MACRO Voices
with hedge fund manager Erik Townsend

Alex Gurevich: The Trades of March 2020

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Erik: Joining me now is HonTe Investments, founder and chief investment officer, Alex Gurevich. Alex has a brand new book out and no surprise considering it's Alex, it shot straight up. Right now at number six on the Wall Street Journal's Best Seller list. So you're not gonna want to miss this new book, which is called "The Trades of March 2020 - A Shield Against Uncertainty." We'll talk about the book a little bit later on in the interview.

But Alex, it's great to have you back. It's been too long as you know, because I know you listen to the show yourself frequently. I've been asking almost everybody to talk to me about inflation and its relationship to the bond market and interest rates. And as we're speaking this week, I don't know if we hit 2% yet, but I was looking at one spot 98 on the 10-year yield earlier this morning. So if we're not already there, we're getting awfully close. What's going on? Is the bond bull market over does this mean that we're seeing the beginning of secular inflation that's going to collapse the bond market or is this something completely different?

Alex: Well, first of all, it is good to be back. I'm thankful to you for having me over at the podcast again. It's always fun and good conversation. Now, of course, this is the topic du jour. The dramatic shift in central bank policies that occurred over the last few months which led to dramatic raising an expectation of short term interest rates in most developed market countries. It also, as you mentioned, even longer dated yields are beginning to back a little bit even though most of the curve trading was flattening. And I think that is very important to notice over the last few months. As for my view on the bond bull market. When they came out of 2020, I wrote a lot about the enormous amount of money printing which was at that time combined with the Fed focusing on just US central bank policy, combined with the Fed being very adamant that they will wait, that they will let inflation run hot in this post COVID, post pandemic transition period and see what happens. And that kind of created some concerns for me that the yield curve might be much steeper and that the yields could go higher. Even though I was not necessarily thinking that that was going to happen but I had a concern. I would say that this concern is alleviated. I'm no longer concerned about inflation and I'm no longer concerned about end of the bond bull market because historical pattern. The pattern of how markets have traded is telling me otherwise.

Erik: Okay, tell me more about, you were concerned about secular inflation. Now you're not and you're no longer concerned that the bond bull market might be ending. Those are two really big things give us a little bit more color and perspective on why not?

Alex: Well first of all, as I like to always say when I think about inflation, I think of inflation as a lay person. I am not an economist who does analysis. And I cannot crunch numbers myself, I have to take somebody's numbers in. So it's a little bit of a back of the envelope thinking. What my expertise is recognizing patterns in markets and seeing how markets trade. So I will start actually, if you don't mind with actually bond market itself. One of the things that I've recently said every time the curve is flat, looks very flat, the curve is not flat enough. What it means that I recognize this pattern over decades. Whenever Fed starts raising rates and the forward start getting flat to inverted. Usually, by the time what the market projects right now the curve is getting flat in 2023. It's almost certain that it will be easing cycle in 2023. I feel right now I would assign probability of 70% that we will be easing in 2023. Maybe it's a little bold but definitely more than 50%. Because the curve already, usually, the curve has this uncanny way of flattening right where the easing will come and never flattening enough.

So that is my central view that and we can talk about a shift on the Fed because to me that actually didn't make any sense. Their shift in policy stance because I feel like inflation risks are much lower now than they were a year and a half ago. The reason why I think this, I will get to that, but I just wanted to say first of all the market data, the way equities are trading, the way currencies are trading. The currencies, there's a caveat there, if you wish we could discuss the way bond markets is definitely trading shows us that we're probably closer to the end of the cycle and the easing cycle is not far away from us. And when it comes to inflation, to me, inflation risks are risks that did not materialize while other people think that they did materialize. Because what I see is a lot of front loaded, post pandemic inflation, which is just all predicated on the both fiscal and monetary expansion have happened in 2020. And it's no longer happening. I see no reason For a spiraling effect, and there could be wrong because that there are definitely certain political and societal shifts that do cause some upward inflationary pressure but I wonder if they will be completely offset by the negative fiscal and monetary impulse in the next couple of years.

But I don't really see a spiral, the price gains and the wage gains will not be taken back. I'm pretty sure of that. But I don't think that there's going to be any kind of pernicious spiral. Conversely, what I don't see is what would be, I don't see any kind of signs of Fiat collapse. We do not have a problem with currency because we don't have a problem with excess liquidity anymore interestingly which we did in 2020. It took us that little time to actually end the problem of excess liquidity. How do we know that? Well, the disparity of commodity performances. We see industrial commodities doing really well in price and oil doing really well in price. Meanwhile, gold, silver, platinum, kind of meandering and cryptocurrencies meandering. So the hard assets, store of value assets are meandering. What it tells me is that the drive right now on inflation is not the excess liquidity but shortage of supply. And that is a temporary problem rather than a spiraling problem. I would felt probably different if would see hard assets rallying really hard, really strongly, like store of value assets rallying hard.

Erik: Alex, let's talk about the US dollar next. Ever since I guess it was the middle of November, it seemed like the DXY was kind of hitting pretty strong resistance around 97. Then

we had the recent fed announcement where we saw a spike that only lasted a couple of days with a I guess we call it a fake breakout above 97. Now we're back down almost to 95 as we're speaking on Tuesday, a couple days before this will air. What's going on with the dollar? Also a little earlier, you mentioned a caveat about currencies. What's the caveat? What's going on?

Alex: Well, sometimes I use the dollar to judge where we're in the cycle and sometimes you can by thinking where you're in the cycle, you can form your view on the dollar. So it could be like chicken and egg situation. I was a little befuddled by the dollar. Because in 2020, I took a $1 negative view after pandemic. Money is printed, there will be a lot of cash, it will be good for emerging markets. In my opinion, it would be good for all carry trades, it would be good for precious metals. That's really not what materialized. For a while it actually worked but then in 2021, actually all while stock market kept going up, carry trades were going down, that is emerging markets, currencies, many of them were underperforming a lot of other traits which are structured in a way they deliver carry, including like yield curve trade, or whatever they were all going sideways until 2021. And the central bank's shifted their policy on. For about a year, once precious metals stalled, and the dollar declined stalled. That was kind of normal, that's like 2004. But then the texture really started to change and dollar started to get stronger and precious metals started to meander even more than I thought they would longer than I thought. There's already like a year and a half of meandering, that's a pretty long period.

So I started to have doubts and I switch some of my, I switch the longer dollar stems in my portfolio or at least more balanced stance. And that worked better. With respect to dollar over the last few months. I feel we could be back to the thesis I put up on my first book, the next perfect trade where I really talked about this magic sort of necessity. If US raises rates then certain things have to happen, like dollar will have to outperform in the long run, zero negative yielding currencies if it itself raises rates. There are a couple of caveats going on here. One of them is that they're hawkish stances, and usually synchronized right now in the world, that you could like the widening of interest rate differential between the US and Europe is not that obvious with European rates going higher, dramatically.

Two, there's been a big shift in European interest rate policies, right. So it's more of a synchronized thing than $1 centric rate hikes. And the other thing that a little bit I'm puzzling about usually actually dollar weakens during the tightening cycle. And right now it's strengthening. And it could indicate that could indicate that there is it's kind of counterintuitive because you think when fed over hikes dollars gonna strengthen but towards the end of hiking cycle, it often weakens like in 2018, it actually weakened in the beginning of 2018. And in 2000 to 2006-2007 was actually weakening. And I don't see that I was expecting that kind of thing to happen that maybe it's my timing maybe what's happening right now that Dollar like this is why. So doubting myself, maybe dollar right now strengthens at the beginning of tightening cycle a tightening cycle is gonna go dollar might weaken. And only when Dollar weakened significantly, we will see the end of economic cycle in the US. It's kind of confusing to think through those things I'll be honest.

Erik: Let's bring the stock market into this discussion. Of course after the announcement of the tightening cycle, we saw a nosedive. The market spent I guess it was about a week below the 200-day moving average. That's the first time that's happened since the pandemic and March of 2020. And then we spent a few days getting back up to the 100-day. And now we're sort of in that, you know, zombie land in between the 100 and the 200. Alex, you are definitely a long term big picture thinker. So I don't want to worry about moving averages. How do we interpret what's happening? Is this the beginning of a bear market? Because the tightening cycle and we're headed down to 3000 from here 0r is this temporary and headed back to all time highs?

Alex: it is always very difficult to be negative on the stock market. First of all, because stock market on average goes up. So if you don't know anything about the world, and you'll have to make a casino battle stock market will be up or down in two years. It's much more often up and down. So you should be betting that way. However, I would say honestly, I am probably as bearish as can one be on this. I can be on the stock market, pretty much as bearish as ever, as ever. Yes, there's pretty much no conditions I can imagine that would be more bearish for stock market.

Erik: Well, let me qualify this Alex, because you just wrote a book about "The Trades of March 2020," where obviously there was a big plunge in the market where just said now you're more bearish now than you were then.

Alex: Well, then I was actually bullish, okay. Because I was buying, I was buying all stocks and assets in March 2020. As they were going down, I didn't buy everything at the best possible level. And I will go through some of the logic of that, as it was unfolded in my book as that falls to me. Now. I want to qualify that when I say I'm bearish, that just basically means that I am flat. Because to me being bearish stock market is just staying out waiting to fall so I can buy into it. I don't typically take short positions on stock market, because of the things that I mentioned before about the odds are so skewed against you. When you try to bet against stock market that even when your bias is very bearish, it's probably not a super worthwhile proposition. But let me go through that and throw my thinking in my first book, The next perfect trade. And it's very important when it was written. I think I brought it up on macro voices before this connection, but I'll bring it up again, because it's been insanely good. So the book was written in 2014-2015. And back then I observed a certain pattern that happened to have persisted through the last seven years with incredible faithfulness. And the pattern is the following that the change in 10-year yield over two years is a very good predictor of stock market performance of the following two years. So think about this, there is a time lag there. Ask a simple question, has the 10 year yield fallen over the last two years? and you will know what stock market will do next two years.

So let's go to 2013-2014. That's when I was even starting to think about it. So all this observation was based on the previous pattern, but let's see what happened. taper tantrum rates have risen in 2015-2014. And 2015-2016, we had a stock market correction two years later, and that's totally recession. What have rates done in 2015-2016? they fall quite a bit with Brexit rates being very low in 2016. And for the following two years, we had a really strong stock

market right after US election from 2016 to 2018. Now what happened in 2018, rates have risen considerably, there was a tightening cycle. And what happened from 2018 to 2021? There was a choppy stock market in 2018. And then there was a COVID sell off. How this predicted COVID, I have no idea but almost exactly two years from with this indicator of having of negative yield momentum on 10 years. Stock market hit the lows in 2020. Very close to that what happened in 2020. Now we're going to the trade of March, where I write my book. I am in 2020, I have no idea what's gonna happen to the economy. I have no idea what's gonna happen to the pandemic. I mean, I have some ideas, but I'm not a doctor. And I don't know how to predict those things. I don't know what would be the government responses, the economic responses, what variants will be there. It's so complete uncertainties and hence I coined this term a shield against uncertainty.

What I did know at that point is that it's one way or another. The pandemic will pass and one way or another the central banks will add so much liquidity that it will become excessive, no matter how much drain on liquidity the pandemic will be, they will keep adding and adding liquidity till will be too much of it. I knew those things for a fact. And that informed all my trading and we can discuss some specific examples. So when I'm looking at 2020, the momentum, this interest rate momentum was extremely positive, the rates in 2020 are very much lower than the rates in 2018. So there was no question for me that this was a time to be limit long assets, it didn't really mean like all in stocks, but you had to be in every kind of acid that benefits from liquidity. And that's what I've done in 2020. What I might have not done perfectly well is in 2021, the momentum indicator was still positive, though not as positive in 2020. But I kind of started to reduce my beta positions earlier than I had to, and I probably shifted, not so much in the stock market. But in the carry trades, which performed much worse than stock market, that might have been my mistake, over 2021. But I was still following through on this idea. And right now I'm seeing the momentum that you mentioned, you just spoke about 10 year yield, looking back to the beginning of our conversation, it is higher now than it was two years ago. And guess what, that indicator in the next several months will get more and more negative. So liquidity momentum will be very negative, the yield momentum will be very negative for the following few months. And that bodes for us poor stock market performance or relatively poor stock market performance for the following two years. And I think other things are lining up as well for that, like the earnings momentum, everything is kind of iffy right now.

Erik: Alex, I'm curious about something you said a minute ago, you said that after 2020, you were certain that the central banks around the world, particularly the Fed would provide so much additional liquidity in the form of stimulus that it would be too much. I agree completely. That's been my view as well. But it feels to me like it's at odds with what you said earlier about inflation, that you're not concerned about it turning secular. So what am I missing here?

Alex: Yes, so the difference is, they did probably provide a little too much liquidity by 2020. But what I did not expect them was to turn around so quickly and start taking away that liquidity. So quickly, I was expecting my thinking in 2020 was that they will actually let us too much liquidity to slash about for longer. And that's why I was concerned about inflation. What I was thinking

about is that the recovery from pandemic will be very uneven and there will be sections of populations still hurting, and the raising rates will appear to be uncompassionate. And the reality is that it is kind of weird for them to take away liquidity now. Because if you really think about what is the biggest problem, the biggest problem right now is supply bottlenecks. How are we going to fix supply bottlenecks or raising rates, that's not going to make things cheaper, it's not going to get easier to get aluminum because you raised interest rates. If anything, it's going to get harder because it's harder for new production capacities to develop. So basically, because if you go back to what is actually the problem with inflation. What is wrong, that we'll have inflation? Why is it a bad thing? because we wanted wages to go up for a while. The problem is the immediate problem, the immediate political pressures that people are complaining that it's getting more expensive to buy things, right. And then the Fed says, well, in order to help you to make it easier for you to buy things, we're actually going to take money away from you. So you have even less money to buy things now making it even harder on you to buy things. And now because it'll be harder for you to buy things, you'll buy less things and prices will come down. And eventually it will be easier for you to buy things. I think it's a very convoluted logic and just makes no sense to me. So I think I was really surprised by that. hawkish stance, and not that necessarily, it's wrong, I just feel is intellectually incredibly inconsistent with what they were saying a year ago. I feel like nothing changed. But they are under political pressure. They specifically said what they will do in a situation like now and they're doing the opposite. And that makes no sense to me. But that's the world and I have to adjust to it and I have to trade accordingly. Because that's just the reality of the market.

Erik: Alex, let's talk about gold because it's a subject near and dear to our listeners hearts. And you know, I gotta tell you, I've been listening to the Gold Bug narrative for 20 years. And it basically goes, look what's going to happen. Eventually as the government is going to just, you know, borrow and spend and print too much money, they're going to debase the currency, we're going to get to significantly negative real yields, and the price of gold is going through the roof to the upside. The crazy thing Alex is I think every single one of those predictions has now come true except for the prognosis on the price of gold. What's going on? Was it just a flawed analysis to start with or why don't we see the reaction in gold that so many people expected specifically when things that have already happened, we're going to happen.

Alex: Well, first of all, I have a really good forward answer to you. I wish I knew. That's my cue phrase to answer. I am a little puzzled too. I was never gold bag in the same sense. I never believed in the collapse. Well, it was a concern. But there was a minor concern for me the collapse of fiat currency that like, oh, people will just lose their faith and dollar. I never saw that coming. I didn't think that would come. And people will run into gold. To me gold is just an indication of excess liquidity. And yes, I would probably expect gold to perform a little better in the liquidity storm of 2020. I think what turned out is that people just, instead of running to gold around a whole bunch of other assets, they'll buy real estate, cryptocurrencies, some weird meme stocks, anything to put the dollars in like it was kind of like $1 collapses, and so happening, but gold was not a big beneficiary of it. And I was probably expecting it to do well in 2020. But I was expecting it to do even better. Going forward, I started to have my doubts. Eventually, I was pretty steady on gold. I was like, yeah, it's a cycle. And it doesn't matter, even

whether the Fed tightens or not, doesn't actually matter. Gold around really strongly through the whole tightening cycle from 2002 to 2007. And honestly, I still think that might happen, there is a very good chance of that happening. But I don't have an overwhelming conviction on it right now. Because it just the pattern seems to be different. Maybe we're in a different world, and there's just too many other stores of value. Maybe, because in the end, when people say gold should be higher, like when people start complaining about gold prices. And when you play that lower that sounds like nonsense, to be honest, what goals should be there is no shoot for gold, right? Because the industrial demand for gold is pretty low relative to above ground supply. It's all about like people deciding to buy or sell gold for whatever reasons, they decide more buyers and sellers and it goes up. And I just really don't understand the full dynamics of it. To me, precious metals, were just the bet on precious metals was about good risk/reward. Because if you think like silver is a good example to silver trading, like $20 to $23. Can it go down from here? Of course, it's been as low as like $11 or $12. I think in the crisis of 2020. But can it go to $50? I think very easily. So the risk reward is very good. But this is kind of a situation that you cannot say, I am going to win on the street. And I think that was very specific when I talked about precious metals, trades that precious metals, trades are not about certainty but about risk reward.

Erik: Alex, let's move on to a subject I've heard quite a few smart people start talking about and the thesis goes something like this, it says look, these are people who agree with you by the way that they don't think we're headed back towards much higher interest rates. And I know that your long term bullish bonds, so you expect lower interest rates, what people are saying is, look, there really is a very strong secular argument that we stay at very low interest rates for perhaps a very long time to come. And then the conclusion they draw is that means that bonds particularly treasury bonds, really don't serve the purpose that they used to serve in a 60/40 portfolio because suddenly the return that you get from the actual yield is negligible. And I suppose there's a speculative aspect, if you really think that we're going to move substantially lower in yields from here, but you know, we're starting from a pretty low number, so you can't get too excited about that. So do bonds still have the role that they've always had in the financial system or is this argument that maybe we need to find a replacement for bonds in the portfolio, because it doesn't really do what it used to do back in the day when we had, you know, 6 or 7% Treasury yields? That was the risk free rate these days, you know, you're looking at a negative real yield on treasuries.

Alex: First, I would like to say that I am more thinking not in terms of 60/40 portfolio. But in terms of risk parity, because I'm a hedge fund person. I'm one of the original users of inventors of risk parity. So for me that is the way of thinking. Does bond overlay help your stock portfolio, I'm not thinking of displacing any of your stocks by bonds. I'm thinking of bond futures as being an overlay, which actually allows you to own more risk assets because they provide some cushion for you. That's how I was thinking about this over the past 20 years. I wasn't that concerned about risk parity, as a concept again, a year and a half ago, but because I felt, yeah, the yields has gone to zero. There is a lot of fluff on the stock markets or minor rising. You could have raising yields and still selling off stock market without getting concerned of a stock market sell off and reversing their policy. I think to an extent we did take some of that flat form risk

parity, because at the run way too far in 2020 with yields going almost to zero and stock market rolling and rolling through 2021, I decreased parities back at bonds back because the yields are back. And there is a substantive profit to be made.

When you look at 2% yields, that's at that point, somewhere between 2 or 3%, the bonds become basically symmetric instruments. Once you go to 30 bonds, they can rally 60% in price going from more than 60% and price going from 2% yield to zero yield. And they could rally probably 100% in price going to negative 1% yield, as they've done in some European countries. So if something can rally 100% in price, it can only lose that original value if rates go to infinity and complete default. So they becoming back to being a symmetric instrument, and having some good upside potential. I do think that bonds are more for capital appreciation than for yield as of these days. However, I feel that this situation right now then we took a little bit of fluff of stock market. And we put some yield potential back that allows for various traits, not just risk parity rates, but other trades that I like the trades which are kind of imply well, the market is projecting rates to go up, what else is going to happen when rates go up? Is the market actually… what is going to happen to certain currency crosses? What is going to happen to certain structure traits? if rates go up, what if market is not pricing those, then you could be long bonds or betting on rates to be lower, but at the same time bet on some trades that have to benefit from higher rates. And it might be a little complex or not always available to individual investors. But I think there are those opportunities opening up now that actually higher rates are on the table.

So paradoxically, the Fed being hawkish brings the bond beds back on the table, it also actually brings back the bond bull market on the table. Because as I always talked about the negative predictive power of interest rate futures, the higher interest rates are predicted to be the lower they'll end up being. So the more whenever the market prices, oh, there will be a lot of hikes, that actually means that there'll be less hikes. And conversely, when the market predicted like in 2000, 2021, three to zero forever. Just as now the hikes are predicting the eases in a sense. So I feel like there is game now there to play the games. Having said that, I feel that stock market have run up going back to 64 year old experiment, risk parity, I think the stock market has run up so much that the economy could stay strong, strong based on like the improvement of situations over the low income people for a while yet even the stock market goes down and people who hold assets are hurting a little bit. So that is another what I'm trying to say sorry, I'm maybe not very articulate about this, what I feel like maybe another 10 to 15% of slack and stock market, that stock market can keep going down but that the Fed wouldn't blink. There is that a little bit of cushion there but less than before because on one side stock market corrected on another side fed tightened at least verbally.

Erik: But you do think that we're only about 10 or 15% of downside before the so called fed put kicks in and the Fed basically changes their tune in order to arrest a falling stock market.

Alex: What I think is that the Fed put might have been not immediately the Fed might not change their tune immediately. But I think the economic numbers will start changing their tune and eventually the Fed will take a cue from them, I think the Fed will change that soon as they

need now that's an excuse to change. The stock market is very strong at affecting people's mood. It creates zeitgeist, like, on the days when stock market is down psychologically. It's much easier to believe that we're at the end of the economic cycle that thinks that rolling over well, it might be like a big downturn stock market is 2%. That really changes nothing. But I think we're all familiar with how differently we think on those days on stock market is down 2% on the day is great enough. So, the cover downgraded stock market is creating a mood in the investor world but as well as for the Fed, which will allow them to seize on the opportunity provided by economic numbers to change the medallion stamp but I think they would still need to have some validation other than just stock market. I think in the end, they do want to see like maybe more moderate inflation or weaker employment numbers, it's just a trigger, we'll get much lighter in the environmental stock market sell off

Erik: Alex, as you know, from your previous appearances on MacroVoices. Normally when I get an author on I leave a minute or two at the end of the interview to let them plug their book. In the case of your new book. It's just too interesting for that we're going to give it more time. So I'd like to start by reading the first couple of paragraphs from the introduction of your book.

In March of 2020, a few days after Shelter in Place was ordered in the Bay Area. My wife woke up in the middle of the night when she heard me collapse on the bathroom floor. I didn't quite pass out, but I was experiencing shortness of breath, palpitations, chills, and severe sweating, I was certain I did not have COVID. It was stress. The path that led us to that point in my health and personal life is inseparable from my journey in financial markets. Have you ever wondered what is going on in the command center of a sophisticated hedge fund? Have you ever wanted to be a fly on the wall of a CIOs office when the markets aren't melting down?

I'm gonna end there. But basically, the rest of the book is the blow by blow story of your experience, Alex, basically trading that market through the collapse. And then recovery of 2020. We obviously can't cover the whole book in the interview, but I'm going to give you more than the two minutes, let's shoot for less than 10 minutes, give us the quick thumbnail, abbreviated version of the book, you're on the floor in the bathroom, what happens next and get us from there to you know, the end of the pandemic.

Alex: Well, I was trying to capture in this book, not just the sequence of trades, but also the psychological journey as a trader, like what it is like to manage money when your personal life is getting affected as well. A lot of times macro traders like myself deal with various disasters around the world, there is a war somewhere, there's a famine, there is a shortage of food, there is a shortage of energy, there are some tensions, all of those things factored in into our analysis, but it's usually remote while you're sitting in the comfort of your office. The first time it was shaken really in my personal life was on September 11, when I was in New York, and I had to trade in the days, I had to experience September 11. No I was not directly like downtown, I was in Midtown. But still I had like people I knew Dyer had my personal life deeply affected by that. And then I had to trade the subsequent days. And then of course, COVID pandemic was even more impactful that way. Because you yourself personally going into shutdown, you're worried about your personal health. And at the same time, you have this full responsibility for your

clients to keep running the portfolio because that's what they hired you for. I am a micromanager. They didn't hire me to manage money only when times are good. They actually hired me to manage money when there's a crisis. This is where I'm supposed to outperform. That's what I'm there for. It's like being a Marine. When the war starts, I have to go in. I don't want the water start. But when it happens, that's my job. So I had to go in, but at the same time, I was personally affected. And it was a lot of layers of stress and I wanted to talk about navigating them. What I realized some of the books about trading are written by essentially journalists who often do really excellent job interviewing a variety of traders. Some of those books are very good, like books by Michael Lewis, or Steve drop money, or Gregory Sacrament, or Jack Schwager. And they present lots of interesting perspectives. But those are secondary accounts of people interviewing traders.

Now there are books written by traders, probably alchemy of finance would stand out as one of the most famous ones, but there are many others. And in those books that and even my book, which I think is a good book, my first book, The next perfect trade, it presents my perspective, my views, my reminiscences. But they'll color it by my biases. What I tried here is to give an unbiased perspective on how can I do it by actually giving the exact transcript. It's not how I remember things, but how things exactly happened. Of course, I have a comment that I explained what I was thinking at the moment what was going on through my head, why am I doing this so that but you could see in this book, all the cursing, all their screw ups, all the fumbling, all the kind of little victory celebrations and disappointments that happen to a trader over this intense period. I feel this book is very different that way. Because for an aspiring trader, it's the only way to be like a medical student going into the operating room, as opposed to reading about it. Even if you were working as an intern on a trading floor, you might still have not been private to what's going on in the command center. Then you might haven't get a sense of how people interact and what is the culture but you will not get the water step by step in the process. So I feel like if you are thinking of getting into trading, this book should be a masterpiece. Even if you're not going to trade the products, you are going to understand all the technical jargon of specific contracts, but this will give you an idea, at least one story of what it's like to be in the middle of it. And you have to be prepared to be there yourself if you want to be in financial markets.

Erik: Alex, give us some of the blow by blow. Obviously, you wrote a whole book about this, we've only got about five minutes left. But give us the quick overview. There you are, it's March of 2020. You know, how do you approach this, you know, that these assets are going up eventually, but you're not sure how far down they're gonna go first. And especially if you're trading with leverage, you got to be really careful. You're a hedge fund manager, not a private investor. So you care a whole lot about what that Tear Sheet looks like. Anything bigger than 5% down at one month, even when there is a crisis going on, raises eyebrows. So you know, how do you deal with this when it would be tempting probably to take a lot of risk and just say, I'll write it out. But you got to think about your returns. How do you take this home? What was your experience like?

Alex: Well, you pointed out a very important issue, navigating the leverage in March 2020 was a very difficult task. And I break them because of that kind of issue and the difficulty of navigating it, I broke the month into four parts. And the first week I call victory parade. Because what happened is I was well positioned for the crisis. And I discussed in detail why I had positions that already working for me in 2019. And they continued to work. I started the year well, in the beginning of March, it was not yet happening to us, there was a pandemic, but it was not still felt so close and personal. And it was just kind of beginning there. And the portfolio was making a lot of money because of our leveraged bets on lower interest rates because of the options we bought. And some of them were essentially free options, some of the very cheap options on rates going lower. And as that started, emergency rate cuts were really raking in cash. And then at that time I started to buy assets, I started to really say like, oh, stock market is going down, where what are my picks, what do I want to own, I started to take profits in my interest rate bets and buy assets.

And then my second week I call the loss of innocence. That's a chapter in my book I called The loss of innocence. What it means is that's a time when we realized well things such as it's not just the little plant in stock markets, this is a much deeper problem. And it actually affects us personally, I'm going to be personally affected, I'm going to personally probably going to be locked down and worry about my personal health and health of people around me and this is serious, and things are not necessarily going to go the way you expect. Dollar was weakening till March 9 and dollar started to strengthen, because the liquidity started to get in real shortage. And this is where I had to start thinking about this idea of a pandemic will pass and liquidity will stay. But how soon the Fed would provide liquidity was not clear. And this is where things started to get a little shaky.

And the third week I call the dark days. That's when the stock market hit its bottom when its liquidity got the worst. And the most the sense that I really tried to turn away on the book. And the sense I remember from those days is a sense of dread, deep existential dread, not that the world will end and everyone will die from COVID. I'm talking about this on portfolio stands, what I was worried about that all liquidity, all margins, all leverage will run out that I will do my balance sheet will be taken away and I won't be able to do anything. I had that fear. And that is I accumulated trades, which were already betting on recovery, they were continuing to go down and my portfolio flipped from going really strongly in the beginning of March to actually losing money in March, I was still up money on the year. But paradoxically, I was beginning to feel margin pressure on cash shortages everywhere. Because the margin requirements were going up the liquidity was getting tied in and I had to really start thinking how do I navigate risk in this environment.

And then of course, I call the last week of March, the age of wonder, which is when things really rebounded so sharply with liquidity when the Fed liquidity at last came through, and we started to make money again. And I think if you read this book, you'll see this kind of blow by blow thought process of being scared managing and trying to stay rational, trying to see what is certain and what is uncertain. What we really don't know about it and let them go and what things have to eventually recover and we'll focus risk there. And how do we keep risk at the

stage at the level that we don't blow up, how sometimes you have to reverse the trades, which didn't give up on them because there was just no certainty and no risk space to do those. That is all reality with realities of traders existence.

Erik: Well, Alex, I want to compliment you because I think you're on the right track telling the story this way, because I know from my own experience, I was absolutely certain when I started very aggressively selling crude oil futures and I sold as many as I dared to. And when I just didn't dare sell anymore, I started buying puts on crude oil futures. So I had a slightly more risk limited way to get even more short. And I began all of that aggressive selling on January 28 of 2020. And for the entire month of February, I was just sitting thinking oh, my gosh, nobody else sees this, I must be the dummy in this story because the market for the whole month of February did nothing but melt up. Crude Oil Futures just kept going up. As CNBC told the whole world that it's just the flu, and there's nothing to worry about. And I seriously considered exiting all my positions, even though I was so sure that I was right. I almost bailed out just because it felt like, wait a minute, you know, I can't possibly be the only guy in the world who's figured this out. And nobody else seems to see it. The markets not doing it. I must be wrong. Well, needless to say, I wasn't wrong. But I almost got scared out of it. Was there ever a moment like that for you? Where you had it right, but the market wasn't doing what you expected. And that stress of, you know you're passed out on the bathroom floor, and you're worried about your own health and friends of yours are dying. I mean, it was a very stressful time for all of us. I got COVID on March 1, myself, I still had all of these big open positions. And I'm thinking, the markets not doing what it's supposed to be doing. And I've got this thing myself. Do you have any experiences like that?

Alex: Honestly, I was a little lucky from that perspective. And like, it's not really luck. It's more like about my long term discipline for crisis preparedness. I make an analogy of this book with poker play, if you start the game winning, it's much easier to make decisions, good decisions afterwards. Like that's why many poker players do the opposite of what they should be doing when they lose money. They keep playing trying to make the money back. And when they're winning money, they kind of quit and take the winnings. I've learned long ago to do the opposite. When I'm winning in a poker session, I keep playing and playing. When I'm losing, I just got it very quickly. Back in the days when I used to play poker. So when you start with a win, it's much easier to think clearly. So I think I was not super concerned about being wrong in March 2020. But I was petrified of just losing the capital and losing liquidity that worried me much more than being wrong.

To be honest. At that moment, I was worried about mechanical failure of my found much more than the failure of my market views. And I think that has been generally my theme in the past. When I went in drawdown in 2018. I had a drawdown and I talked to some my investors and my investors like how certain of my themes. And I said and I told them, I'm fairly certain of my themes. And if I do fail in my current intention, probably 80% chance that I will fail it because I didn't manage risk well, and 20% because I was wrong about my views. So I think I was still that way in 2020. I was much more worried about not managing my capital well and my risk well on my liquidity. And I was worried about being wrong about the market. I really didn't. I was not too

concerned about for example, the idea that stock market would eventually go up and assets will eventually go up that seemed to be a fairly sudden likelihood.

Erik: Well, Alex, I can't thank you enough for a terrific interview. Listeners, the book is called ''The Trades of March 2020, A Shield Against Uncertainty'' It's available now in both Kindle and paperback on Amazon and through other booksellers. And of course, it is a Wall Street Journal bestseller. Patrick Ceresna and I will be back as MacroVoices continues right after this message from our sponsor.