

Talks at GS
Cliff Asness
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AQR Capital Management
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Cliff Asness: If you love something, just do it and you might be early. But if a big part of why you're doing it is it's the thing everyone wants to be doing now, I think you're going to be three to five years late. So pick something that the world needs that you find interesting.

Sharmin Mossavar-Rahmani: Hello, everyone, and welcome to Talks at GS. I'm Sharmin Mossavar-Rahmani, the head of the investment strategy group and chief investment officer for the consumer and wealth management division. It is my great, great, great, great pleasure to welcome Cliff Asness.

Cliff Asness: Welcome back.

Sharmin Mossavar-Rahmani: Yes, welcome back. I should have said that. Did somebody want to clap for him? We can do that. Cliff is the founder, the managing

principal --

Cliff Asness: I think that's what we call it.

Sharmin Mossavar-Rahmani: -- and the chief investment officer for AQR Capital Management, a quantitative investment strategy firm started in the late '90s, 1997/98, when he left Goldman Sachs. Cliff has been a wonderful colleague as well. We worked together very closely for a number of years. We started something called strategic partnerships that became the foundation for what eventually became GPS, the portfolio solutions group, in GSAM asset management and then is now called multi-asset solution.

And what was incredible is, because of the overlay strategies that Cliff had, we had phenomenal performance. We outperformed our peers by 5% a year for several years. Like, we left everybody in the dust.

Cliff Asness: It doesn't always work.

Sharmin Mossavar-Rahmani: So Cliff, tell us a little bit about your firm, Quantitative Strategies. You have long and long shorts.

Cliff Asness: Sure.

Sharmin Mossavar-Rahmani: What are the key pillars of your investment strategy?

Cliff Asness: At a very big level, I often call it applied academia, which I think both those words are important. We think our research is pretty academic quality, but academic papers don't really care about making money. They don't care about transaction cost. They don't even care if it's necessarily data mined and won't repeat because they get the paper. And then they're kind of done.

So applied means you actually have to live with the strategies and they actually have to make money, as opposed to just getting something published. That adds up to some key investment principles. This will shock no one in the room who's followed any of the Quantitative literature, but the basic things we do -- and we do a lot more than this these days -- but the basic things are we like things that look cheap versus things we think are comparable to them. We like things that are getting better both in terms of price and fundamentals. We like more

profitable things. We like lower beta things. We like higher carry.

Again, I'm telling no secrets. This is the Quantitative literature. You add it all up, we always say quant, quant, quant. I don't think it's that different than what I hope -- I'm bragging for me and for this hypothetical manager -- that a good active manager is looking for. You know, something at a reasonable price that's not too risky that is actually making money. Colleagues wrote a paper a few years ago showing that a bunch of our factors do a fairly good job of explaining Warren Buffet's returns over time. We were very careful in this paper to go back he was doing it for 30 or 40 years before the Quant literature started. We're not implying he was a closet Quant. But you can explain a lot of his returns by the fact that he looks for cheap, profitable, low beta stocks.

And then the other thing he did was, when they go down 70%, he never, ever, ever backed off. That's much harder than finding good factors. But those basic ones. And then we just apply them again and again. And again, there are a lot of other smaller weighted factors that are more esoteric. We kept doing research for the last 20 years. But

the basics are just I think basic good investing where a traditional manager might look for the same things but are looking for the 22 best stocks that fit that. Their advantage is they can look at the actual companies, right? They can learn more about a company than we learn. Their disadvantage is they really better be right because we're betting on the overall phenomenon occurring, not an individual name.

Sharmin Mossavar-Rahmani: And Cliff, you do both long only and long short. Why both? And you've been a proponent of lower fees. If you could just charge hedge fund-like fees, why have lower fees?

Cliff Asness: Why both? Well, the short answer is for money. They both pay us. I'll give the longer answer though. By the way, when I did it at Goldman Sachs with you and going back to '95, we ran both here. We ran long only beat the benchmark traditional in a quant style. When I say "traditional," I just mean that the way the mandate is set up. And we ran actually quite aggressive long short portfolios.

The really short answer, the honest short answer is we've

never seen them as nearly as different as much of the world perceives them. If you have an indicator of expected returns, these things have a higher expected return than these, they may be individual stocks, they may be markets, it's probably easier as a quant to do this. It's a little hard to get your head around if you're a more traditional manager. But you can construct a long short portfolio where you're long the higher expected returns, short the lower expected rerun. Or you can construct a long-only portfolio where you're over and underweight.

So early on, we realized we could do both. You mentioned fees. For one thing, the fees are not as different as people think, particularly with hedge fund fees coming down over time, something I think we've at least helped bring about. Because people look at anyone, aside from a few of the micro capacity funds that won't actually take your money, it's really charging two and twenty anymore. But if you take very high hedge fund fees, they're often much more aggressive with no market exposure. Well, actually, they have some market exposure, which they shouldn't but that's a separate story.

In the long-only world, you're often taking a third the risk

in terms of tracking error. And that means it's basically using a capacity at a third, sometimes at a quarter the level. In a fair world, that should be a third to a quarter the fee. It's not precise. The markets change. Sometimes one is more than the other. But they're closer than you think.

I will say no client has infinite patience. I know because I've tested them for near infinity at times. But in the long-only world, I think they do take a longer term aspect. Once you call something an absolute return fund or a hedge fund or a market neutral fund, for some reason that does not jibe with any of the data, not just AQR. People think it just always goes up. And that clientele tends to be a little more short term. So having that balance is also good.

But fees, yeah, we started out charging hedge fund fees. And there are still a couple products at AQR that are basically doing every strategy we do at a very aggressive level that will at least approach those fees. They don't quite get there. But somewhere about ten years into it -- so in the mid aughts -- we had kind of a weird moment where we were like some of the things we do we think are pretty proprietary but that's admittedly not the bulk. The

bulk is getting exposure to strategies that the world knows about, and we think we do that very well. That doesn't mean everybody is as good at getting that.

But when you realize that, let's make it ridiculous. This is not a long-term product. But you're doing a simple long short value strategy. You have your favorite value metrics. You went long some, short some. They're not that different than the rest of the world's, even though you love yours the best. The idea that that should be two and twenty in a competitive market, even if you get that for a while, it won't last.

So we made a move to start pricing things that we call style exposures. I don't think we made up the term, but we co-opted it. It's somewhere in between. It's not a passive portfolio, but it's not true alpha in the sense of, like, only one person knows and inside only one person knows. And we said that should sell. We think that's great stuff. We still think it has a positive contribution to the portfolio, but it should sell at a considerably lower fee than true alpha, which you can only get from one place.

And we kind of did that to ourselves. I love when long-term

greed and ethics, as they often do, both agree because I think it was the ethical thing to do but it's long-term greedy. If you charge people two and twenty and your real risk-adjusted return is a 0.65% sharp ratio uncorrelated to the markets, for the fellow geeks in the room, there's no portfolio in the room that wouldn't want a little bit of that added to it. It goes through horrible periods.

And when people pay two and twenty, they tend to think it goes up every week, maybe every day, maybe intraday. So it's not long-term greedy to overcharge. If you think you have something real, you want to get to do it for 30 years. If you don't think you have something real, charge as much as you can and go when the getting's good. This is not my plan and I'm not advocating this. I'm just saying that would be the profit maximizing strategy.

But if you believe in what you're doing, you want to do it at your firm maybe forever. So I think it was just the right call, but we did kind of cut our own fees, which was weird at the time.

Sharmin Mossavar-Rahmani: Cliff, you mentioned going through tough times. Obviously you've been through a lot

of market cycles. You're now going one of the --

Cliff Asness: I'm actually 29 years old. I look like this from markets.

Sharmin Mossavar-Rahmani: How encouraging for them. Cliff, through the various cycles you've been, you're obviously now in a very up cycle in a market that's now 20% roughly for equities, bonds down 5-10%, depending on what you're looking at. Your strategies are up somewhere around 20 and the highest around in the mid 50s, up 50-plus percent. What is actually driving that?

Cliff Asness: Well, this year there are really two main drivers. The value factor, which I just wrote a blog piece on this, that we go through 10-, 15-year periods where we hardly talk about the value factor. It's one of many factors. We trade. We go through long periods that were actually zero to negatively correlated with a standalone pure value strategy just because the other factors we believe in maybe are going the other way.

And then once every 20 years so far -- it's the tech bubble and then from '18 through now -- we initially -- and both

have worked out the same, though this one is still early in the recovery -- value goes totally mad. So even at a decent weight, we suddenly are value managers. We analyze do we think we're right? And we're really willing to switch the position if we decide we just miss something. And if we think we're right, I'm going to steal an acronym I learned when I accidentally antagonized the meme stock people. We hold on for dear life. They like to write HODL.

But it's an oversimplification to say it's just the macro environment. Values started coming back. You know, everyone thinks it's interest rates. And I have huge almost schizophrenia over that. Some of it is. You know, the plausible story that perhaps these very expensive versus cheap giant gulfs were rational because interest rates were so low. And the expensive have longer dated cash flows. I don't like the term "growth stocks" because they're not always growing more. I like "expensive." But the idea of them is that they're going to grow more, so maybe lower interest rates matters more for them.

There are problems with that theory. One, if you look at big portfolios, diversified portfolios of cheap and expensive, the growth differentials are actually pretty small.

Expensive outgrows cheap for about the next two years and usually not by enough to justify the price. So that duration argument is actually not that strong. And if you look over 50 years of data, they're virtually uncorrelated.

Over the last 5-7 years, the value trade has been very correlated to interest rates. And I actually think that's probably a mistake, but it doesn't matter, right? You learn quickly in this business that what you think doesn't change what's happening. So I do think the interest rates heading back up has been a partial catalyst.

I say “partial” because values started to recover in late 2020, well before we saw the spike in interest rates, but I think it certainly goosed it, even though I don't think it really should be the catalyst. The other thing, a big product line for us is trend following strategies. We think of these as very different. In most of what we're doing, we're trying to create, within the constraints of what the client has asked us, to do the highest risk-adjusted return.

Trend following strategies are trying to create something that, on average, does well in really bad times and doesn't cost you a ton. And trends seem to have that property.

Regular long short doesn't necessarily have that property. It's market neutral. Some good times. Trend following has been really good. It's not the same as buying a put. Buying a put always works if the market crashes. Trend following usually works. "Usually" is not as good as "always." Write that down.

But our belief is buying insurance in the form of a put forever is a very large negative expected return strategy, and trend following is a modest positive expected return. So it's imperfect protection but with a negative cost, not a positive one. And that's been going like gangbusters, too. Essentially, the change from interest rates will be negative forever to the world we're in now, like anything for trends, trend following certainly far from always works. If the world changed on a dime, trend following misses it, right? Trend following needs a trend to follow.

But we've seen a year and a half of the world transitioning and transitioning to this, so it's been quite kind to us.

Sharmin Mossavar-Rahmani: And how long do you think these two factors will help?

Cliff Asness: Well, I am really bad at timing, and I have tried to time. Some of these factors we believe on average pay, but we kind of have no idea when they'll be. You know, a perfect factor might be something that 60% of the month is up, 40% is down and it's symmetrical. And if someone's just flipping a coin, that's uncorrelated to everything. But I wrote a piece at the end of '19 saying we think timing is a sin, and we think it's time to sin a little. I like the phrase "sin a little." I think it should be applied to all facets of life.

I then wrote a piece about six months later with the title "No Sin Has Ever Been Punished This Viciously and This Quickly." Because a little thing happened called COVID. COVID, combined with the world deciding that value stocks would be destroyed, they'd never make money again, and you only needed to own Zoom. That turned out not to be true, even in the fundamentals for value. And, you know, we don't really forecast at that level, but we didn't think it was true. But the returns are the returns. People didn't want any cheap stocks, so they took that spread that we track to well north of the tech bubble.

So I did admit. I said "do a little." Timing is hard. But I

still think back then and I still think even now the value strategy, it's very hard for me to imagine on a multi-year horizon. A typical portfolio for us may be 750 stocks long, 750 stocks short, selling at now back to merely the tech bubble level craziness. It has come off the 2020 high. And I think eventually we'll see that get back to somewhere near historical norm. I don't know if we'll get all the way back. If you're a Jeremy Grantham fan, he says, "You always don't go back; you go through." And that is what happened in 2002.

The tech bubble saw the spread go to what we thought was the highest we'd ever see. Remember that error I made? And then it came back to well below median because we also believe in momentum. Once it got back to normal, nobody wanted the expensive stuff. So that I view as windfall profits. I don't really count on that. But getting back to somewhere near normal, I would guess it'll be a multi-year process. That guess is based on how it's looked in the past, so my prediction would be two/three years of above normal returns. And then we'll go back to not looking like we're especially a value-oriented firm.

But, hey, if it happened next Tuesday, that would be a bit

of a crazy day. But I can't swear it won't happen. I can only give you my best guess.

Sharmin Mossavar-Rahmani: Cliff, you've also gone through some pretty rough patches. If we look at the track record, there was one window down about 39%. Another window with your longest standing strategy down a little bit over 50. And then before this recovery, down about 33%. So how do you actually manage through those?

Cliff Asness: Oh, man.

Sharmin Mossavar-Rahmani: Your people, keep them focused, keep yourself focused and motivated.

Cliff Asness: Sure.

Sharmin Mossavar-Rahmani: Not break any computers. I've never seen you do that, but they say you've done it. I don't know what --

Cliff Asness: Well, first of all, it's monitors, not computers.

Sharmin Mossavar-Rahmani: Sorry! Okay.

Cliff Asness: Monitors are expensive, but they're not expensive as computers. I haven't done it in a number of years. The strategy you're talking about, I've often said -- I love it. Of all of our strategies, you won't be shocked, I'm invested in many of them. Many of them the partners start, and then we kind of pledge that we'll keep them for a certain amount of time.

But any discretionary money of mine that I have not pledged in a certain way is in the same fund. It is a very high volatility by design fund. It's not quite as crazy as we started, but when we started in '98, it was designed to be market neutral and target low 20s in volatility. So considerably north of average stock vol.

And like everything else, sometimes stocks are more volatile than that, and sometimes we are, too. The downs we've experienced -- we've had triple digit up years. The downs we've experienced are really not disproportionate to the vol we take. But I did learn the hard way, in our road show -- this is 1998. Me and your friend David Kabiller [sp?] are out there -- another former Goldman person, a co-founder with me of AQR along with two others. We're out

there talking about this. Maybe a third of the clients said, “You know, we love what you're doing.” I'm leaving out the ones who didn't love it.

A third of the ones who loved it said, “But we don't need 23% annual vol shooting for 50% returns. We'll take half or a third of that.” And I very glibly, as you can probably imagine right now, said every time, “Oh, yeah, yeah, you want a third of the vol? We'll do that. Give us a third of the money.” I will never admit to the math being wrong because it's not. You give someone a third of the money, you have a third of the upside, a third of the risk, and it's completely fair because you're charging a third of the fee, right?

What's unfair is when sometimes successful managers bring their vol down over time and keep the fees the same. Then they're essentially charging more. So I thought that was the perfect solution. It didn't work. We had the first down 39, like you quote, was right out of the gate. We had a good first month. If anyone's a student of history, this is an old one even for me. It was the very beginning of AQR. It was 24 years ago. But our first month was August of '98, when Russia defaulted and LTCM began its meltdown.

And we were up decently that first month and would have been up a lot -- we were quite bitter about this, but it's hard to get invested fully on minute one. We launched August 3rd.

The next 18 months were that 39% disaster. And it turned out that my -- “Well, you could give us a third of the money,” even if they do that, it still says down 39%. And I thought everyone in the world was a quant geek like me and would go, “Well, it's a 2.3 standard deviation event.” No, people actually care when you lose them 40% of their money. That may strike you all as staggeringly obvious. It's funny I say it. They actually shouldn't. They should care about the statistical event. If you say you're taking 23% vol and you're down 40, that's a lot different than if you said you're taking 3% vol at a super safe fund and you're down 40. That's a blow up.

What happened to us was a really bad period, but I got religion after that. Basically, within reason, if something's totally crazy or not in their interest we'll object. But basically when it comes to vol or any issue of product design, we'll do what a client wants. I discovered if you let them be part of the choice, they also buy into it a little bit

more. If you offer half, third, whatever, of the vol and they choose the more aggressive one, there's a positive psychology there because they have participated in that. They have consciously said, "I know this is going to be a wild ride. I'm in. Hopefully, it'll end well." So, you know, live and learn.

Sharmin Mossavar-Rahmani: Cliff, what do you do so that clients don't leave at the worst time? We find it very difficult with all managers. They leave on the down said and don't participate in the recovery.

Cliff Asness: Well, a bunch of them left at the wrong time. You very nicely said we're a hundred and change million -- billion -- million would be very small for an asset manager.

Sharmin Mossavar-Rahmani: 100 billion, yes.

Cliff Asness: I'm doing a reverse Dr. Evil. But we were about a \$200 billion firm a while ago. A lot of that is now markets dropping, which, like everyone else, if half your assets are long only and they go down 25%, you go down. But we did get a lot of redemptions. And a lot of them, as you say, pretty much held on until the exact wrong time to

change.

I think that's not a coincidence. I think turn arounds -- and I can't prove this formally. I have not figured out a good quant study for this. But when something crazy turns around, it has to have something to do with when the last people who can take it bail on it. What we do to try to combat it -- and on net, given our business we're in -- and we have a performance chasing business. Much more than it should be. It's not in the clients' interests, not just to be whining, though I am whining. But I think we do actually net well in that we're fully open book. This is what we're betting on. If you liked it before, this is what happened to value and this is where value spreads are now.

So there are days I come in and I go, "I can't believe we lost any clients when the only reason we lost money was this value spread exploded, and we're showing it to them and we've seen it come back before." And there are days I come in and go, "I can't believe we've retained any clients, considering how painful it was."

To be fair -- and I've thought a lot about this. Sometimes this is how I get through a tough evening is, if this wasn't

so hard to stick with, it would in fact get arbitrated away. Most common question I got asked prior to 2018 when things were only wonderful for us for a decade was, "All right, you guys have been great, but why isn't this all arbitrated away?" And I didn't expect '18 though '20. I certainly didn't expect COVID. That would have been rather heroic of me to have forecast that. But I would say, "I've experienced the downside. It is way harder to stick with. Therefore, it is way harder to really arbitrage away."

So there is a right side. It makes for an excruciating life because you have to be the one who can stick with this, but that's probably why the premium exists. If it wasn't so hard to stick with and if you weren't the one who could maintain that, then it would be easy and everyone would do it and it would go away. And so that's how I get through an evening occasionally. I tell myself that.

You know my wife Laurel. This was during the tech bubble. This is late '99. We had just gotten married. As an aside, I've stopped doing this because I've had worse years since then. But occasionally I referred 1999 as the worst year of my life because we had that horrific start in '99, and she would occasionally go, "We did get married."

I'm, like, well, there were good days!

But very akin to the story I just told you, we were sitting around and I said something probably with a fair amount of expletives about how crazy the world is and it's killing us that people keep buying these worthless companies. And she just said -- she only said this, one sentence, "I thought you make your money because people make some errors." And she didn't do the rest but she could have because the rest is, "And now you're whining the errors are too big. So what you really want is the world to make errors or else active managers don't have a whole lot to do. And quants are active managers in that sense. You want people to make errors. You just want them to realize their error 11 minutes after you put the position on and apologize would be nice, too. An apology would be good, also."

It doesn't work that way. So it tests us. It pushes us. We try very hard to keep an open mind. A lot of my writing for a few years -- finally it's slowed down -- has been defending value. But I hope people look at our stuff and go, "He's not starting out defending value. He's asking the Sharmin Mossavar-Rahmani: Is this a plausible story that these prices are now rational and will be here forever?" If the

answer ends up being no, then we join our meme stock friends and we hold on for dear life.

Sharmin Mossavar-Rahmani: When you think about alpha generation, the goal of all the investment community, it has been declining. You can even look at top quartile, long-only managers and over a 10-year window they haven't produced any alpha. Hedge funds decreasing significantly. And less in private equity. When you look forward five years, ten years, how do you think of the alpha out there in aggregate?

Cliff Asness: I start out even a little more pessimistic than what you just said. I still accept the Bill Sharp math that the average alpha is always zero. When you say the top quartile is going down, the spread might be going down but it still has to add up to zero. We live -- and when I say "we," I don't mean us. I mean GSAM, I mean anyone who does investment management. In an inherently arrogant business where, if you're being honest, you believe two things. You can't dispute the math that the average manager doesn't outperform. You believe you can outperform. And our stories are why we think people make these errors, that it's worked over time. But I don't think

that's really ever changed.

There are some places like private equity where -- I'm going to get in trouble being too mean about private equity -- but I think there's been serious deterioration there. And I've written about this. I think it is a worthwhile asset class. The investing world needs it. There are companies that just fit that aren't public, that fit in that niche. I think 25 years ago, it was mainly bought for returns. I think a tremendous amount of people are buying it to smooth the appearance of returns now.

And the way I put it, illiquidity, which leads to this, illiquidity means you can't sell at a bad time. That's actually a good property long term, though it might not feel like a good one. And it means you don't get to see every up and down. Every theory, that's a bad thing. And academics look for the illiquidity premium. Do you get paid more?

If people start to actually value illiquidity perhaps for very rational reasons, because it makes us better investors. I know a lot of people, a lot of institutional investors will agree with this and go, "It's still a good trade off," because

the smoother returns, I don't have to report them to other people. And they're the people who will panic and make me sell. And I can't sell anyway except at a giant discount in the secondary market. And I totally accept that, though I look and I go, "Then how come you have to look at us every day?" I do want the private equity deal. A lot of what I say about that is admittedly just professional jealousy.

If we had their deal, all those tough periods you talk about, they never really happened. A third of them happened as we marked some things down. Then we made more than all of it back and just, you know, went down the -- as they say in *1984* -- the memory hole.

Sharmin Mossavar-Rahmani: Cliff, in one of your recent webinars from your team, you had a gentleman talking about how the 60/40 model will probably have less returns. So understandable with equity valuations and with bonds where they are. And your recommendation was to do various long short strategies. What percent should people put in these types of strategies in general? Again, generic. Not just AQR but generically.

Cliff Asness: She's asking me for specific questions.

Everything is a question of risk tolerance, right? At the current level of long-term expected returns on markets versus where I think some -- and this is self-serving because long short and what we do. He probably also mentioned trend following. That's another thing we believe can help, which is very related but not exactly the same.

We certainly think people should have some. We think they always should have some because they're diversifying sources of return. That's always a good thing. Stock prices, as much as it feels like we're in the middle of a terrible bear market, are still quite high compared to fundamentals versus history. And bond yields, as much as it feels like they've traded off a ton -- they have traded off a fair amount, but they are still very low versus history.

So it's not a very big leap. People don't like to deal with the consequences. To go with a diversified portfolio of stocks and bonds, this doesn't mean time the market, by the way. If you try to time the market and sell because it's expensive versus history, expensive can mean it just makes less than normal for a long period. It doesn't have to crash.

You know what happens if you short something that makes

less than normal for a long period? You lose money. You don't get credit for it. You lose less than you would normally lose, which is very hard to spin as a positive. So we do think there's always a role for some of these factors. Unless we one day get to a world where you say finally people have gotten to the point where they are arbitraging these away, I will give up. I'll give up on value if the same value spread that I love to babble about ever goes to unprecedentedly low -- meaning differences across companies are very, very small -- and stays there for years. I'll say, you know, the good times are up. They weren't always good times. The long-term good times are up. People have figured it out.

Barring that, I think you always should have some. I think you should have more now, but I can't be any more specific because one client could put 50% in and be able to stick with that. Another, if they put that much in and markets go up next month and this thing goes down, it's going to reverse it immediately. So the final answer is client specific.

Sharmin Mossavar-Rahmani: Cliff, as you think about the business and how our business is evolving, that goes a

little bit to that passive versus active, do you think that the universe of long-only managers will actually shrink? It's surprising it hasn't yet.

Cliff Asness: I think it will. I am kind of with Jack on this, not his precise 75%. I am a defender of active management in the sense that one of the great strengths of our economy is an active capital market that, even if I think goes crazy occasionally, is much better at setting prices than a committee of nine of us. Markets on average work, even if I don't think they are as perfect as when I was at the University of Chicago.

But it is probably the case -- and some people have tried to formalize this -- but it is probably the case that we don't need quite as many people trying to figure out exactly what's rich and cheap. But we need some. If we have none, you get that undefined market and prices get disconnected from reality. But my best guess is we don't need as many. I hope it's the non-quants that go, but it could be me.

Sharmin Mossavar-Rahmani: Cliff, in 2018, you gave an interview and talked about a non-normal moment. What

does that exactly mean? And you said we're going to have one --

Cliff Asness: This is a non-normal moment.

Sharmin Mossavar-Rahmani: So let me tell you, every day when I work with Cliff there's always something I learned, and he always had something funny and clever to say. Is that a fair assessment?

Cliff Asness: She's leaving out the, "And he always annoyed me."

Sharmin Mossavar-Rahmani: No, that is not true. That is not true.

Cliff Asness: I think was channeling Nassim Taleb on here, which I have also had some big fights with, which is a separate discussion. But he's right about this. He wrote his book, *The Black Swan*, and he got actually very lucky with the timing because he wrote a book correctly saying big, quote, non-normal -- you know, if you think the world is normally distributed, you don't see nine standard deviation events, and we seem to see them. At the short

term, we see them way too frequently. We even see some long-term ones.

So his whole book is saying people should realize that there is this. And he wrote it, like, an hour and a half before the GFC. I think he would readily admit this. He didn't say the GFC's coming. He just said at some point something terrible is going to happen.

I was two years earlier or else I could take credit for COVID. If I had actually, like, publicly said that in early February of 2020, having no knowledge, and then COVID hit, I'd be the new Nassim Taleb on those things. So missed it by that much.

But I agree with Nassim. Crazy big stuff happens. It's okay to use things like the normal distribution as long as you never forget that it is an approximation to reality and sometimes a very bad approximation. You have to think about the worst cases. You could certainly argue that COVID was an example. The meme stock craze was an example of a non-normal event. I can't decide about now. I think everybody has the arrogance to think they're living through unique times, including me. It's always like, "No

one's ever experienced this before.”

If anything, today, it's certainly painful to get there, but I think what we've been experiencing for the last 6-12 months is a return towards normalcy. You know, positive interest rates. Spreads between cheap and expensive, still very high but not being astronomically high. And that involves a lot of pain for some people, but that's not abnormal. What's abnormal is probably the ten years after the GFC with very, very cheap money and virtually any strategy long doing well without a lot of very bad hiccups.

I mean, the things we look back and call “painful” over that 10-year period you laugh at now.

Sharmin Mossavar-Rahmani: On a relative basis. You made a reference to meme stocks. How do you think about the cryptocurrency market? Do you think it's an investment asset class? Or is it a speculative trading asset class?

Cliff Asness: Let me disclose. I own a rather trivial amount, but, you know, if my friends who love crypto are right, I can't live in a world. I'm out of investment where I

don't actually own a little bit. It's not a very well thought out position. I usually like to be the details guy, but I've resorted to polling a lot of friends who I think very highly of.

And I will say this. Of my geekier friends who've really looked at it hard, they're very divided. Like, half think it's a Ponzi scheme. And half think we'll all be using defi in ten years and there won't be any regular money, which is why you might want to own a tiny, tiny amount.

I will say this. This is soft analysis. Everybody on Earth who I consider pushing the kind of huckstery, scammy side of the world loves crypto. And that is not the way to invest. I think it has to be called speculative now because I think it only makes sense in the sense that I'm doing it. That's a pure speculation. I don't have an investment thesis. I don't have a valuation model. I have a tiny speculative position in case it dominates the entire Earth. But I would guess the preponderance of the probability is we're still using regular money.

For one thing, governments don't like competitors, and we'll see what happens there. But they still have a lot of

levers to pull.

Sharmin Mossavar-Rahmani: Cliff, you've been in Goldman Sachs for a number of years now, on the outside for a long time. I've asked our colleagues in the global markets division about your relationship with Goldman, and they speak very highly of it. That we're among your top counterparties.

Cliff Asness: Yeah, absolutely.

Sharmin Mossavar-Rahmani: On an absolute basis and on a relative basis, compared to other institutions, how do you think about Goldman Sachs? What stands out about the firm, the people?

Cliff Asness: When I joined Goldman -- and it's amazing how it maintains over the years, the multiple generations and turnover -- I still think that Goldman is the class act of Wall Street. It's probably, of the big firms -- not comparing to AQR, let's be serious -- but it's the best place to spend your whole career. And it's the best place to learn a lot and go do something else from. And I don't think that's changed in the getting near 30 years I've been in this

industry.

Sharmin Mossavar-Rahmani: What's the advice you would give colleagues, both in terms of their careers as well as work-life balance?

Cliff Asness: No credibility on that latter one. I get asked this a lot, and I still don't have a great one-liner answer. But I think the best advice I can give them is maybe a little different. And this maybe goes with my curmudgeonly value attitude is be really careful you're not shifting your career to chase the hot thing. I particularly tell this to students like in a business school. We've all seen this. For five years, it's investment banking and then it's hedge funds and then it's consulting and then it's crypto.

If you love something, just do it and you might be early. But if a big part of why you're doing it is it's the thing everyone wants to be doing now, I think you're going to be three to five years late. So pick something that the world needs, that you find interesting. I'm not a "find your bliss" guy. Find your bliss elsewhere. If your bliss happens to be factor analysis, that's great. But I don't believe in doing something you don't like. So find something that you find

interesting that the world needs, and you'll do well.

Chasing the hot thing is -- you know, these are all really smart people. I'm doing that as a statistical comment. I expect you're all really smart. I don't actually know that. So they'll recover from mistakes. But you can set your career back three, five years if you chase the hot thing and it fizzles.

Sharmin Mossavar-Rahmani: Cliff, any of your twins choosing to follow in your footsteps, do finance?

Cliff Asness: I doubt it. They're smart kids, but they've seen me stare at these stupid numbers on my iPhone, which mainly bring me misery. Enough that I don't think they find that a particularly -- they bring me misery even though they've gone up more than they've gone down over my career. You have to have a special kind of perspective to be -- well, this is actually a very basic thing in finance. Losses hurt more than gains make you happy. That's kind of a famous Dick Thaler result from forever ago in behavioral finance. Therefore, if you're wired -- and then we're all wired at different extremes on this, right? I'm pretty extreme.

If we have a day that goes up, then down, then up, then down, and ends flat, if I somehow was not at a computer all day -- which is a pretty rare event but does happen -- I look I go, "Oh, flat day." If I was watching it all day, I'm miserable because I'm marking from the high. The falls from the high cause me more pain than the rise. And I do think my kids have witnessed this. And I think they will pursue more sane careers.

Sharmin Mossavar-Rahmani: Thank you so much, Cliff, for being here.

Cliff Asness: Oh, this was so much fun.

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