Mr. Serenity's Mantras for Chaotic Markets with Tom Basso

Manish Dhawan: Tom, I'm really excited to have you on the show. So most of me because my friend, Puneet, here is a value investor and I am a trend follower. I rarely get a chance to interview trend followers, especially in our neck of the woods because, for some strange reason, there are not many trend-following money managers here. So, I'm really excited and welcome to the Stoic podcast.

Tom Basso: Well, good to be here!

Manish Dhawan: Great. Well, I read you up, talked, and realized that it will be very difficult for me to ask you any insightful questions today as you have been so generous over the years in giving away all your knowledge. Almost everything under the sun has already been asked. So, therefore, I won't really waste much of your time on introductory questions and straight away cut to the chase. I wanted to know from chemical engineer to money manager, and you chose trend following as a way to do it. I wanted to know, did you consciously choose trend following as the way to money management? Or was this just serendipity and it happened the other way round?

Tom Basso: Well, you have to really go back to when I was your age. When I came out of chemical engineering, I was 22 years old. I'm 70 now. So it's pushing me 50 years ago. There were no computers, the IBMs were on punch cards and there was no live programming of anything. Armed with a calculator that would add, subtract, multiply, and divide, it didn't even have the one over function where you could do one over x. I sat and did a bunch of research with paper, pencil, and charts. I didn't even know what the trend following was. I had no clue. There was hardly anything to read & there was no internet to speak up. You got to imagine I'm in a world or a little bubble by myself, just looking at data and thinking as a chemical engineer would.

A good example that I use often in chemical engineering is if you have a stream of chemicals going through a heat exchanger and you need to have the temperature of that product the input to the next tank or reactor to some perfect temperature. And if it's getting cold outside because nightfall has come in, and the temperature of that stream because of the pipes being exposed to the air starts dropping, you'd have to turn on the steam maybe and bring the temperature back up to the proper temperature. I would call it a simple instrumentation control loop. The same thing happens with the thermostat that you might have in your house. So you've got data coming in, which is the temperature. You've got a measurement and at some point, the thermostat says we've gone too far, we have to take action. Isn't that kind of trading? We go sideways, we ignore a lot of nonsense that markets going up and down all day long. But then at some point, it's now moved far enough to where it catches our attention, and the indicators can then say, 'Wait for a second, we got to do something'. I call that the buy-sell engine because the engine of a car moves the car, and a buy-sell engine should move the trader to do something. It should be buying or selling. The rest I tend to ignore.

So I think of it as an instrumentation control loop where much of the market action is just noise and you ignore it, and then you set your points using indicators to take action. That turned out to be the trend following. I didn't know it at the time. It was so long ago. I don't even know where the term trend following or when it was applied to a particular type of trading but yeah, I'm a trend follower. I even trend follow now on 5-minute bars intraday sometimes. If I have the time and desire I can actually do some trend following on a short-term basis intraday. So trend following can apply to a lot of data. It is just ignoring the noise and takes action when it needs to.

Puneet Khurana: Great! Tom, even though there were no calculators and there were no computers there was always Warren Buffett, a popular personality in the media at that time. Very popular guy, Warren Buffet as well as Carl Icahn. You never decided to take that route to investing which is the activist sort of world, or reading balance sheets or something like that? Being an engineer was that ever on the table?

Tom Basso: It was on the table very early. We had a conversation at lunch every day with a bunch of other chemical engineers that I used to work with and we were all interested in the stock market. I eventually got interested in commodities as well as futures. When we talked about fundamentals, it seemed to be consensus at the table and I agreed with it totally that, how are we, a bunch of chemical engineers, sitting in St. Louis, going to be able to do better fundamental research on companies than these guys on Wall Street that have staffs of who knows how many people, access to a lot of information that we would never have access to? It seems hard that we would be able to anticipate and be ahead of those types of folks. But when they make their moves that immediately shows up in the prices. So I might not be able to anticipate or be ahead of those folks, but I certainly could see what the net effect of what they want to do is and I could train myself to react very quickly.

And by doing that, I end up jumping on to some major trends. And as we know, some of the big winners that Buffett has over the long run have had multi-year or sometimes multi-decade runs. And so getting in a day or two late or a week late on a good trend is not a big deal. You'll never notice it at the end of the trade because it's such a small fraction of the total profit. So I found that I could cover more bets, cover more diversification, cover more companies, more positions, use futures that are diversified away from the stock market, and stabilize my performance and have a lot more predictability.

Puneet Khurana: Okay, great. So, Tom, let's straight away jump to your investment framework. And you have talked a lot about position sizing. In fact, in preparation for this particular talk, I read all three of the books which you have written and it was fabulous for me. As Manish told you, I'm coming from a value investing world. I have studied and in fact, implemented some momentum strategies for the last few years but value remains my core strength. You have talked a lot on the allocation front. And in the previous answer, you also mentioned the ability to go and pick long trends and be able to ride them. In my limited experience, of course, riding longer trends requires you to increase your timeframe a lot. So timeframe of evaluation, so to speak, you can't do that on a 5-minute or even a daily chart or, for that matter, even a weekly chart. Can you take us through your buy-sell engine, as you call it in your books? How many buy-sell engines do you have? How many markets do you trade and in what timeframes do you trade them? Just a brief on that would be great to start with.

Tom Basso: Okay. It's kind of an overall concept, I would call all-weather investing. And what I do is I approach it from a lot of different views. The first is the number of indicators. I tend to use, let's say five buy-sell indicators across nine strategies; one of which is intraday. And I only do that (Intraday trading) when I'm sitting here at the desk all day with nothing to do and I've got another book that I'm finishing for the end of the year roughly. It'll be coming out hopefully and project on a trading platform and other major projects. So if I'm going to be stuck at the desk all day. I'll go ahead and fire up the computer next to me. And I'll have a trading computer and I'll do that intraday and that would be one set of buy-sell engines. And that's basically to try to quickly get in on anything from an overbought or oversold standpoint. The other eight are daily strategies and those would be used for different buy-sell engines. Well, there's one that I created myself that is too complicated to explain verbally. I'd have to have another whole hour in itself. And I don't think that I want to get into that. But the other three are pretty simple. And you can find them everywhere. That'll be Keltner, Donchain, and Bollinger; those are usually standard on almost every trading platform I've ever seen. So on those to try to diversify, I look at different time periods. If I'm going long-term and it's the stock market, I view the stock market as an upside-slanted vehicle because of the way inflation tends to push stock prices up over the long run. So what I do is a combination of a 21-day for the upside and a 50-day for the downside, which makes it harder for me to get out of the stock and easier for me to get into it. So it slants it that way. But 21 days is approximately a month's worth of trading days getting rid of the weekends and holidays. And that's about the timeframe that I like to concentrate on because as a retired guy, if anything's happening within a month, I'm probably not all that interested, for the most part. So my core sector allocation and my hedge program, that type of stuff are 21 and 50. Then, for shorter-term trading like where I do crypto, futures long and short, and if I do the NASDAQ, indices, long and short, I'll use nine days with the same indicator pack. And I'll do the nine-day up and down. Because I'm just picking up short-term moves. I'm figuring things like stocks and cryptos are going to be very violent. They're not going to go long, long periods of time, typically. And I'm just going to pick up those little movements on a shorter term less than month basis. So nine days for that. One strategy is done with both stock indexes and 26 different futures markets. I call it my counter-trend. And I just put names on things so I can keep them straight. Basically, it doesn't mean much to anybody else.
The counter-trend for me is very short-term. I read an overbought/ oversold strategy or assistance situation in any particular market like the gold market or crude oil or anything I'm trading. And if it's overbought, I'm looking to sell it and I tried to sell it on a three-day basis. So it's a very short-term indicator. It's trying to jump in the other direction. That's why I call it a counter. But it's a trend following because I'm waiting for the stock to be hit and getting in on the trend. I call it a counter-trend. It's just my term for it. That would be the oddball that I think a lot of people would look at it and say that's not trend-following. But to me it is. I'm getting in on a trend. I'm letting it run as far as I can. That's the trend following. So these nine things you can imagine are a cutaway of a piston of a car engine. And you've probably seen it where the one cylinder will be up and the other ones down and, all of that going on. I've got different time periods and different indicators. I'm trading right now. I probably have as we speak somewhere close to 50 positions in the portfolio. And I can get all that done in an hour. At the end of the day. I update all my orders. Yesterday, it took me 45 minutes and it was an easy day and then I'm done. 24 hours later I come and do it again.

Manish Dhawan: So I've got an action question on this, Tom. You have these nine strategies. Have you equally divided your portfolio among them? I'm talking about the notional exposure.

Tom Basso: What I do is I use the total equity in the portfolio as a base load for each of those strategies. So each of the strategies is dialed in at an area or at a level of exposure whereby they balance. So, if I've got a three-day I'm going to have my stops a lot closer. I'm probably going to have a slightly bigger position. And I dropped the exposure level to maybe something like 0.2% or 0.3% of equity. So it's very low. But because the risk per trade and the volatility are a little lower over a shorter-term timeframe, I will end up with a slightly bigger position there. But I know my risk is limited and I can handle that. On a longer-term basis, my stop is going to be further away, my everything is going to be further away, and the risk is going to be greater. So what I'm going to end up doing with this, it's going to have a smaller position size. I dial that in maybe at half a percent risk to equity. And so, I balance it through how I put on each individual position rather than trying to worry about taking the total strategy and saying I'm going to give 20% of the money to this and 20% of that. The other thing it does, if you think of it mathematically and this gets, I alluded to it a little bit in the position sizing book that I did, is when you use total equity and you have say eight different daily strategies going on, let's ignore the intraday one, you gonna have undeniably one of the strategies may be crypto futures are going nuts. And I'm making just a ton of money there. Well, that's feeding my total equity. It turns out and I've mathematically tested this because the total equity is going up from cryptos. And let's say my three-day counter-trend strategy has had a bad week. So normally, if I was looking into a certain size of assets, that counter-trend would end up having smaller and smaller positions because it was having a rough time. But in this case, it's using the total equity. And in total equity has been going up because cryptos are going nuts. So I have more money to be able to put those counter-trend positions on. And it turns out that next week is a good week for counter-trends and cryptos are having a bad week. So what ends up happening is by rebalancing inside the computers in allocating based on total equity, you're sort of taking from the rich and giving to the poor, sort of like Robin Hood or whatever. You're ending up improving your return-to-risk ratios. It turns out in every study I've ever done that if you can rebalance your portfolio amongst strategies, you will end up helping your return-to-risk ratios. And I'm a big return-to-risk ratio guy, I'm retired. I really don't like having my portfolio go down 50% or something. I don't want to go back and be a money manager again. I'm enjoying retirement a lot. And so I'm very big on return to risk. I'm not looking for the highest returns, I'm looking for as good a return-to-risk ratio as I can get. And the ultimate would be to have zero risk when measured across the entire portfolio of whatever number of strategies you have. And whatever return you have, you get out of that. So return-to-risk has a denominator of zero and your return-to-risk is infinite. If I could get there, that'd be lovely. That's a good goal to shoot for. I haven't gotten there yet, but it keeps my mind active and keeps me trying to come up with ways of improving those returns to risks. And that's kind of the challenge I always give myself.

Puneet Khurana: Yeah, that's a great goal to have, Tom. Do write about your current progress in your recent book so that we can at least be on par with you. So just to summarize what you've said so far, or maybe just putting my key takeaways. You're looking at your nine strategies as one portfolio. And you're not doing that or soaking in nine separate buckets of assets you have to manage separately, you're looking at total equity number, and

you're doing your rebalancing based on the performance if one is doing well or two are doing well. When you are assessing your positions again, you are taking money off the table from the rich and giving it to the poor strategies on that particular week. Just one question which I had in my mind when you're talking about your stocks and the longer-term positions. You said 50 days as your sell engine, do you also have a place for aberrations? where very big movement in the middle of those 50 days, if it crosses certain percentages, you will make an aberration or you're saying I will ignore all the movements in those 50 days. I don't care if they are big or small.

Tom Basso: Well, here I would tell you that when you have large movements in any market, whether it's futures, stocks, ETFs/ exchange-traded funds, whatever. If you use something and look at the math, say a Keltner is a good example. You'd have the moving average that's the middle of the noise. So all the data over the last 50 days, you take it all and figure out what your average is. But the important critical part of Keltner is the ATR, the average true range measures volatility. So volatility increases because the market goes insane, then what happens to the two buy and sell lines on the Keltner, they go from here and they get more volatile, and then they go like that. So they got the middle. Middle is the moving average, but the bars start getting wider apart. And what it does is that it allows you more room for what I would call noise or normal market movement. Now the normal market movement is a lot higher than it might have been a year ago. But it's normal for them. And so it automatically gives it more room. The 50 days just give you the data length that you're using to calculate it. The volatility is measured by adjusting the indicator on the fly. The same thing with Donchian, it's the top and bottom channels. The wider the movements, the wider the channel. Bollinger is the standard deviation, the wider the standard deviation of the movement, the wider the bar is again. So they all have that similar philosophy but it gets to the final answer using different math, which is why I like to use them together many times. They're measuring different aspects. And I find that sometimes my closest indicator to give me a signal will be the Donchian, and sometimes it'll be the Keltner and sometimes it'll be the Bollinger. I don't really care. That's measuring normal movement and the first indicator to go over is indicating that I'm now getting out of the noise and into something I need to take or pay attention to.

Puneet Khurana: Got it. Understood.

Manish Dhawan: Right Tom, you know that one of the biggest commandments of trend following is to let your winners run and not do anything with them. Dakota mentioned that in his song as well. Now I have two-sided questions on that aspect. And it's the psychological side of it is what I'm interested in. It's easier said than done that once you catch a trend you are basically supposed to ride it, how do you develop that mental fortitude to digest those profits and kill the urge to take them off the table?

Tom Basso: What I tried to do is to think of an equity curve, and how trend following is going to affect that equity curve. So in a trend-following sense of things, you're basically buying the high because you're buying as the thing is breaking out and going on a trend. So let's take an example we're buying and off goes the trend, and everything's great, and we're making money. So that's directly feeding your equity, you know that your stop is somewhere below where the market is, and you're trying to move that up as much as you can justify given the noise that is normally in the market, you can't obviously have a small profit and then move

your stop up right next to the where the prices are, you just get taken out with the stop. So you have to give it enough room. That's the 50-day example that I used a little earlier would be, the type of thing where I'm giving it enough room to move and it could pull back and then run again and I might be in a position for years. So I realized now the math though that as the trend following model gets to what is going to end up being the highest peak. And I don't know where that is. Because I'm not that smart. The trend following model stop is way back someplace, I've got risk. And I know that at any point in time what my risk is. And I know that that amount of risk sooner or later is going to become realized and is going to come across and subtract my equity. So I've already mentally anticipated that the amount of hit is going to happen to my equity from this trade that I'm in right now. And I've already anticipated it. Now, mentally, that helps a lot because now you can say to yourself, I'm prepared for it. I know what the risk is and I know how much it's going to be. I can actually put a number on it if I need to. I mean, as it starts coming back, I might be able to move my stop up a little bit more depending on my strategy, or I may not. But whatever happens, I know that I've got to go from that peak back to the stop to get myself stopped out and I got to do that across a portfolio. So let's say you've got 10 stocks, and they all have a certain amount of risk with correlations being what they are. Many times all 10 of your stocks will go back to that stop. Again you can calculate that and know exactly what that amount is going to be and mentally prepare yourself for it and realize that's part of the trend-following game. Now, how do I look at that and do something with that information?

I personally have been in many, many trades, including the famous silver trade that Jack Schwager documented in the New Market. There was a chapter on me, where you get way ahead on a position, and as a good trend follower, you just hang on for dear life because it really is going to now come back and take you out in the stop. Well, what I do is that I measure it and I set limits that are within my own mental framework. So in the case of say, a future position, let's use some simple numbers. These aren't the exact numbers I use but it's not that important. You can dial this in wherever you as a trader want to dial it. But let's just use a simple 1% of equity risk level to get into a position on gold or something. Now gold goes up, and nobody cares in the early stages of a move, the emotions are not there and there's no news about it. Nobody cares. Now, one day after another, gold keeps moving and all of a sudden, people start noticing it and there's an article that gold could double in price. And there are, you start seeing little news and interviews about it. And in the morning TV shows they're talking about Wow, gold prices are up for the second month in a row. And everybody is now missing gold and wanting to jump in. The trend is very mature now, volatility has gotten larger and the emotional content of that market has gotten very high. So the swings are much greater the risk and the prices can move faster than your stops can move. Your stops are trying like crazy to keep up with the market but they're still waiting for the heck back down there. So what I do is I say, well, in reality, if my equity is x, whatever it is, how much am I willing for gold to affect that equity negatively? No matter what happens as a human being and as a trader, what's my total pain tolerance? And I might say, All right, I'm willing to give 2% of my equity to let gold go as far as it can go. Well, what that means is I can pre-calculate, I can say, Here's my stop, here's where we are in the price. I know that 2% is my maximum tolerance, I already know my equity and I can do simple math and say, How many contracts of gold do I need to hold right now to limit my losses to 2% of equity? And if I have 3% of equity, I peel off 1% of my positions to get back to what I should have. That's my pain tolerance level. And what that allows me to do mentally is very important. I think, and a lot of pure trend followers who don't do this, miss this point Which is over the long run, if you ever come to the point where the pain gets too much and you have to

abandon what you're doing, you've just thrown out a lot of good work. You've really not helped yourself because you're no longer in the trading business, you're no longer a trend follower, and you're now out searching for something else. There was nothing wrong with what you were doing. It's that you put yourself in such a leveraged position that it was beyond your tolerance for pain. And some, the Richard Dennis School of people, the original turtle traders is that you should be able to tolerate that pain. But if you're a professional money manager like I was for 28 years, your clients do not have your own tolerance for pain. My clients typically had less tolerance for pain than I do. I even now in retirement, have more tolerance for pain than the way I ran trends because my job as a money manager was to manage their money, not mine. If I want to go along for the ride, I could. But a lot of money managers think of it the other way they say I'm going to do this, and my clients can come along for the ride. That's putting a little weird spin on your business because your clients can't do what you can do or else they'd be doing it for themselves. And when they don't understand and they get nervous and they get panicky, they pull the money and then you're not a money manager anymore. So my attitude is to try to control that exposure so that you can always stay within your mental comfort zone and keep it going for the next 30 years. And that's what I think the position sizing book talks about a bit and why I've done that for. I don't even know 20-30 years now, I've been position sizing, it's very important.

Puneet Khurana: Just for the benefit of the listeners also, your position sizing is not limited only to the risk value or the amount of money that you are willing to risk but also to volatility and margin. Can you very briefly tell that part also so that that closes the loop on your risk management strategy?

Tom Basso: Okay. Well, the risk is an obvious one because as prices get further away from your stop your risk per share of stock or per contract, a futures contract, or per million dollars of a currency or whatever you want to use as your instrument level is getting greater. So that's one which is obvious to control. The second one is not as obvious as volatility and I use the average true range for my volatility, it's a simple, easy calculation, and therefore, reasonable is basically the average movement, from the 24-hour high to the 24-hour low averaged over a period of time. That's the simple definition. And so the further things move, the more volatility you have. Well, the reason I tried to control that is I asked myself if I'm sitting here looking at my screen and my portfolios go up or down 10% in a day, am I going to be okay with that? If it's up 10%, am I gonna get overly greedy and want to go out and celebrate that night, or if it's down 10%, am I gonna be stressed out and have a sleepless night? So I tried to set volatility limits on each position and then I can control the volatility of the whole portfolio. And by doing that, I keep the movements more measured and hopefully going in my direction. And I'm just plodding along, I'm making it a little bit more boring. So, volatility as a percent of equity is another way I tried to control positions. The third way you mentioned is margin in what you have to do with a margin that comes into play on things like Eurodollars and some other very quiet, short-term debt instruments that tend to do this where they are very non-volatile for long periods of time and the risk is not that high. Also, if you did your position sizing calculation, you would say, well, low risk, low volatility, I can just load up this thing and put it in the portfolio. You have to cap your exposure so that if your risk and volatility are failing to pick up something but the margin the exchanges provide. This could go crazy at any moment. So we're going to have this much margin or in the case of a stock, this much margin is to control the stock. You want to make sure that's an override to

keep you from being super overexposed to a black swan event that like war breaking out, and somebody launches a nuke, the Federal Reserve just raises the interest rates in the US by 2%, or some weird news item that just shocks the markets and everything goes nuts. That's kind of an override. So by using all three of those and taking the smallest answer of the three, if risk says, Okay, do 10 contracts of gold, or oil, or whatever it is, you're trading 1000 shares of stock. And, then if your volatility calculation says to do 800 shares of stock, but the margin says to do 600 shares, then do 600. I always err on the conservative side

Puneet Khurana: And you also have a cap on the maximum and how frequently do you rebalance this? And what is the max? So only when you reach your maximum do you reevaluate that position? How does it work for that?

Tom Basso: Every position has a maximum, and my portfolio has a total maximum. So that gets calculated every day. And if those limits are exceeded, then I call it a risk alarm or volatility alarm or a portfolio alarm or whatever that level says peel off enough positions to get back down to the acceptable level. So that happens daily.

Puneet Khurana: Yeah, and just to actually plug in here that I really suggest readers or the listeners to actually read the book. In the book, you have mentioned some scenarios, what certain scenarios are, what risk calculations are, and what happens at different levels. and you have shown your competition. And it's a very small 70-odd-page book. So it won't take a lot of time for people to read it. So it's a must-read for all the trend followers and for anybody who wants to understand position sizing. It's a really, really helpful book. Tom let me take you to a hypothetical scenario, right? As of now, you are doing 19 different markets from what I've read and what I've heard so far.

Tom Basso: 26 now, I've expanded it. So I don't like to be bored.

Puneet Khurana: Yeah, so 26 different markets. And obviously, a large amount of diversification comes from the sheer size and the number of markets you are in. But as a money manager, not everybody has a choice to do multiple asset classes, right? So imagine yourself being in the shoes of money managers who let's say only have mandates for stocks, and stocks by their very nature are heavily correlated to each other. Put yourself in that shoes, how will your risk management change, given that the correlation between the individual assets is going to be very high? And I'm sure you've never started with 19 assets. I'm sure you started with one or two. So you will have some practical experience there also.

Tom Basso: The answer, if I was put into that little box which I would hate to be in, knowing what I know, would be to probably come up with a way to hedge. And the reason I say that is when you have, say, just a simple example, 10 different stocks, some stocks are going to be very highly liquid, they might be the most liquid instrument on the entire exchange. So you can get in and out 10 times a second is being traded things like SPY which is the largest exchange-traded fund in the US based on the Standard Poor's 500. I think it trades between 30 to 50, at least times a second. You put that in perspective, you think well, if I've got 100 shares of SPY, it just gets gobbled up in those 50 trades, you're never going to have a problem getting in and out of it. On the other hand, one of your 10 stocks might be this $2 little gem that you discovered through your value screening. And I don't know, it might be a pharmaceutical company that says they've got the next best drug that's ever been created

for mankind. And then you're hoping it goes to $200. That's not going to be a very liquid position of getting in and out of it. And what I would call attacking your risk is a term I use a lot. It’s difficult because the position is the position you can't really easily get out of it totally. You can't. Maybe you can buy more, but you don't want to buy at a higher. You've already owned it, you've got the right position size. So, you struggle with what to do with the market risk. So say the whole stock market is going to go into a downswing and it clearly is giving signs of a downtrend. From a trend measurement standpoint, if you have something like in my case, what I use is the Standard Poor's 500 stock futures, it's very highly liquid for a very small amount of margin, I can sell one contract and cover $100 to $200,000 worth of equity exposure and I don't have to get out of my stocks, I can just leave the stocks there. I've now gone short on the futures contract. So I'll use my hands in the camera if I can. My palm is where profits are made, the back of the hand is lost. If we've got a stock portfolio that's sitting there, that is basically stocks go up, I make money. Stocks go down, I lose money. If I put in place something right next to it called a hedge, then what happens is no matter which way the market moves, up or down, I'm making it on one side losing it on the other, and that both two things are highly correlated to each other. But the one that I'm using for the hedge is highly liquid. So I can put it on and take it off every fourth or fifth day if I need to. So no matter how volatile, no matter what I'm trying to do, I don't have to affect that core stock portfolio. And I can just adjust my exposure. I could do half exposure like say you've got I don't know a million dollars worth of stock you could do half a million dollars where the hedge and leave the other half unhedged if there was some reason to do that, so you can dial in your exposure wherever you want. And you can do it very easily and very inexpensively without having to suffer going and doing actual stock transactions. So that's the way I would approach that problem.

Puneet Khurana: But would you change the size of the hedges also with the phase of the market? So let's say, the market in 2009, post the crisis versus a peak market, let's say, 2007? Would you have different strategies for hedging? At various stages, you could be in trend in both cases, but in one case, the trend has just started. In one case, the trend is pretty long. How would you position that?

Tom Basso: If the trend is fairly long, then what's happened is that the trend-following model for the hedge should have already gone over. If it's going down for a long time. The trend-following model should give you the signal somewhere close to the start of the trend. And then after that, you just let it go. So I don't, I guess I'm not smart enough to realize whether or not we are going to like right now we have a down day in the stock markets here in the US, I don't know is that the third stage of a bear market. Is it just a continuation of something that might last for the next decade? I mean, the depression back in 29, lasted through the 30s and ended almost in the 40s or something. So who knows, I let the market do what it wants to do. And my job as a trader is to go along for the ride. So when you look at it that way, my exposure, if I think that I'm in a downtrend, and I've got long exposure, that's at risk, I'm going to hedge that exposure 100% all the time, every time. Just makes it simple mentally for me. And at that point, I'm whatever the market does at that point, if it goes up, I'm losing on my hedges, and I'm making money on my stocks. If I'm going down, I'm losing money on the stocks, I'm making money on the hedges either way, I'm just sitting here watching the action and, and waiting for the indicators to tell me that the direction has now shifted back to the upside, I can remove the hedge, let the stocks as I call it, let the horses run, take the reins, let go of the reins and let the horses run. That's kind of the way I

look at it, I'm taking off the hedge which is holding back the portfolio and I'm letting the horses run the stocks can run with the upmarket and enjoy the ride that way. So that's my attitude towards how to attack the risk. And I think a lot of people, I use that term. The attacking risk things important mentally, too, because if you think about a lot of investors and traders trying to say they're conservative, they put this label on themselves as conservative. And conservative means, okay, I'm a value guy, try to find good companies that have good solid balance sheets, and all that good stuff. And all of that is good and fine. But what ends up happening ultimately is risk wants to come and visit you if you have the most conservative stock in the world, and it's gonna last, it's gonna be around after the next depression. But if you go through a depression and most stocks go down 90% at $1, what is your conservative stock going to be at that point? Should you need to liquidate that and have that money, it's going to be down a bunch, maybe not 90, maybe 50, maybe 60. Maybe you drastically beat the market. But in reality, you lost a bunch of money. And that's not helping the cause. So my attitude is to observe risk and not passively just say I'm going to buy and hold, I'm going to just last it out. And I'm going to, this is a good company, it'll survive and all that. My attitude is why not attack that risk? You see the risk is there, there's always going to be market risks, there's going to be individual instrument risk, there's going to be, risk of bankruptcies and news risk is lots of different risks out there. Why not try to get a bit of an assessment of what kinds of risks are you going to be potentially exposed to over time and actually attack them somehow? And that's where the hedging comes in. Because hedging is a positive action that you're taking to squash down risk. And it puts you a bit more mentally in control of the situation as opposed to just sitting back and saying, Well, I don't know what the markets are going to do. But I'm just going to be a good long-term investor, and be conservative and not worry about it. That's not a plan. I don't think.

Manish Dhawan: So Tom, on the topic of hedging, I actually went to one of your webinars. And there you share something as simple as basically a donchain on SPX. I wanted to know, that, something as simple as that works because my concern was that what if I'm incurring double the losses? Let's see a whipsaw on the hedge. And, the trend following not working out on the long portfolio.

Tom Basso: Not quite, because, before you put on the hedge, you lost some to get to your trend-following signal. So that was a loss. But once you put the hedge on, no matter what happened from there, you didn't lose anything. Even if it goes back and whipsaws, your portfolio goes up, and your hedge loses. And now you take it off, and the stocks keep going, then you're fine. If you stay sideways forever, and you keep putting them on, taking them off, putting them on, taking them off, you're gonna have multiple whipsaws. And that does cost. But if you've done your job on the stock side, and you've got your good value stocks that are every time you go through the cycle, the stocks are holding up really well and going higher and higher, you should be okay. You still, I don't mind a 5% loss or a 3% loss, or an 8% loss on a portfolio. What I detest, especially in retirement as I am, would be a 50% loss. So if I'm sitting there doing nothing, and I'm watching this thing go down every day, or week or month, or a year, and my value is cut in half, that's not acceptable to me. If I take a small loss, to me, it's kind of like, I don't know if you guys have this over there. But fire insurance, you buy fire insurance, so that in case you have a fire, you can replace the building or fix the damages from the smoke in the fire. But you hope you never have to use it. Right, you're paying money for the fire insurance, but you hope you don't ever have to make a claim on the insurance kind of hedging is the same way to me. I know over time, there are going to be

times that it's definitely going to cost me there are times when I end up making a profit. But it's not very often that's during very bad bear markets. But what it does over the long run is it preserves my assets so that instead of being down 50% and having to come back 100% Just get back where I was that's the math. If you're down 50, you got to make 100% on the 50% to get back to your original 100%. If I can hold that down 10% Down 15% It's a whole lot easier to get back to new equity highs when that all sorts itself out. So I think that the key game you're playing is to try to make sure you attack risk enough to make sure that you don't ever get that huge deterioration in your portfolio. And that just helps you over the long run mentally, it also helps you math-wise in that you don't have to, if you're down 10% You just need to come back 11% So get back to breakeven. That's doable. Coming back 100%. That's a lot of work. That might be years of work.

Manish Dhawan: Yeah, that's very insightful, Tom. To look at hedging as insurance costs and not as a standalone strategy. Because if I look back at my back days, the hedge has probably worked on a couple of occasions, only the corona crash and 2008. Apart from that, net-net loses money, but it gives you a good night's sleep and it acts as a very nice balance for your long, long exposure.

Tom Basso: I have a friend that's Laurens Bensdorp and you might even want to interview him. He's an interesting guy. He's out of Portugal these days. He speaks six languages. He has a term that I just absolutely love. It's perfect to tell me descriptively and with a great picture what I'm trying to do if you have a track record, and everybody's seen it, the graph goes up the page and then it goes down into a drawdown and it makes new highs and then another drawdown and the new highs. He calls those potholes in the road. In his job as a trader, he now runs 50 strategies. I don't think I'll ever get to that level but filling the potholes means putting two strategies together, or three or four or nine or 50 as he does, and trying to fill those holes. So ask yourself if I've got a picture of the S&P 500. Let's say the Dow Jones Industrials going back to 1950, and you can put it over on the wall and step back, and you can see right where the potholes are. Now, if I give you your hedging strategy, and have you run those two strategies together. Are those potholes as pronounced as they were, you've somewhat filled the pothole, but not necessarily totally. And you may have diminished some of your returns when you had good times, you might not because you put the hedge on and took it off, you took a loss, you actually cost yourself some money, but you still made some money on the stock side. So it paid for it, and then some, but you probably have less return. But you also, more importantly, have fewer potholes. And when you do that, if you look at your returns, which may have gone down a little bit, and you look at your risk, which may have diminished quite a bit, the return to risk ratio, because your denominator is going down, is getting better and better. So your mental processes are easier to deal with. And the consistency of your performance is easier to deal with. So I would encourage one of the mistakes people make with hedging and a lot of strategies really. If you look at some strategies that Laurens runs, because I do, I'm doing a seminar with him in about three weeks up in Vegas, and so I get to listen to him talk about a lot of stuff, too. He gets to listen to me. But he'll tell stories about stuff where he'll do a strategy, one of his 50. And it basically barely makes a profit. It's almost breakeven, but it's designed specifically to go against certain market conditions that help to create a pothole with some of his other strategies. So when he adds it in, his return-to-risk ratios go up, his line gets smoother, his consistency is better, and his mental processes are better. That is what he's striving to do. And I think that's something where a lot of traders make a mistake of just running the numbers on any one

strategy and saying, well, this doesn't have much expectancy, it doesn't really produce a profit, or worse, hedging might actually lose money over the long run. Since you're always going short, the stock market and the stock market generally have gone up over the decades, you would expect that strategy to always be swimming against the current. But in reality, if you're timing it on and off, and you're putting it together with a full exposure of 100% stocks, you're probably filling the potholes and your return to risk ratio climbed.

Manish Dhawan: So I've read his book, Tom after you recommended it, and in his book, he has actually shared six of those strategies with each and every detail. So that was very insightful.

Puneet Khurana: Even though whatever explanation you have given so far, I am able to get the answer to the question I'm going to ask but in your books, you have talked about positioning down your stocks, when they have once they have run up, because either the size of the risk position has increased or the volatility is increasing, or whatever the reasons are, and you're scaling down your position to manage your risk. But there hasn't been any mention of adding to your winning positions. Many trend followers tend to do that, or at least, they say that what the positions are working, you need to add more and more capital to get the best out of those. Those positions that I come from I see you in completely opposite of that. What is your take on that?

Tom Basso: I ran a study at Trent Step. And it was a very involved study that involved measuring 20 different markets and taking our standard Buy Sell engine and getting a buy or a sell. Marking that down is Day Zero, going into historical databases and knowing full well what that transaction, that trade that I was going to get in on that day zero was going to end up doing in its entirety. So I've mapped out the percent return from the inception of day one, day two, day three all the way to day x. And now we're out of that trade. And we're getting out of it based on the stop losses moving up and standard trend following. So if you think about it, the day you get in, your return-to-risk ratio with 100% hindsight because of what that trade and every other trade doing. And you can put the return on the trade divided by the risk that you still have on the trade because where your stop losses at that point and so what we did is a data base trade all the days zeroes, the day ones, the day twos, the day threes, and then we did it all the way through the end of the trade. So on average, we could tell what was the return-to-risk ratios, every point from the start, to the finish of the trade. And it turned out that on average, you never have as good a return to risk ratio as you have the day zero when the trend following trade goes over. That is you should size your position perfectly at that point for a good return-to-risk ratio, and then manage it throughout the trade. But adding to a position with a lower return-to-risk ratio doesn't make sense to me. So I don't add to positions.

Puneet Khurana: Is that study public?

Tom Basso: No, and it's long gone. I turned off the computers in 2003 that we were running, and I don't have any access to any of them anymore. But I do vividly remember the study. So I can tell the story at least. But no, it's not done. If somebody wants to do it, I am happy to consult on it or give you some ideas. And you guys can do the heavy lifting on the programming, but it's pretty straightforward. You basically take every trade from start to finish day zero all the way to the finish. And what the return is going to end up being, where the

risk is, every point in time, just do the daily return, day zero return to risk is this, day one is this, day two is that and you'll just see the return to risk ratio declining because you're getting closer to what is going to be the end of the trade. I've never had a trade that I stayed with forever. So there's never been an infinite profit trade. There's always been a finite profit, trade, and risk is finite as well. So you can always calculate that, and we just did it. And on average, I mean, there are always exceptions. I mean, gold has a run, it pulls back your risk gets diminished. And it runs even farther on the second run than it did on the first and you have a long enough run to where it works out. But most of the time average is what the average is, it is diminishing over the life of the trade.

Puneet Khurana: But then that brings me to the second part of the question, which is when you do take the money off the table to balance your positions. Again, I understand that you are running 26 markets now 19 Earlier the time when I read the book, you will almost always have someplace to put that money to use. Very rarely you will need to go into cash because some markets will be showing some promise at one point in time. Or if you are again in that hypothetical box of managing a particular asset, would you then recommend moving to cash? If you're not finding positions? Or in that case, would you say let the winners run? You can avoid the trimming part and your hedges are already there?

Tom Basso: I would use a short-term cash instrument with paid-to-interest and try to work the money on a very safe basis that didn't have market risk. And yeah, if you're not finding suitable alternatives, then you're going to increase your cash. When you do your hedge trade, I would just do it on the exposure that you have not on the total size of the portfolio, including cash, I would only look at the risk side of the portfolio that you're trying to hedge.

Puneet Khurana: Okay, that makes sense.

Tom Basso: So what happens to me sometimes, it is a good example I trade 20 different sectors, exchange-traded funds. That's one of my strategies. So I trade them long, short 21 days to get in, 50 days to get out. Right now I'm running 25% invested. So I've got five positions out of potentially 20 That I trade. So the exposure I have with my hedge may have been put on when I had 65% or something invested. And I try to ongoing change my exposure to the hedge so that it sort of balances but sometimes it'll get out of whack, and tend to see that the sectors hit their stops and go to cash. My hedge then hasn't been adjusted fast enough. And I ended up net short for short periods of time. And that's actually great in a bear market. I'm picking up profits on my hedges compared to what I'm losing over on the stocks or ETF side. So yeah, I just got cash, I'm sitting here right now in this bear market with I don't know what it is it's probably 70% cash or something

Puneet Khurana: Wow. That's actually a surprise to me. I was not expecting that number.

Manish Dhawan: Now, you're confusing it with the Indian markets, Puneet. The US isn't in the Bear market.

Puneet Khurana: Sure. Tom, you have written three books at different intervals. Actually two books yourself. I'm not talking about your golfing book. Let's keep that separate for now. But two investing books, one in ‘94. And now in 2019. I wonder how things have evolved between those two books. Yeah, I had the benefit of reading them to see how they changed

and how things have evolved. But for the benefit of the listeners, how have your investing evolved between those two books?

Tom Basso: Well, between the two books, I would say first of all, when I wrote the first book, which is panic proof investing, we were in the world of PCs, desktop PCs, largely the computerization level, there weren't as many electronic exchanges like Globex, the E-CBOT, NYMEX automated systems, and Komax Ekomax. A lot of these markets now become more electronic. But back in those days, there were still physical pits and archaic ways, a lot of mistakes made by traders in terms of trying to get an order to a floor, get it executed, get it back, and make sure everybody did everything right. So back in those days, things moved. It seems to me a lot slower. And I think the biggest change that I've noticed is the speed of everything just gets faster because computers allow you to do things as a human being faster than they used to. To do a trade back in the 1970s. On a corn trade, let's say I would call my broker, the broker would fill out a ticket, take it down the hall to a teletype, teletype operator sends it to the floor, there are people on the floor, I get that and hand it to a runner, the runner takes it out to the pit, the pit guy then executes the trade, tosses the marks down who he traded with, throws it down on the floor, or the runner grabs it from underneath the pit, runs it back to the teletype, to the office in St. Louis in those days. And then they give it down the hall to the broker, the broker calls me half an hour later and tells me that I got my corn filled. And nowadays, if I hit one button transmit, there'll be a little beep, the little block will go over on the bottom right side of my screen saying it's already executed. It's a different world. So that's the biggest difference. The second thing I have matured over the years, I'd say is that I realized that because of electronics and computers, I don't really want to limit myself to just stocks or just this or just that the more I can diversify by market, the more I can diversify by time period, the more I can diversify by indicators, the smoother I can make my results. So I don't put on this label to myself of I'm a stock trader, or I'm a futures trader, or what when I retired back in 2003, probably most people thought of me as a currency trader, because that was the bulk of our business. I traded like $600 million of currencies. And all of the rest of the stuff was like 100,000 tops, something less than that. Or I mean Excuse me, 100 million, 600 million, and 100 million. So I mean, one-sixth of my business was all this other stuff. And now I trade currencies by way of the futures but I don't think anybody thinks of me as a currency trader anymore. I certainly don't view myself as one. And when the new book comes out, it's going to be the All Weather Trader that's kind of describing my life and how I figured out a lot of these things. And I think that's been the evolution of me learning how to fill the potholes, how to diversify by time period, diversify by market and smooth out the results and keep pushing the return to risk ratio up. That's been probably the last 50 years.

Puneet Khurana: Well, that's good. That's really insightful for me.

Manish Dhawan: Yeah, Tom, I wanted to know that trend following across various asset classes, is like watching paint dry. The feedback loop is very slow. When would you know that your edge in the strategy has stopped? You cannot really wait for the PnL to tell you that because the feedback loop is so slow.

Tom Basso: Well, Yeah. It's a good question. It's one that's almost a little bit of an art to try to figure out the answer to that. But here I'll take a shot at it. A lot of people who get into the technical side, they hear me talking about computers and trading platforms and all that, and,

so they go out, they're programmers, or they learn to program and they start programming all this stuff. And, over the last six months or something, their trend-following models produce losses, so they immediately jump to profits and losses as something is not working anymore. And that is not the way I look at it. I try to break historical simulations, very strangely down into up markets, down markets, and sideways markets. So let's take a simple trend-following model. Let's make it a 20 Day Against the 100-day moving average of some stocks. Let's take a market and we're going to time it. It's a liquid stock, we can get in and out any day, any day we want any second we want. So in the up markets, what would you expect a trend-following model to do with a stock that was highly liquid? In an up market? You would expect it to make money?

Manish Dhawan: Sure.

Tom Basso: So as long as that part of the simulation that I would write as an upmarket was making money, it's not broken. Then I would say Okay, let's look at this downmarket over in this section of the history, what would you expect a trend-following model to do during a down market, you would expect it to probably sell out, be in cash, and for the most part, have a line across equity on the equity curve, you wouldn't be making money, you wouldn't be losing money, we'd making nothing because you've timed out of it. So you'd look at those periods and say, Ah, there's the line going across the page. That's not broken either. Then you'd look at the sideways. Now what would you expect with a trend following sideways, you'd expect whipsaws, it jumps up, jumps down, jumps up, you're getting in, getting out, getting in, getting out, probably smaller losses than normal. But as it's going sideways, you're going to take some of those and you're going to have a drawdown. So you look for the sideways periods, and you look at the drawdown. And you say that's fully expected as well. So is anything broken? And you just keep going. That's the way I look at it. Because if you try to put a number to it, or try to run a simulation and try to somehow say this is no longer valid, then you're basically saying to yourself, that there will never be trends again. If you believe that then okay, then you shouldn't be a trend follower. I personally think the world has gotten more chaotic. There are more trends there. I mean, the greatest example that I can come up with is here I am boring, Tom, doing his little percent of equity risk controls to try to put a very small position on across a lot of markets. And along comes 2020, which was the year of COVID. We have the COVID crash starting in February, March, April may be May, and it just plummets. And I'm trading futures and I'm trading short stocks and my hedges are going that short as fast as I can take them off. I am just cleaning up on the COVID crash. And then what do you see on Twitter? Everybody's saying well, I don't know if this is the end of the crash because you know COVID looks really bad the whole world may die. We're going to have to at least test this bottom before it goes up. Well, guess what? It didn't test the bottom. So all those chart readers that were looking for the w the test of the bottom never saw it. But my indicators are based on just moving average volatility. Yes, my stops were a little farther away. But eventually, they got hit, I got in, and I was 100% invested. Futures all reversed. They went the other way. I ended up with a 103% return that year. And I'm the same boring guy then that I am now. And I can tell you right now my last 12 months as of yesterday afternoon was something like 9.9% for the last 12 months running.

Tom Basso: Same guy, same levels doing the same thing. Two different results. One is because the markets gave me that opportunity. And my indicators exploited it. And I just went along for the ride and, and did what I do. This year has been a little bit rougher. You've

got generally a down market, which has been profitable on the side of it. But there's been some choppiness on that downswing. So there's been some sideways in there, that cost me some. So I've got an okay year for me at 9%. If I finish the year at 9%, I'll be totally delighted. I don't, it's not gonna change my life.

Puneet Khurana: So COVID was an interesting time when not only Chartists but even the value investors started talking about W-shaped recovery and waiting for the markets to crash.

Tom Basso: where does that fall in the value investing handbook?

Puneet Khurana: Yeah, it was. I mean, I saw some fund managers selling out of the positions, which they called structurally buy and hold stocks. It means that you should hold it for a lifetime. But then they sold it in a matter of 30 days, saying the world is gonna end for them. So yeah, it was interesting.

Tom Basso: I always find it humorous that when people say I'm not a trader, I'm an investor. And I say, Well, what's an investor? Well, I buy it, and I hold it, and I said, are you gonna die? Sooner or later? Yes. Well, then your stocks are gonna be sold. You're a trader, you're gonna buy and sell? You got to have a plan for buying, you gotta have a plan for selling and I don't care how long it is. You're a trader. Well just quit with the investors like an excuse to turn your brain off.

Puneet Khurana: Yeah, yeah. Manish you wanted to ask something about the tools also, right? You said you wanted to ask Tom about the tools he uses.

Manish Dhawan: Yeah, I just wanted to know if somebody is interested in creating his own trend-following system. What software languages should he be learning?

Tom Basso: Okay, I'll answer it a couple of different ways. First of all, depending on your level of computer expertise, many of the trading platforms just like, I use Interactive Brokers and Trader Workstations, there are lots of trend-following models that are built into the system. And they will give you your buy and sell signals, and you can set them up. And you can use a simple spreadsheet to calculate your position sizes. So you don't have to get really super complicated computers if you are going to try to automate it fully. You're going to integrate your buy-sell engine, and your indicators together with your position sizing and have it spit out an order and queue it up so that you can just hit the transmit button and you're all done. That's a bigger level. But there I would probably look at C sharp as probably the most powerful and most comprehensive or flexible of other things you can do. There are a lot of tools, and tool packages for that. You could certainly hire a lot of C-sharp programmers out there they're all over the place. Microsoft has made the C sharp language completely public now. They're not possessing it as they did. One of the reasons I shut down trends back in the day was simply that Microsoft bought out FoxPro. And they supported it for about two, three years. And then all of a sudden said, No, now we're going to do, we're not going to do this FoxPro anymore. It's too close to Visual Basic. So you need to convert your stuff over, we're no longer going to support FoxPro. Well, my whole business was based on FoxPro. So though, I was facing a prospect of probably hundreds of thousands of dollars in a few years of work to convert over to Visual Basic, which would be the analogy.

And then I would be at their mercy still because Visual Basic was owned by Microsoft, they can shut down Visual Basic and say now we're just going to all do C sharp, we're going to shut down Visual Basic. So the reason I look for a publicly available, where all the code is available, the operating system is known and it's out in the public. That means it no longer is under the control of one company. It's a community. And as long as the community keeps enhancing it and making it better, I think that would probably be a better way to go for being robust down the road with your strategies. So I would learn C sharp and probably do my programming there and I actually have taken some courses in it. It seems pretty straightforward to me. I have not built anything. I'm working with another guy I'm consulting with now, to produce an in-the-cloud trading platform simulation and trading platform so that not only will I use it, but I'll be able to recommend it to people and hopefully make it easier for people to try to do some stuff without having a knowledge of computers.

Manish Dhawan: Great, this Interactive broker is for the order execution. Tom, I was asking, what do you do for backtesting?

Tom Basso: For backtesting, I, again, I'm working with this guy that's been two years now working on a project that we hope to have out in the next year to the public, but I get to use some of it, to test it out. And that is what I use for some of my testing. Other depending on the test, a simple spreadsheet, I mean, back when I started an Excel spreadsheet was a pretty clunky thing. But if you have 64 gigs of ram and the latest version of Excel worksheets, that's a powerful tool, you can do a lot. And so you can do some simulations, involving multiple decades of data and get an answer. And all it takes is a simple spreadsheet. So you can piece it together and cobble. In fact, a lot of times when I used to program in FoxPro, or Visual Basic, or whatever, I would start with a spreadsheet just to test out a concept a little bit and then I would apply it more globally using the programming. So I think you don't have to jump all the way to fully automated robotic trading. Right out of the gate, there's sort of a walk before you run, things that you can do to just build yourself up little by little, and one of the reasons I did, enjoy the ride on the website that EnjoyTheRide.world right here on my shirt. I have put together a spreadsheet, it's called ETR Tools for Excel. What I did that for was not to give somebody a globally perfect trading platform or anything but to show people how you can take a spreadsheet, a simple spreadsheet and you can do a lot with it. You can run several trend-following models, you can certainly position size using it, you can look at the return to risk ratios, you can just there's a lot you can do. And it's just a matter of how much you want to take it to full automation. In a trend stat days, we were highly automated. We ran 80 futures markets. And we ran countless mutual fund positions and 30 different currency pairs across five, or six different strategies for hundreds of clients. I mean, you're talking about a lot of data going on, and you better be on your game and processing data. I've got four clients, I got two accounts for my wife, two accounts for me. This is easier than what I used to do. So I think it's just a matter of starting wherever you are at this point and building to a different future if that's where you want to go.

Puneet Khurana: Actually, Tom, you took my next question. I wanted to ask you about ETR and wanted to know what is your intent with ETR. The title name is very exciting. Enjoy The Ride. And you certainly do it very well. I mean, I don't know what all things you don't do. I mean you're cooking, reading, golfing. It's great to see your life evolve the way it is. So just tell us about ETR.

Tom Basso: All right, well ETR started out with me helping out my stepson and my brother-in-law with some advice on when I put the hedge on and off and some money management friends of mine after I had retired kept in touch with me by way of social media that was Facebook in those days. So I decided that I'm just gonna put my whether I'm long short, up direction, down direction, hedge on hedge off makes it a little tiny snippet. It won't take me long and it can go out to everybody and what the money manager started saying, Wow, that's great, so one leads to another pretty soon I've got a number of 1000s of Facebook followers trying to get my signals. And I realized there's a limit of 5000 on your personal page. So I had to create the Facebook EnjoyThe Ride.world page so that it wouldn't be limited by the 5000. And at the same time, one of my former friends Well, my friend, he's still a friend says there's a lot more financial discussion going on over on Twitter you probably should put your posts over there as well. So I did. I had zero Twitter followers. I now have 46,000 Twitter followers. And as Musk points out, probably some of them are robots or bots. But the essence of what goes on there is a lot of financial discussion on Twitter. I'm also on several other social media sites, which don't really amount to much. LinkedIn is mostly people trying to sell me website enhancement. It seems like it's sort of a waste of time, it seems. And a lot of them are from India, by the way. But the reason 'enjoy the ride' came into being was one time, I had a hedge and it was a whipsaw trade, I put it on. the market came back roaring upward. I took the hedge off, stocks were up so much that day, I actually made money that day really well, because the hedges came off and the stocks just went crazy. And so I kind of relayed that in the message. I said, Well, looks like this hedge trade, which was doing well, for a while now, had to come back off. It's a whipsaw trade, these are part of the trend following. My stock side of the portfolio is going crazy. Enjoy the ride. And everybody loved it. I got comments about oh, that's cool, enjoy the ride. Yeah, that makes sense. That's what we really do as traders. So I used it again. And I did it a third time, and everybody started, really liking that. And then somewhere along the way, because of the 288 characters, which is a limit on Twitter, I hate that. I guess I'm long-winded or something. But I don't like all the cryptic abbreviations, stuff, and limits. When I got to the end, there was no way. there wasn't enough space for 'enjoy the ride', which is a lot of space. So I just put E T R, I go out and go golfing. While I'm gone. Some Twitter followers say, what is ETR? One of my other followers says, Enjoy the ride, dummy. And at that point, I knew that ETR had been tattooed on my forehead. I am now Mr. ETR, I guess. And now I get all sorts of I mean, I just see people quoting they'll say something. And then they'll say, as Tom Basso would say, enjoy the ride. People use it all the time now in trading, and it just encapsulates it. So when we were trying to figure it out, my wife and I were trying to figure out how to deal with the increasing amount of emails that I would get from traders around the world, asking questions about how to position size or whatever. I said this is getting to be a little burdensome, I'm getting six, seven of these a day. And a lot of them are the same questions over and over again. And we were in Malaga, Spain at the time on vacation. We were kicking around ideas. So I said, it's got to be asynchronous. I don't want to have to be in the office every day, I want to go out and golf, I want to go out and prune the bushes in the front yard, do other things. I want to go cook dinner, whatever. I don't want to be sitting here just answering people's questions. And she said, well,I Laurens has his trading mastery school. And he used to be in Malaga, Spain, and we were visiting him. And I said I don't want to do a school. I mean, I could do that. And I could do it on Zoom. But then I'd have to be there Monday morning at eight o'clock or whatever for the Zoom call with all the students and find out what they did for their homework last week or whatever. That's a job. I'm retired,

and I don't want a job. So we came up with the website. And then she said, Well, why don't we call it enjoytheride.com? Well, that was taken, .com was taken, but that world wasn't. So it became to enjoy the ride dot world. And ETR is enjoying the ride. That's how the whole thing evolved. And what I'm trying to do with that is just help traders with trader education. I've got videos that I tried to produce there that were pretty hard to produce. They're a little more expensive, but I got recommended reading that you can go buy them yourself whatever you want to do. I've got inexpensive little Webinar recordings that I cover a certain topic and I'm gonna be doing a lot of more of those going forward. As soon as we get the right combination of studios here. We're going to probably be rehabbing a new house down in the Phoenix area and that'll have a production studio so that I can do even easier interviews. My wife will have a production office that's separate from mine, so there's no echoing of the mics and all that stuff, but that's where we're just using it as a retirement website. I don't get rich off of it. It's just a way of me communicating a lot of stuff to a lot of people and not having to answer emails one at a time, which gets to be a little bit I'm pretty good with a keyboard but if the volume gets too high.

Puneet Khurana: Finally you are Mr. ETR. From Mr. Serenity. Right. So at least that title is changed now.

Tom Basso: Well, people still call me Mr. Serenity so I'm tagged with that one, I guess. Thanks to Jack Schwager. But yeah, Jack is a good friend, like,

Puneet Khurana: I think Jack's book did a lot of justice to the title itself because he actually made us see why you are called what you're called. So in fact, I think in the introduction, he said, You asked Tom the time, and he will tell you how to build a watch.

Tom Basso: My wife would say that my wife's favourite saying lately has been, you don't want to be in Tom's brain.

Puneet Khurana: Yeah, that was great for us. Great, Tom. Actually, one last question. Do you have Italian parentage? Your name is Basso. I mean, is that where it comes from?

Tom Basso: Sir? Yeah, the Piedmont region, that is Piemonte by Torino, just southeast of Torino in a small village called Ponte Quo Rone. It's where my grandfather and grandmother grew up.

Puneet Khurana: Wow. Okay, but you have always been in the US.

Tom Basso: Yes. I'm 100%. US citizen. My father is a 100% US citizen. He passed back in 1999, I guess. But yeah, he was born in the United States. It's a little just on the west side of Syracuse, New York. Oh, great. Great. A very heavy concentration of Italians. There. Everybody has an a, an e, an i, an o, or a u at the end of their name.

Puneet Khurana: Okay. Great. Manish, do you have any questions? I'm done with my questions. I have a lot of technical questions, but I'll leave Tom to answer that sometime later because it's already running a lot and the markets are crashing. I don't know what Tom wants to do right now.

Tom Basso: So I've already got a plan. My plans are in place everything that's happening today has been planned for so

Puneet Khurana: great. Great. Thanks a lot, Tom for your time, it was great talking to you. We loved that, we will again do something sooner with you and looking for your production office to be in place. And maybe something else together. Last question, who else would you like us to profile? I mean, people you admire, people who have a lot to tell, who would you recommend?

Tom Basso: Probably Laurens, Laurens has a very good insight into a lot of things. I've always liked some of the stuff that Michael Deaver used to know him back in the industry. And I heard him do a seminar with me. Now he's a futures trader, but he does some other stuff. He's out in Pennsylvania, and he always had his head level-headed nuts, you know, type of guy, he's pretty good. With a lot of concepts. I think. I'm trying to think of who else out there that nothing's Come on.

Puneet Khurana: I mean, you can always I mean, we can always get in touch by mail and maybe you can recommend a few to us.

Tom Basso: Yeah, exactly. Or you could throw out names. And I could say, well, he's going to be a little more interesting than this guy, whatever. You know, I'm retired from the industry. So there are a lot of people out there that are probably excellent that I might not even know of because there's no reason for me to know of them. Unless they've befriended me and asked me questions or something I would know. The Van Tharp, like RJ Hickson from Van Tharp Institute, is an interesting guy and he'd be pretty good on the mental side of trading and peak performance. So he knows a lot about that topic. I don't know. Shoot me an email.

Puneet Khurana: Yeah, I will do that. I will do that. And so when is your next golfing book? Or are we expecting some other book from you now?

Tom Basso: No other golfing books.

Puneet Khurana: Something on cooking maybe?

Tom Basso: I did that golfing book on putting because I used to put in championships. I used to do just putting in what was called putt championships back when I was in high school and early college, and so I became very, very good with putting, therefore, I wanted to always stay good with my putting and I wrote that book so that I have something to read myself when my putting got a little off, I could go through and oh, yeah, that's what I forgot. I do, and I'm stupid. And so it's a way of giving myself a putting lesson. And as long as I had the book written, as long as we had the website, I thought, Well, why not just go ahead and make this a PDF, and people can buy it if they want it. Just one more thing on the website. So that was during the early days of the website, where I just look for anything that made any sense at all to put up in the store so that I'd have things for people to look at and decide. I have actually sold a number of the putting books and a number of people have written me back saying it's really helped him so I'm always trying to be helpful.

Manish Dhawan: Tom, thank you for taking out the time for us. It was very insightful and really appreciative. We had a great time.

Puneet Khurana: Absolute pleasure to get in touch with you to learn from you. Looking forward to a lot of such exciting, enticing sessions, and all as well. All the best for your retirement journey. You are doing all the things everybody wants to do, and keep inspiring. Thanks a lot.

Tom Basso: It does not suck to be me. I have a good life.

Puneet Khurana: Thank you.

Tom Basso: Thanks. All right. Have a great night. Bye.