Twitter Thread by Jason Nelford

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@JasonNelford

1/ I love learning about the markets. There are some brilliant people I've found on Twitter who have provided great insights (among others):

@JeffSnider_AIP
@LynAldenContact
@LukeGromen

But this thread is (mostly) about @profplum99

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2/ Mike has an encyclopedic knowledge of market history. This interview by @DiMartinoBooth (who I also have a lot of respect for) puts that on clear display.

https://t.co/4hSd2TG4du

Mike's explanation of passive investing and its effects on the markets was eye-opening.

3/ According to research conducted by Anadu et al for the Federal Reserve Bank of Boston, passive funds made up 48% of US equity assets under management in March 2020. That number was just 14% in 2005. Meaning 8.6% annualized growth over 15 years.

https://t.co/ReuBiCAcPn

4/ Per Mike, "passive funds have this really simple algorithm: if you give me cash, I buy." No fundamental valuation, just buying the current market-weighted index, which means a stock gets greater representation in your fund the higher its current market value.

5/ Employers and pension fund managers are predictably contributing to IRAs through fixed salary percentages on a monthly basis. And passive funds typically hold tens of basis points of cash on the sidelines because, per Mike, "it's toxic to their business model."

6/ I called one of my best friends, an investment advisor who I've known since grade 7 and said, "I gotta get a number—give me a number!" He immediately responded, "4"—his hockey jersey number—and then proceeded to tell me that active funds have four to 16% of their AUM in cash.

7/ So, thousands of percentage points higher than passive funds. Meaning trillions of dollars are being inefficiently (from an EMH perspective) pumped into the markets through a sheer desire to reduce fees—delaminating price from fundamental reality in an exponential function.

8/ All fuelled by MMT, negative real interest rates, towering debt levels, hyper-financialization, and millennials YOLOing stimulus checks into whatever the hell they want because they're fed up with a system that appears unlikely to ever afford them a house with a fenced yard.

9/ Short interest is at an all-time high but the shorts are getting bankrupted because the whole thing is strapped to @elonmusk's rockets ■—so far, the #Challenger hasn't exploded yet, just Melvin Capital Management in its battle with #reddit traders over the value of #GME

10/ Took some #Bitcoin off the table a couple days ago. Thanks @profplum99. Need to attempt rationality in this market. The numbers are too big in the #USDT debacle and I don't have any good reason to believe reserves are even close to backed 1:1.

Still a Bitcoin believer though

11/ With high volatility and variance/polarization, the markets and citizenry spend little time at the mean, but the older I get the more I realize #balance is important, as eloquently put by one of the best investors of 2020, @chamath, in his interview last year with @RaoulGMI

12/ I watched Mike's debate with @nic__carter and came away convinced that my #Bitcoin thesis was still right. I immediately wrote a summary of the interview, mostly detailing my objections to Mike's points (supported strongly by Nic's great performance). https://t.co/zaDGja6433

> 1/Really enjoyed this convo between @profplum99 & @nic__carter. I am bullish on #BTC but, like everyone, I suffer from some level of confirmation bias, and so I've been following Mike more closely for the past few weeks. Here are some key takeaways and thoughts from the debate: https://t.co/7l6VWTd2WG
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> — Jason Nelford (@JasonNelford) January 25, 2021

13/ Only after I wrote that thread and declared my bias confirmed did I read the Crypto Anonymous paper and watch recent interviews with the executives at #Tether and #Deltec. "Hmm," I thought, "why are so few Bitcoiners taking this seriously?"

Maybe Mike had a point...

14/ The likely Tether fraud absolutely needs to be taken seriously, but I still believe in #Bitcoin. The deeper I go in my study of the markets, the more I see relativism—ie, comparing one unhinged thing to another—and the less I see any fundamental grounding to economic reality.

15/ It’s like we went from a #Newtonian understanding of the world where gravity kept things in check to an #Einsteinian one where things now go boom in atomic positive feedback loops—eg, the only way out of a gargantuan debt bubble is by issuing exponentially more.

16/ I believe #Bitcoin can theoretically solve this, acting as a ballast in this wildly unstable economic experiment. @nic carter was right: we have only been on this pure #fiat experiment for 50 years.

17/ In sum, thank you @profplum99. I’m learning a lot from you and will continue to listen with an open mind.