

Kurt ([00:04](#)):

Welcome to Behavioral Grooves, my name is Kurt Nelson.

Tim ([00:06](#)):

and I'm Tim Houlihan. Given the strange and turbulent times that we're living through, Kurt and I decided to reach out to some of our favorite behavioral science researchers and practitioners to get their take on the novel coronavirus pandemic that is shaking the world.

Kurt ([00:21](#)):

These special edition episodes. We'll explore a variety of different aspects of the crisis and our response to each of those aspects. Through a behavioral lens, we know that you may feel overwhelmed by the crisis already. It seems every news story, every social media thread, every phone conversation that we have is focused on some aspect of the pandemic right now.

Kurt ([00:42](#)):

While the news and updated information are essential, we're going to take a different tact. We want to try to understand the science behind our reactions and our behaviors and how science can help us cope and move beyond the current crisis. In each episode, we talk with a different behavioral science expert and get their best thinking on an aspect of the crisis. So sit back, take a deep breath and listen to our special series on behavioral science and the coronavirus pandemic.

Tim ([01:12](#)):

Barry Ritholtz is an author, columnist, blogger, equities analyst, CIO of Ritholtz wealth management and guest commentator on Bloomberg television. Barry also hosts the Bloomberg podcast masters in business where he talks almost as much about markets investing in business as he does about the behavioral science behind why we do what we do now. We met Barry in New York at a conference over a year ago, and frankly we couldn't stop talking about steely Dan and you can hear all those comments in episode 47 by the way, but, but right now, Barry, welcome back to behavioral groups.

Barry ([01:46](#)):

Well thanks. Thanks for having me. I am, I am socially distanced. No one is around. I'm working from an undisclosed location, my office at home, and I'm just basically, uh, getting by like everybody else.

Kurt ([02:02](#)):

Well, I have to, I have to correct something. So it was you and Tim talking steely Dan and I was just sitting silent by the side as you guys know. So just, just, just to clarify that it wasn't all three of us. It was you bonded without getting into steely Dan.

Barry ([02:20](#)):

So I always have tickets to various shows and things coming up. It's been a daily parade of what concerts are getting rescheduled. What's getting, so we have tickets to KT Tunstall tonight rescheduled for February. I have tickets to Kurt Ellen at the Tila center in, um, CW post canceled. They're not even rescheduling it. The Shanghai quartet. And my immediate thought was how close is Shanghai? Is that actually, and they didn't cancel that. They rescheduled that for August. Um, every conference in February, April may has been pretty much canceled. It's, it's, these are unusual times.

Speaker 3 ([03:06](#)):

They are. And just given that the economic impact that that has is just again, the, the ripple effect of that. Right? It's not just those artists, it's not just that, it's the concession stands inside those places. It's the lighting, it's the sound techs. It's everybody that is associated with that has that.

Speaker 2 ([03:26](#)):

Yeah. Now they're postponed or canceled. So, so last week I did a post called, sorry, we're closed and basically described what happens when the U S economy other than essential services like police, fire, sanitation, healthcare, hospitals, pharmacies, supermarkets and a handful of delivery restaurants closes down. And I use the, you know, that nice little sign they hang in the window when a merchant leaves temporarily, sorry, were or closes for the night or goes on vacation. Sorry. What club? And I got pushed back. Like, dude, what are you talking about? It's, this is, okay, let's see what happens. And think about this. Other than those sectors, people are hunkered down at home. No one's buying houses. No one's buying cars. No one's going to retail. No one's buying durable goods other than big free food freezers and guns and ammo and bottled water. People are very much in a survivalist mode.

Speaker 2 ([04:29](#)):

And that means the rest of the economy has essentially ground to halt all of the estimates I've seen from, from everyone, from Goldman Sachs, uh, to, to private equity and hedge fund forecasts. They're wildly optimistic. I mean we're probably going to see 30 million people unemployed within a week or two. And it's that much that many people have been laid off. There have been that many people, um, uh, applying for, uh, unemployment benefits. And in fact, the white house yesterday asked all the local States to stop reporting their preliminary numbers, which is always a bad sign when the government says we don't want data, we want to keep this on the down low where we're not happy with that. So it's, it's the earliest indicator you get to what's going on. So essentially we are already in a recession, um, perhaps not by the traditional measure of GDP, which is wrong.

Speaker 2 ([05:28](#)):

It is a substantial decrease, um, in economic activity, uh, over that is, uh, sustained and widespread. And it's still early days, but it's clearly widespread. And the earliest we're talking about this being done is a month and more realistically, if you look at the example in China, probably closer to two months. So here we are. So the impact is much beyond people who just don't stocks and investments and those kinds of things. You're talking about impacts to people who don't have a big savings or big investment portfolios, right? That's right. That's right. If, if think about everybody who's an hourly employee that they're in trouble. The gig economy. Um, my backyard neighbor is a chiropractor. He has a pretty substantial practice, uh, of over 40 people in a couple of different offices. They laid off their first 10 people. Um, think about all the restaurants that are closed, don't do delivery.

Speaker 2 ([06:32](#)):

They're laying off thousands of people who is, and then thinking about everybody who is transactional. So if you sell cars or you sell houses your on a furlough for at least 30 days, probably closer to 60 to 90 days. Now, multiply that by every sector in the economy, uh, pilots and, and uh, flight attendants and everybody associated with taking care of those aircraft and keeping it on the air. Everybody who works for Disney world or Disneyland or any place like that, movie theaters, sports arenas, and that's just entertainment. They're not even filming television shows or entertainment. Even the late night talk show hosts pretty much stopped doing anything. It's hard to think of a sector other than a social service,

essential services, healthcare and food that, uh, utilities, I guess electricity, water, sanitation. But I guess that's essential services also, the whole country is closed. But for those services, that means we're in a recession.

Speaker 2 ([07:39](#)):

And when people look at the 35% selloff, the market is fairly rationally and stunningly quickly trying to guess what the future looks like and they're guessing that we're going to see a giant decrease in revenues for all these companies and a complete and total debacle in profits. That's what markets do. They collectively are a future cash discount, cashflow, discounting mechanism, um, the wildcard and all this is, Hey, when do we get better? When, when is there a cure, when is there a treatment, when is there a vaccine? And when does the economy come out of it? Spidey Hill. And the real answer to those questions are, nobody knows. But part of, we know from our previous talk with you that we're not always rational actors and the markets themselves, the people in the markets aren't always rational actors in this situation. Is that a rational response or is it really an emotional response right now that we're going through?

Speaker 2 ([08:42](#)):

In other words, is this over-hyped? Is it under hyped? You know, where are we at? Or do we just not know at this point? So it really, well, we never know until later we can make a reasonable assessment. And the assessment is if you're a longterm investor and you don't need this money for 10 2030 years, um, it, it doesn't matter. It doesn't make a difference. It's a temporary setback. It's hard to imagine that the Oh nine crisis was a temporary setback, but history has shown that it was. So just in the process of looking at how far out your holding period is, you may have a very different set of needs with how you're the steward of your capital. And if you measured in days, weeks, or months, you're probably making the right bet, moving out of the way for mom and pop at home for people who don't need their money for, let's call it 10 2030 years trying to day trade.

Speaker 2 ([09:39](#)):

This is really all been impossible. So, you know, I had a conversation with somebody who's a doctor who said, you know, I saw this coming and I wanted to get out of the way and I should have known better. And this is somebody I've talked off the ledge. I can't even tell you how many times. So for over the past couple of years, and I've heard this similarly from a number of people in the medical community, Oh, I should have gotten out of the way. And I'm like, didn't you say the same thing about five years ago? Then you say the same thing about, I even remember what the disaster was. I saw a calming, I want to get out of the way. And you know, it's, it's, we're actually not all that far away from that 0.4 years ago anyway. But the idea that hindsight bias is going to tell everybody, uh, we, you know, there was enough warning between China and elsewhere.

Speaker 2 ([10:28](#)):

We, I should've gone out. I knew this was gonna be bad. I should've sold my stock. No, you didn't know. And if you, it's easy with the benefit of hindsight to look back with what you know today, but at the time you're thinking, no, no, we're, we, we won world war II, we saved the world from fascism. We should handle this. America knows what it's doing. Or maybe not. It that was, that was a different era. Now, what do you think this recession could do to costs of rents or cost of food or, or, you know, basic cost of living things? Again, thinking about people who might not be heavily invested in the market, even for

their own retirement. Uh, what about that? What about basic day to day stuff? So I've, so we order from Peapod and Insta cart and Amazon prime. So, uh, Amazon fresh.

Speaker 2 ([11:18](#)):

So we're getting food deliveries like every week it's a different, I don't, I don't do them all each week we do one. And then the next and the next. So every week a different delivery is going. It's like a good opportunity to do a little research into this form of a business. And I've noticed some things cost a little more. Prices have ticked up. Definitely. Um, it is an ongoing, uh, issue. If you are on a budget. Um, uh, I went to pick up some prescriptions and they completely socially distance. You can't come in the store, you're just in a waiting area. Um, you went in and they drop it off, you drop off the cash, you pick it up. It's like really well handled. And then on the way back, I drove by the supermarket. Not that I want to go in, I just want to see it. Every spot is taken. Today is March 20th. You should have been buying food a week or two ago. I'm shocked that people are just this freaked out this late in the game. But I guess that's, that's what sort of happens. So in the meantime, everybody is sort of a sitting in place and, and hoping for the best. But clearly this is having ripple effects across every man, woman and child in America and every business, every person who is either a employer or an employee in the country.

Speaker 3 ([12:39](#)):

Yeah, we just talked with Annie Duke yesterday and talking with her about some of the pieces that are going on with this. But one of the things you know that she talks about is you know, her resulting, you know, it's that, that hindsight bias piece of this, and you talked about people anticipating this and the fact of the matter is is we were in an unknown situation. So to, to really anticipate and go, I need to get out of the market here is kind of a sophomore, uh, explanation of, of yeah, I could have read these tea leaves because nobody was reading those tea leaves and you could guess, but it was still a guess.

Speaker 2 ([13:11](#)):

Right. My favorite aspect of that is the BuzzFeed story. They went out on Twitter and search for a quote. I'm not an epidemiologist, but, and all these people are explaining why you should've seen this coming even though they're not epidemiologists. And I just was reading it and thinking, Oh, this is classic hindsight bias. Yeah. Now, now they won't for sure what they claim today. They knew six weeks ago. It's hilarious. What other biases should we be looking out for right now? So the, the Avi, which ones, the obvious ones are fear and greed. A lot of people are, are kind of panicking. We're watching the market swing back and forth. I think we were like eight or nine days where the Dow was oper down a thousand points that that clearly has never happened. And while a thousand points today are only 3% is that right? Yeah, that's about right. Or at least it was, now it's close.

Speaker 2 ([14:14](#)):

That's right. Now it is is fine. It's 5% but when we started it was, it was lower. But you know, that's just unprecedented. And if the market falls 9% and some people panic and sell into it and the next day the market is up 9% and some people panic and buy into it. You could see how you can, you know, it's the great of fear and greed. Carl Richards drawing, which is in my office in the city. I was going to show it to you here, but it's buy high, sell, low, repeat until broke. And people are doing that for sure. So that's one issue. The second issue is, is the narrative fallacy where people are constructing these stories to explain what's happening and they never have these stories in advance. It's always after the fact, Hey, let me explain to you exactly what happened. You haven't the slightest idea what happened, the fable you've created, tell it to your kids at night to help them sleep.

Speaker 2 ([15:19](#)):

But you know, we love simple answers. We make the world binary. Oh, this happened. So therefore this is going to happen. You know, the real world is much messier and much more complicated. As much as simple stories are great when you're a Hunter gatherer society and you can use them to pass knowledge along. Hey, we understand that's not really how the world works. And um, you have to be on guard that you're telling yourself lies. And we see, certainly see a lot of those. That's really great. We need to be on guard to be watching out for lies. I think that's terrific. How do you think the, uh, this crisis is going to change the way we look at investing or the way we look at markets?

Speaker 2 ([16:05](#)):

Is it, well, that's a really interesting question and one of the things that came up in a conversation not too long ago was, was this, you know, what do you say to investors who are freaked out by this hundred year flood? I love that question because this is not a bug. This is a feature of markets. Markets go up and down and please stop calling something that seems to happen every 10 or so years. A hundred year flood. It's 20, 20. It's 2008. Uh, so what do we have? We have the Coronavirus crash down 35% and counting, uh, Oh eight Oh nine down 56%. the.com crash. Uh, the NASDAQ fell 81%. The market almost got cut in half broadly. You go back to 87 down 23% in one day, almost peak the trough, uh, cut in half. It was in the mid forties 73 74 down 56 or 57%.

Speaker 2 ([17:03](#)):

So keep on coming and that's, we'll leave out 1929 cause that's the outlier unless you want to talk about Japan in 1989 and that's the greatest outlier of all that bubble was depending on whose data you want to use, five to eight times the size of the NASDAQ bubble in 2000. So let's just stick with the U S and just stick with the past. Call it 50 years. We've had lots of these and they happen all the time. So first knowledge and information is a giant resource to you. It really helps you anticipate what's going to happen in the future. And then the second is working with a plan and sticking to it. You know, I have called in the past, um, planning the equivalent of time travel, right? Stop and think about it. You are scuba diving and you are out of a cage and suddenly you see a shark swimming towards you with malicious intent.

Speaker 2 ([18:14](#)):

Now you could either say, gee, I wish I could go back in time and have, you know, some defensive tools, a bang stick of flare or something. Or you could plan ahead and think about all the various things that could go wrong. And so when you're in that situation, you don't have to wish you were a time traveler. The planning you didn't advance is the equivalent of time travel. Oh look, I just think of it as when I set the coffee maker at night to go off early in the morning. So when I wake up every morning I wake up and I say, thank you evening battery for making morning Barry's life so much easier. And it's the equivalent of time to, if only I could go back in time and set the coffee maker so that when I wake up, it's ready. Well, there it is. And it's not just coffee and sharks.

Speaker 2 ([19:01](#)):

It's also any financial circumstance you have. That includes how much leverage should I have? If I'm running with a lot of debt, what happens if things get bad? Should I really be buying that? You know, we've counseled clients who spends a lot of money. Should I be buying that second beach house? Maybe that's a little overkill, um, or cars or whatever. I'm not a big fan of the, you know, the budget shamers and the people who, you know, [inaudible] Pisco over people buying lattes, but prudence and

reasonableness and not, you know, being on the hedonic treadmill and overspending is a big issue. And then the same thing comes with your portfolio construction. You know, I've said this repeatedly, the optimal portfolio isn't the one that's going to generate the best returns. It's the one that you can live with. If you're a hundred percent equities, you will do better than a 60 40 portfolio.

Speaker 2 ([19:58](#)):

There's no doubt about it, except you probably got shaken out. And sometime in the first quarter of Oh nine, you may not have gotten back in till 10,000 points later. And in the middle of this, if you're a hundred percent equities, how do you feel on a day like today when the market was up 400 points and now it's down 400 points, the Dow. Anyway, so those, these 4% swings, intraday swings, if you're all cash, Oh my God. Who wants to have your all equity? Who wants to deal with that? You know, there's an old joke about the trader who, uh, uh, a friend of his said, Hey, this market is horrific how you sleep? And he goes, Oh, I sleep like a baby. He goes, really? You're sleeping well? He's like, no, I wake up in the middle of the night, wet myself and cry. And that's an old trader's joke. But it's funny cause it's true. If you can't live with your portfolio, I don't care how great the returns are. It's not a good portfolio for you. It's a bad fit.

Speaker 3 ([20:56](#)):

Well, and I know I, I've, I've talked with lots of people who are going, I'm just not even looking at right at this point. It's so volatile every day. I don't, you know, I get ecstatic or I get really sad. So I've just given up looking and I'm just, I'm in a denial phase and that's probably not the best thing either. I'm with you on it.

Speaker 2 ([21:14](#)):

Cause if you're not looking, it means that you haven't accepted the reality that markets do go up and down. You know, I know a lot of people who never looked at their, their 401k statements throughout the whole Oh eight Oh nine crisis had they look, they might've noticed, Hey, for the past two years you've been accumulating coupons and dividends and you're probably sitting on thousands dollars worth of cash. Anytime a market is down 35%. That's my first leg in. I'm a buyer. They're down 50%, 45%. That's another one. I told my staff earlier this week, um, I upped my 401k contributions by \$5,000 a month cause I want to buy into this mess on the way. Um, and I rebalanced my wife's rollover IRA. She had about \$2,000 worth of cash into equities and we went out and we bought some NASDAQ cues as part of that. You know, Rhea wasn't a, I'm not calling a bottom, it wasn't a big buy in and put millions of dollars at risk, but it was basically, Hey, these are a handful of simple things you can do.

Speaker 2 ([22:17](#)):

Market's down 35% I would like to participate in that and I know I'm early and I expect to pay less later, but this, you never know. This is the first step in the next step. It will be down another 20% from here. And if we keep going, we'll do another step. Incidentally, if you're in your twenties thirties forties younger than all of us, you love a good market crash because you don't need your money for for decades. So when everything goes on sale, that's fantastic and whatever you own is probably modest compared to what you're going to have later in life. So a crash gives you the opportunity to, to buy stock at a discount and put it away for a few decades.

Speaker 3 ([23:05](#)):

What if you're on the other end of it though. What if you're 60 years old and you were expecting to retire in five years?

Speaker 2 ([23:13](#)):

So assuming you are working with some sort of a financial plan, if you're less than 10 years out from retirement, and especially if you are two, three, four years out from retirement, you should be in a fairly conservative portfolio, maybe 50% stocks and bonds of each 50, 50, 60, 40. You shouldn't be really, really aggressive. Uh, the thinking is you want to draw capital when you need it, uh, from the bond portion, not from the likely to recover eventually equity portion. So that's a, here's a little time travel. People who are close to retirement should be running a higher allocation of bonds. That's something you've discussed with your CFP or your financial advisor. Uh, the time to take a lot of risks, uh, has to be when you're a decade or longer away from retirement, when, when you're in single digit years to go to retirement each year, you should be ratcheting down your, your risk profile a little more just because events like this come along. And you might need your money before the market has a chance to recover.

Speaker 3 ([24:24](#)):

You talked about your, what you've been doing here real recently where he's putting little things in and you got to phase two that's coming in different things. And I, I like that approach, particularly given the fact that you've talked about, you know, you don't know if this was the bottom. It could be, but it could not. You know, it probably most likely isn't. But you're going to get those people at the end that, that the doctors that were saying, Oh, we should have anticipated this here. There's going to be, at some point somebody is going to go, Oh, I missed that. I should have anticipated that was the bottom. And you're just saying, no, let's do this. Very planfully looking at this. You don't know. Exactly know. So, you know, put a little bit in but a little bit in and just keep working it. Fond

Speaker 2 ([25:04](#)):

of repeating the story. Um, I was known as an Uber bear heading into the Oh eight Oh nine crisis. And, and on March 7th, I recorded an interview with Yahoo TV and basically said, Hey, every single thing I look at is, is just pins all the way over the most know, I don't know if people remember the VU meters evolve, but no matter what indicator you look at, it was as extended and extreme as it ever gets. And so I said on TV, everyone was shocked. You could cover your shorts and go long here, this is as good a place to buy. If it keeps going, it's going to zero. So it doesn't even matter at that point. Your paper money is worthless. So why not buy here? And um, and uh, you know, that was literally the day before the low. The next day the market was up 10%.

Speaker 2 ([25:54](#)):

And I've disclosed this a million times, but no one wants to believe me. You could have asked me the same question a month or two earlier. For a month or two later, I would've given you the exact same answer. Hey, this is about as oversold as we get. Maybe it gets a little worse and it's the same advice. Don't try and pick the bottom leg in as you're going on the way down pyramid in on the way up and you'll years from now being a much better set of circumstance than the person who guests and has a binary outcome. Either they're right or wrong, someone will randomly be right. Last time it was me, I'm not counting on getting lucky. Two crashes in a row. From a behavioral perspective, what do you think we might learn from what we're going through right now? You know, I continue to be astonished as to how little we learn from history, at least as a species, as a group of investors.

Speaker 2 ([26:51](#)):

Um, we are notable not only for the mistakes we make, uh, but for seemingly being unable to learn from them. Uh, but this is just another in the list of hundred year floods that are misnamed that, that this is how markets operate, how markets behave. Something goes wrong. In this case it's an externality. Um, it wasn't, the financial crisis was internal to the financial system. That was a trifecta of disaster. It started, uh, in the, um, overall economy with the real estate market rolling over. There was so many bad mortgages, so much bad credit that that began to freeze up. And then all the derivatives that were built on top of that blew up. And then the, the last thing that happened was the stock market crash. So this isn't that, in some ways it's much more akin to nine 11, an exogenous shock from the outside, although nine 11 happens a year and a half into the, you know, the.com implosion.

Speaker 2 ([27:57](#)):

Um, so clearly wasn't the cause of it. If anything, it just made it worse for a moment and then yet a snap back. And then we went back to the prior trends of, of trying to sketch out a bottom, which wasn't made until another year later til October Oh two. So, uh, this, this is more of a nine 11, uh, an externality situation except, and I, I'm shocked I have to say this, but nine 11 made everybody completely stressed out. Anthrax in the mail. People were losing their minds, but economically it was limited in scope, duration and geography. It was essentially New York city in DC with a couple. And Boston is where the plans left from and a couple of other things took place. But really two weeks, three weeks later, everything was reopened and people slowly came out of there, their homes and, and life began to normalize slowly, but on an economic scale. I, I'm shocked I have to say this, but that was modest compared to everybody stay home. New York city and Calla basically said, everybody work in place. California, big biggest population state in the country. Everybody work at home. This is going to be a temporary massive, uh, economic recession. The good news is on the other side of it, we should snap back pretty quick.

Speaker 3 ([29:24](#)):

Does it matter if, because it's global, I mean, you talk about California in New York, kind of shutting in. You've got Spain, you've got France, you've got Italy, you know, all of those different things. Or is there going to be an aspect of this from a global perspective? Again, looking back at history, is there any lessons we can learn from this?

Speaker 2 ([29:42](#)):

Well, the first one is the supply chain. When you look at how people are dealing with their iPhones and stuff, if you want an iPhone, you're going to have a hard time ordering a new one because a, they can't get the parts. Um, that, that's going to be a problem that, that's one. Second, when you think about some of the things we've changed in response to the globalization of, uh, the economy and the automation of the economy, whoever invented just in time delivery, that's great if you're making some bullshit product that you know, whether you buy it or not as relevant, but which fucking genius thought, that's what we should do with ventilators and gloves and masks at hospitals. How do these geniuses not have a year supply in the basement? It's mindblowing and this isn't, this is in hindsight bias. There was a report that came out two years ago that specifically cited those things in advance. We're unprepared for a pandemic. We need to stockpile all these things. We don't have it. Look at us, we're really, really stupid and you know, perfect example. Oh, if only we could go back in time and do it. You did. Someone tried to tell you this and you chose to ignore it. It's, it's just astonishing.

Speaker 3 ([31:06](#)):

Yeah. Our conversation with Annie Duke, she talked about hedging and this would have been an a really, really inexpensive way to hedge super, you know, it's gonna affect our profit margin by the way. I want to find which of the private equity assholes decided that not for profit hospitals need to be more profitable. This guy in the ocean, somebody made some money and uh, I want to claw that back. Uh, I'm, I'm a gas. Yeah. It's crazy when you think about that too. To the degree that we are putting people's lives at risk for, for minuscule amounts of, of, of savings. And somebody's, you know, pocketbook is, is really unfathomable in, in certain, you know, kind of my mindset, just I don't get it. But again, from a behavioral science perspective, it's that nearsighted blindness of, well this is the way it works fine today. Why would we have to, why would we even worry about that future pandemic or whatever else would happen that could potentially change the dynamic.

Speaker 2 ([32:09](#)):

So, so this is not my hindsight bias cause I was whining about this in Oh six Oh seven and enough people told me to shut up about it. But what were the banks thinking, running incredible leverage. So little capital reserves and the capital they had was junk. And I'm not talking about, you know, criminally negligent firms like Lehman brothers Dick fold by the way, you should have gone to prison. That's my view. Um, the, there was an incredible amount of fraud and criminality at Lehman brothers highest levels. But hold that aside. The whole industry thought, Oh, this could never go bad. There was no suitable risk assessment. And one of the mistakes we made, and now this is hindsight bias when I'm about to say we required the banks to go through their books and, and basically take the most speculative investments off their books, have more capital reserves, have better capital reserves, have more planning.

Speaker 2 ([33:10](#)):

How come nobody said, Hey, now what about the rest of the country? They don't need a lot of capital reserves, but shouldn't other industries that are essential but not yet finance also go through something similar to this. So I fully admit that is pure hindsight bias. Um, and uh, I reflected that day in a tweet where I, um, there was a very famous headline about how little savings the average American had. And so I thought I would be a little, um, a little cheeky. And I said, the average American corporation doesn't even have \$400 million in the bank for emergency expense. And, you know, think about it. We had this crisis. Didn't anybody in the world stop and say maybe some of these sectors, some of these companies should have a rainy day funds? We were, I was just reading about the airline industry that spent 96% of its free cash flow, uh, over the past five years on stock buybacks. Uh, the CEO of American airlines said, we're just printing money. We, we don't know what the hell to do with it. Here's an idea. Save some of that for when things get bad.

Speaker 3 ([34:32](#)):

Yeah. Yeah. What do you think about the bailout for, for the airlines, given that it should there be some requirements for how that gets handled and, and different things. Because again, we're, we're basically you and I and Tim and everybody else that's listening here, bailing those guys out because of some of the, as you said, the lack of foresight on the, on their own thing and just trying to build that stock price up.

Speaker 2 ([35:00](#)):

So, so when we go back and we looked at the bailouts, some were good, some were bad, some were terrible. My favorite of all of them was the GM bailout. It was basically a pre-package bankruptcy with Uncle Sam as the one who provided the credit line to do it. Uh, the shareholders got wiped out. The bond holders took a haircut. I don't think we have to get that radical for the airline industry, but I would do a \$50 billion loan secured by the companies and their physical assets. So suddenly Uncle Sam becomes, um, senior lienholder on the companies. But here's the moral hazard avoidance kicker. The 12 and a half billion dollars of stock these companies bought back over the past five years. They get to sell that. They must sell that if they want the loan. So Uncle Sam at a 30% discount to either the repurchase prices or the current stock price, whichever is lower and they'll kick and scream. But let's see if private equity offers them a better deal.

Speaker 2 ([36:04](#)):

I wrote something on the VIX earlier this week and in it I referenced the OAA and Oh nine crisis. And I recall having one of the guys in my office telling me, I don't understand how you're always so happy in the office. This blends the streets, it's disaster. And I looked towards him and quoted him, the Robert Duvall line from *Apocalypse Now* Sunday son, this war is going to end. And when you see markets like this, listen, there's real pain. This real blood people are suffering. We should never be gleeful about it, but these create a hundred year opportunity every 10 years to experience something that is really once in a lifetime. So a hundred year flood, wrong term. This is a once in a lifetime experience, hopefully, Oh eight Oh nine was truly a once in a lifetime experience as was the Vietnam war. You could get caught up in the emotion and just get sucked into the worst of it.

Speaker 2 ([37:06](#)):

Or you could step back and say, there are some really fascinating things going on. If we only stop and pay attention because this is a real live laboratory of mice running through the maze only. It's not amazed. It's the real world and they're not mice, they're people. And so if you're at all interested in behavioral finance and the science and psychology behind it, this is an amazing period of time to live. As disastrous as it is, I'm looking towards the television, as disastrous as it is temporarily for your portfolio and temporarily for the economy. There's, there's going to be a lot of, of suffering, um, and a lot of dislocation. So do not let this go by without at least trying to learn something about it so you don't repeat the same error in the future. Hey Barry, one last question from me.

Speaker 2 ([38:07](#)):

Behind you. You have an outline, it looks like from your book you are saying that you are going to be writing. Is that, is that the case? Can you tell us a little bit about that? So this is a technique that Ryan Holiday uses and um, basically you put together different things on different colors. And so I've just been playing with the various, um, headlines and different sectors and different chapters. This is really the structure. The working title is *Adventures in Metacognition*, which everybody hates except me. And it's just a placeholder. But in the meantime, it's a, it's one of those things that, um, I find myself moving different things back and forth and around. It's really kinda kind of goofy. It's, I haven't done anything over the past three weeks. It's, it's not there. Um, and I'll get back to it once we're through this math.

Speaker 2 ([39:02](#)):

Well, but, uh, it's, it's an interesting idea and, and Ryan swears by it. Well, I have to tell you, the people that you've talked to obviously weren't behavioral scientists cause I love that title. So you know, me too. I think it's fun if I could, if I could sneak it in as a subtitle or a chapter heading at the least, I definitely

want to do that. And by the way, this weekend on the podcast, speaking of metacognition, my guest is David Dunham. Oh wow. Oh, uh, I should've worn my Dunning-Kruger university. We should all have them. Oh my gosh. He said, um, which he said, he goes, you know, we never trademark that. It's fair game for anybody. Oh wow. Oh, that's interesting. There you go. Very thank you. This as always, it's insightful. It's fun. You bring a lens to this that I think is just very refreshing for people and one that is valued and needed at this time. So thank you. Fantastic. Thanks guys.

Speaker 4 ([40:09](#)):

[inaudible]

Speaker 2 ([40:09](#)):

welcome to the special edition of our grooving session where Tim and I groove on some of the ideas and concepts that were inspired by our conversation with Barry. All right, Tim, what do we want to groove on today?

Speaker 4 ([40:21](#)):

Let's start with don't lie to yourself. Don't be idears though. Yeah. And the narrative fallacy that we have when we like, we like this idea of telling ourselves stories. Simple stories, right? We love simple stories. Yeah. They're great. It's just so much easier to say, do I like this guy or don't I like this guy? It's, it's easier to do a black and white. Is this, is this going to be good for me? Is it going to be bad for me rather than the complexities of nuances of how the world is, you know, uh, I remember for awhile there was, uh, studies on bananas and bananas are great for you. You should eat lots of bananas that no, no, stop eating bananas cause there, there's too much sugar in them. Don't eat bananas. And it's like, you know, bananas had been in the world for a long time. Humans and eating, eating them, just don't eat too many bananas. So is that the simple story? The simple world is more complex. I think that our 40,000 year old brains were really well suited for dealing with simple narratives with black and white comparisons with yes and no's. But the world is just way too complex today to uh, allow ourselves to be drawn into. It's a lie of yes or no black or white, this or that.

Speaker 3 ([41:35](#)):

And I think Barry brought up a really good point is that we tend to move towards those simple stories, particularly in times of uncertainty when we are confused, we're worried, we're scared, we don't know what's going to happen. And so those simple narratives, those, those narratives that we tell ourselves in this time are particularly ones where we need to be aware that we need to be aware that we fall for the simple stories. We, we love those simple stories, but we really need to take into account all of the complexities, all of the nuances, all of the facets that are going into this. And there are a lot, when you think about everything that is going on today and how much it's changed from yesterday and how much it has changed from last week. That simple story might be comforting, but it is not reality and reality is what we have to live with today. And to your point, let's not tell ourselves guys, even if they're comforting wise, that will help us, you know, maybe cope for a little bit. Uh, we really need to understand the reality that we're facing.

Speaker 4 ([42:47](#)):

Yeah, absolutely. What, what struck you, Kurt? What, what was, uh, something that you wanted to groove on here?

Speaker 3 ([42:52](#)):

Well, that was a big piece of it, right? But I also, I also think Barry talked about the idea that everybody's calling this a hundred year flood type aspect and that, you know, he goes, these tend to happen every 10 years. He laid it out so nicely about how the markets had responded to all of these different things and how much they had gone down. I have, I did not realize that the markets had decreased that much in each of those different scenarios that he laid out. And almost every decade for the last 50 years. Yes. And so to that point, this isn't from a financial perspective, this is not, uh, uh, something that that should have been come as a surprise. Maybe this aspect of it that it was caused by this externality as he called us. I think, uh, should maybe caught us by surprise, but the fact that something like this would probably be happening should not have caught us by surprise. And we don't learn enough from history. We don't take the time to really go back and study that history and then to plan for the elements that could happen from that.

Speaker 4 ([44:12](#)):

Yeah. So the big takeaway from me in that is that we do need to spend more time really understanding history. That history might be one of the most important things that we can learn from. And we have to contextualize it then for what's going on now. Right. Cause it's easy to just get caught up in, I don't know, thinking about the Macedonian war is just a war, but what are, what, what were the things that people were fighting about? What about the Bolshevik revolution? What about, uh, the, the French revolution? Well, there were things that people were fighting about that could be replicated today. It's possible.

Speaker 3 ([44:45](#)):

It could be. And thinking about that, the other aspect that that brought up for me was how, how pliable our memories are, how, how not reliable our memories are. Because as you look back at just the 2008, 2009 crash, uh, in a market sense again, you go, Oh, well that wasn't so bad at the time. That was horrible. It was crazy. And people, uh, again were, were doing things, the 1987 stock market crash, I remember, you know, now I remember, but you know, before this, until Barry kind of brought that up and gone, Oh yeah, I do kind of remember that was really, really good. And people were throwing themselves, you know, out of windows and such and things like that. So literally, yes. Um, but memory is fluid. It's, it's variable and it changes and it's not always very good.

Speaker 4 ([45:46](#)):

And part of the trouble is that because our memory is all we've got, we don't have a comparative memory in our brains to say, well this is what I'm remembering, but what was the actual thing that happened in our brains? Then we go to this easy story and the only one that I have to compare to is my memory. It's what I remember. And so that must be real. It must be factual. Uh, and even though we've got, you know, got all kinds of factual information out on the internet, it's still, that's our, that's our first GoTo for this didn't happen before. I don't remember anything like that.

Speaker 3 ([46:22](#)):

Well T going back to two, let's go back and examine that history. And so you can examine that history from the facts that are out there that have been written about it, that are memorialized in that aspect and then compare those to your memory. And I don't think we do that enough. And it goes into the other aspect that Barry talked about in this is that if you're a planner, you can take some of that information and it can help you because one of the things that he talked about, and I love this, I'll get it,

but planning, planning you didn't advance is like time travel. I think it was. Yeah. Yeah, that was a cool idea. You know, he talked about the sharks and um, you know, his morning Barry and evening Barry making the coffee, stealing that line from Seinfeld. Right? Totally. It's okay.

Speaker 3 ([47:10](#)):

That's good. That's great. But there's an aspect of that that I think we don't necessarily plan in our daily lives. I think, you know, a lot of people do. Um, but we plan oftentimes in our work lives, but do we plan things out and look, uh, do a premortem as Annie Duke would say, right? Do that pre-mortem and understand, you know, what are the things that could go wrong? What are the things that could go right and what will we do? Looking at those scenarios, looking backwards from them. And then what do we need to do today? In order to to make sure that we are preparing for that so that if you're out there scuba diving and a shark comes along, you do have something that you can scare that shark off with. Right, that you've, you've thought of that contingency and you have a plan for it.

Speaker 3 ([48:03](#)):

That I think is something that we need to do, particularly in this time now because now we have a different, we have a different starting point so we have a starting point of where we are and I know it's hard for people to go out there and to think about planning at this craziness of time, but what's going to happen, just like look out two weeks, look out one month, look out three months, you know, if something, if this goes on for three months, at the end of three months is not the time to be realizing I should have been doing something three months ago. It's now is that time. So let's, let's, let's, we need to do that. I need to do that. That's for sure.

Speaker 4 ([48:40](#)):

My parents were born into and grew up during and then in the aftermath of the great depression. And they always had a pretty conservative view about them, uh, when it came to fiscal responsibility. And that was something that was pretty terrific as far as I'm concerned, because we were never wealthy, but we were never w w you know, we were never in a bread line either. And I wonder if kids who are, for instance, your kid's age right now will be growing up in a world, where is it possible? It, their adult lives are informed by, we've got to be careful about stuff. We've, we need to be a little bit more cautious about our, our, especially our financial wellbeing, uh, when it comes to something like this.

Speaker 3 ([49:24](#)):

That's an interesting thought. My parents were the same way. My parents were born in the 1920s and so they hit the depression right at those formative years where my kids are right now. Right. And I think my mom was born in 1925 my dad was born in 1923 so they were seven and 10? No, no, seven and five. Uh, when the depression started and it lasted for eight, nine, 10 years. So to your point, my mom would, we would go to a restaurant. I, I hated this as a kid. When we went to a restaurant, they had those little baskets that had the crackers and the bread sticks that we, she would put those in our purse. She's like, Oh, we paid, you know, this was part of it. That was part of her. She would wrap everything up in tinfoil. I mean, you saved everything. So yes, I do think that our kids are kids that are growing up at this point will probably be majorly impacted by this.

Speaker 3 ([50:22](#)):

Probably more so even then than we will because it's formative of their development. And so that will have a longterm impact on how they view the world and how they approach it. Well, one of the things

is, is don't be in denial. I think that was something that Barry brought up. He said, except reality markets go up, markets go down, understand where you are in your life. And, and to that point of having a plan, right? He's like, Oh, we know markets go down. If you have only five or 10 years left before retirement and you weren't planning for markets to go down, you know, it's kind of like shame on you. And I don't mean growed. Yeah. I don't mean to be, you know, disrespectful for those people that are, find themselves in that position. Uh, but there's, there's a truth to that that, that we often are in denial about the situation.

Speaker 3 ([51:21](#)):

We live in a Pollyanna type world where, Oh, the markets have been going up, they've been going up, but we've been the longest stark stock market rally ever, uh, as, as they've said up until this point. And, and we just think that it's going to continue to go on like that. We need to live in a world of facing reality as it is. And, uh, and I loved his, uh, his approach and as he's, I go on, all right, so markets go up and markets go down. So market's going down now. At some point it's going to go up. And, and he used that staggered approach and he talked about, you know, he was upping his 401k, he was rebalancing, his wife's rollover, our IRA into equities, and he was buying NASDAQ cues, whichever, whatever the hell that is. I,

Speaker 4 ([52:08](#)):

it was such a great tip to say, now is the time to kind of double down on investing in your own future. Take it, especially if you have a long horizon before you need to tap those funds, right? If you're in your 20s or 30s or even forties he said, increase your IRA contributions right now.

Speaker 3 ([52:25](#)):

Right? And, and he's, he's, he said, I'm not calling the bottom. He goes, I'm not going to be able to do that. But you know what, he has a plan where, all right, the market's down 35% so that triggers him to do some things and when the market goes down and another 10% to be 45% down, it triggers other things that he's doing and et cetera, et cetera. So it's an opportunity to look at this and say, don't be in denial. Be a realist in this, but also understand what are the potentials and the opportunities that come out of it. And I think that goes beyond the markets. Uh, you know, I think it goes beyond financial markets. It's understanding, yes, we're down. This is a hard time for everybody, but what are the opportunities that, that can come out of this, uh, and what are some of the things that we should learn and take forward with us? What have we learned from this and what do we need to take with us when this is over? Cause this will pass. It's one of the things we don't get all the time. This will pass. The coronavirus will be gone. Uh, life will get back to some semblance of normalcy and a new normal, a normal normal. It will change. But what do we want to keep and what do we want to shed? What do we want to get rid of?

Speaker 1 ([53:38](#)):

Yeah, it's a great opportunity to adopt new habits and new perspectives, new frames on the world. And, uh, I, I love how, uh, maybe the most important thing from our conversation with Barry from my takeaway is don't lie to yourself now that can be a really great way of going into the future.

Speaker 3 ([53:58](#)):

Yeah. And, and I loved his is his piece where he was talking about, you know, uh, he had called or whatever he is saying when in the 2008 crash came and you know, he got, he got lucky. He said, yeah.

And he goes, I'm not counting on getting lucky in two crashes in a row. And to that point, I think it's, it's, it's great. He's facing reality. He goes, I got lucky. You know, I'm not, I'm not this magical wizard that is able to predict when the bottom is and I should start putting everything in. I got lucky on that. And, but I have a plan in place. And so to that, you know, don't lie to yourself, don't be in denial,

Tim ([54:35](#)):

I think are some of the really good things that we need to take out in this. So thank you for listening to this special episode of behavior groups. We hope that you found it interesting and insightful. If you liked it, please let others know. We think that the topic is important and maybe we can help in educating people about how behavioral science can help us all out in this current craziness that we are going through. Also, please let us know if you have any thoughts or ideas that would be helpful or that we could share. You can reach us through the connect tab on the Behavioral Grooves' website@www.behavioralgrooves.com or through Twitter. I am @THoulihan and Kurt is @WhatMotivates. We really do love hearing from you and this topic is one that spurs lots of emotions and thought. As part of our mission, we want to expand and inform the community of people who think about positively applying behavioral science to life.

Kurt ([55:29](#)):

One way that happens is through leaving reviews. If you think this podcast is beneficial and should grow, we would really appreciate to leave a review on Apple podcasts or whichever podcast server you use. It only takes a few minutes and goes a long way to boost us in the algorithms that are used to generate search results. Also, please check out the show notes. We are linking to a number of resources, articles, podcasts, newsletters that we've vetted to bring good facts and ideas around coven 19 and the coronavirus, its impact and ways that we can help slow down the spread. There is a lot of information that's being pushed out to everyone each day and we are weeding through it to find good stuff so that you don't have to. We truly appreciate you listening. Now go out and wash your hands.

Speaker 5 ([56:28](#)):

[inaudible].