the amount of portfolio risk allocation that's going to bond markets relative to stock markets, looking at diversified commodities or gold as additional diversification tools.


*The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.*

**Bob Elliott** (33m 15s):
And then I think the real question is, once you build that sort of core, well diversified, low cost beta portfolio, are there opportunities to bring in diversified low cost alpha in order to improve the risk return profile of your client's portfolios or your own portfolio and that's where I think we've really come a long way just in the last couple of years in terms of getting access to those sorts of strategies. We talked a little bit about what we're doing, which is essentially, you know, an indexation, low cost indexing of hedge fund style strategies, a diverse set of hedge fund style strategies, but there's lots of other opportunities that are out there that can generate alpha, say there's a range of different managed futures products that are available at low cost. There are a number of different alpha strategies that are, you know, actively managed strategies that are offered at below a hundred basis points that when you do, you know, the portfolio construction math, they could be very good, they could offer really nice benefits to a typical beta portfolio. And so it's really about 60:40 and all the lessons we've learned in optimizing the 60:40 portfolio. Let's expand those lessons to diversify your beta portfolio and let's find those low cost sources of alpha so that the everyday investor can have the type of, the type of high quality risk return profile that institutional managers have had for decades bringing those to the everyday investor.

**David Greely** (34m 48s):
Thanks again to Bob Elliott, CEO, and CIO at Unlimited. We hope you enjoyed the episode. We'll be back next week with our next episode of Setting Course. We hope you'll join us.

**Announcer** (35m 00s):
This episode was brought to you in part by Abaxx Exchange. Market participants need the confidence and ability to secure funding for resource development, production, processing, refining, and transportation of commodities across the globe. With markets for LNG, battery metals, and emissions offsets at the core of the transition to sustainability, Abaxx Exchange is building solutions to manage risk in these rapidly changing global markets. Facilitating futures and options contracts designed to offer market participants clear price signals and hedging capabilities in those markets is essential to our sustainable energy transition. Abaxx Exchange: bringing you better benchmarks, better technology, and better tools for risk management.

**Announcer** (35m 47s):
That concludes this week's episode of SmarterMarkets by Abaxx. For episode transcripts and additional episode information, including research, editorial and video content, please visit smartermarkets.media. Please help more people discover the podcast by leaving a review on Apple Podcast, Spotify, YouTube, or your favorite podcast platform. SmarterMarkets is presented for informational and entertainment purposes only. The information presented on SmarterMarkets should not be construed as investment advice. Always consult a licensed investment professional before making investment decisions. The views and opinions expressed on SmarterMarkets are those of the participants and do not necessarily reflect those of the show's hosts or producer. SmarterMarkets, its hosts, guests, employees, and producer, Abaxx Technologies, shall not be held liable for losses resulting from investment decisions based on informational viewpoints presented on SmarterMarkets. Thank you for listening and please join us again next week.


*The SmarterMarkets podcasts and transcripts are protected by copyright and other Intellectual property laws and treaties, and as such all rights, title, and interest in and to this content that may be incorporated as part of the offered content for SmarterMarkets must be treated as copyrighted material, and may not be copied, modified, reproduced in any form, or by any means, distributed, published, transmitted, or used to create derivative works, for any public or commercial purposes.*