TFTC 423

[00:00:00] All right.

**Marty:** Ready to roll? And we're rolling. Matt, DS got through some technical difficulties there. Are we Okay.

**Matt:** We are actually learned something about the Microsoft Office suite today that I didn't know. So you're always a Excel junkie doing anything in finance. Um, but uh, yeah, it's always, it's always interesting when you, when you learn a new bell and whistle inside of MS office.

**Marty:** I haven't had to deal with MS office in almost a decade. I don't miss it.

**Matt:** No. Uh, no. 10 31, uh, VC deal number crunching going on in, in Excel

**Marty:** there. Uh, I do it, uh, in the Excel on the MacBook, but that's the extent I don't have to do PowerPoints anymore. Got it. Yeah. But regardless, we're here to talk about something very important on Microsoft Office, the, the state of the private retirement [00:01:00] fund landscape in the us.

You are somebody who has thought deeply about this. I'm joined by Matt Dines from Build, uh, a Bitcoin, who's looking to solve a very hard problem, which is how do we ensure that people have been saving for retirement for decades now actually have money when they go to retire. So, I don't know where we should start.

Maybe we should start with the gravity of the problem. Maybe describe the dynamics of what allowed the problem to get. To as big as it is, and mention that a lot of people are focused on the lack of funding for things like social security, public pensions, like CalPERS, but what you're focused on is a completely different area, the retirement landscape that I think you would argue is very underappreciated and sending signals that something is wrong that many people aren't paying attention to.

**Matt:** Yeah. Um, and if you just start from the basics of the landscape, you don't have to go back to when the wheel was made, [00:02:00] but, uh, you know, as this retirement system, this, um, that, you know, people accrue and save their, you know, purchasing power, you know, from their working years into their latter years, you know, something that, you know, the Bitcoin, uh, audience and, and you know, the freaks are, are well aware of.

Um, you know, big part of this, uh, kind of movement into Bitcoin is finding a money, right, that protects and can act as a store of value, uh, preserve its purchasing power. Um, but, uh, over the last, and you could really start in the post World War II decade or post World War II era, um, you know, we don't have to go that far back in history, but this, this landscape that's built up in a world, you know, prior to where Bitcoin existed, um, you've seen the kind of the American household, the middle class, um, build up around, you know, we'll go into the data here.

Um, Either the, you know, one aspect is, you [00:03:00] know, social security benefits that you mentioned, uh, public or, or private pensions. But those, you know, social security is still there, obviously. But the, the pension plan, uh, landscape has really kind of fallen by a wayside, um, over the last, let's say four decades since the 1980s.

And, and what you've seen kind of take its place is, uh, an increasing reliance on, uh, financial assets. So stocks and bonds, and those are really just tucked into, you know, where, where most households hold them is going to be, um, retirement accounts. And then second on that is, is the primary residence. Um, so Logan has brought up this slide.

The, the Fed actually publishes this data series. Um, it's just a wide kind of panel survey every three years. They've been doing it since 1989. It's called the Survey Consumer Finances. And it shows where, um, American households are, they, they really own their assets. Um, they provide a lot of data here. Uh, it's one of the richest sources kind of available on, you know, how, [00:04:00] how the, the American is, is, is, is saving.

Um, it's fundamentally a huge part of what Bitcoin is, is, you know, trying to accomplish on its mission of, uh, you know, delivering something that, that, that, uh, is resilient. And last. Um, but you see on this chart here, this, this survey, consumer finances and Bitcoin is never on here. It's never really been a, a line item on, um, American.

Household balance sheets in this report. We'll, we'll see if there's a breakout. Uh, 2022 will be the next, um, year published in this series, but that won't come out until later this year. So all this data reflects kind of the progression of this stock and bond bull market from, you know, the early 1980s to, you know, give or take, 2022.

We'll see, um, as, as the, uh, kind of financial asset track record, you know, puts on more years and we see, uh, whether that unwind in 2022 as part of something lasting. Um, but anyway, what you see on this report is every kind of light item that, that you can think [00:05:00] of, um, on a, an American Savers balance sheet.

Um, it's kind of categorized in, in this series. And you see data on both how many households own these assets and what the, you can, you can measure the, the account balance two ways, either the median or the average, um, averages. If you take 'em for a group, they're gonna skew higher because the highest account balances are going to just pull the average up.

So, um, what I use here on this chart is the median. It really gives you a better reflection of where the, the kind of typical owner of, of an asset, uh, in American owning, you know, specific, uh, asset on their balance sheet is sitting. So Logan's pulled up this first chart here, and the way I designed this is you've got two arrows here.

You've got the, the start of the arrow is where each asset class, um, started. Uh, x axis is the percent of American households holding, uh, a given asset. And then the y axis is the, the median account balance. So [00:06:00] the, the tail of an arrow is where, this was in 1989, uh, when the Fed first started producing this survey.

And the end of the era, the tip of the spear is where the point landed at the end of 2019. The last reading, we'll get an update at the end of the year, but this, right now kind of the best, best indicator we have of kind of this big picture tide shift of what's going on. Um, kind of the, the, the state of the American household's balance sheet.

Um, so you just go right, right to left here. I'll, I'll, I'll start with the big one, the middle, the, the middle blob that, that gray blob. Um, there's only two items, uh, or two assets that really the, the majority of Americans hold on their balance sheet that have any meaningful, both ownership or like value on them.

And, and the first line is your primary residence. And this one makes sense. Um, With kind of all of our lived experience, you've got, um, housing prices just going up almost [00:07:00] continuously, uh, over the last four decades, except for two big hiccups. Uh, one really, um, you can say right now there's a big pullback that's not gonna be on this chart.

The only one that would be on this chart, or like in this time sample from 19 nine and 2019 is the, the 2008, uh, crisis. But other than that, the, the primary residence is your, your number one store of value, uh, for your majority of, of middle class Americans, and then your second is gonna be retirement accounts.

So you see the arrow, it starts at like 40% ownership. It ramps ramps up to about 50% over 30 years. And then you see the median balance increase from about 25 K up to, you know, the, the, the mid, uh, 60 K range. So, so roughly a doubling, um, housing prices increase more. But those two, those two arrows are, are really, you know, the store of values, um, that Bitcoin is competing with as, as you know, the space looks to grow.

Um, but the, the, those other blobs, you know, as you cluster those other line items, they really [00:08:00] tell you a good story of, of what's going on, um, with how the, the typical American is living. Um, kind of as a broader case study. If you start on the, the bottom right, um, the little blue dash line. Those two assets, uh, that fit in that bucket are, you know, I, I call them broadly owned, but they have not gained in value over this 30 years.

So number one is vehicles. So, you know, mid eighties percent of Americans own their own vehicle. Um, benchmark value, maybe 10 to 20 K. Now that's changed in the last three years as we got this massive inflationary impulse. Um, and you saw things like used car prices shooting up. Um, so that's kind of an interesting, uh, kind of dynamic of what's going on in this process.

But by and large, you know, most Americans, uh, on the household balance sheet owned some vehicles they have not gained in value. You know, most of them are, you know, Americans are owning their vehicles longer than ever, you know, saw it, uh, uh, a print, uh, in the last couple weeks. I think the [00:09:00] median age of an, of, uh, of an auto in the, in the US fleet is now 14 years.

Um, kind of same, same trend you see in the housing stock as well. The housing stock, going back to the primary residence, um, half of the housing, housing stock is, is, uh, you know, structures built pre 1980. So you're seeing price go up on existing structures. Um, and this is something that I think, uh, the Bitcoiners are well familiar with, uh, from the trend of kind of a a, a credit bubble monetizing itself through, you just gotta keep rolling over loans, increase debt, um, and you end up with just more credit on, on the same assets.

Um, And then the second account in that, um, broadly owned no gainer value group is transaction accounts. So checking accounts. Um, so you've seen ownership, uh, ramp up there, uh, from like low eighties penetration or mid eighties penetration up to near a hundred percent. Almost everybody, you know, will have some sort of, I call it a transaction account in this report, but it's basically just checking accounts.

Um, you know, just where do you store your dollars, uh, for, for readily available [00:10:00] access. Um, so then you get into the left two clusters. And this is kind of a, um, a good, good, uh, benchmark for, for what's going on, um, in terms of both markets that are growing as well as kind of the shift of who's gained a lot in va in, in, in value, as you know, this monetary system and, and, and policies have gone the way they have.

So at first group, the, the, the red bucket, I call these groups the declining ownership and no gain and value. And once you like, see what's going on here, like a lot of these are monetary related. So you see number one here is, uh, certificates of deposits. Um, no one's made much money. Uh, media account balance has not grown in CDs.

Uh, and they're falling out of use. Part of this was in the 2000 tens. You, you know, the monetary system went the way it had to, or it forced you to deal with its, um, You know, can kicking, uh, down the [00:11:00] road sell zero interest rates? So pretty, obviously people flocked outta CDs, um, and other like just short term monetary assets and, and you kind of saw a return to that, or you're seeing a return to that right now.

Uh, as we, uh, move, move interest rates up, um, there's a minor, I guess, transition. We saw the same effect in, in 2018 when raid hikes came up. People flow into, uh, money market funds, certificates of deposits, all that type of stuff. Um, but it's, it's really been temporary. The trend has been down and there hasn't actually been that much money made, uh, for media account balances in, in, in that line item second, um, cash value life insurance.

So this one's kind of surprising. Um, once you see the data here that, like once you see the movement, um, of ownership from, you know, mid thirties percents down to 20% of American households owning, owning, uh, life insurance policies, um, you know, it really speaks to a [00:12:00] market or a product space and decline.

Um, so big feature here of what, what this data is describing, you know, inside of that whole kind of school of fish. And that red group is a lot of monetary products. Kind of transitioning out as, as you know, hopefully other markets are gonna grow and take their place. Um, but the life insurance market, that's, that, that was something that, uh, kind of surprised me.

The, the first time I was looking at this data. Um, it's kind of bundled into the entire, um, monetary landscape. People are using that product less and less. Um, and it's kind of failing as that store of value. It, her use of, uh, value use for American households at once was number three, savings bonds. I don't know if, uh, you guys ever had this experience, but my grandma, you know, when I was little, used to give me, uh, savings bonds for Christmas.

I don't know if you ever got those. Um, I, well

**Marty:** that was funny. My grandma used to gimme CDs when you mentioned that. She's like, yeah, I set you up with a cd. It's gonna be gaining [00:13:00] interest. This was like in the nineties when Yeah, interest rates were above zero.

**Matt:** Um, yep. Um, and it, it really feels like, as you see this, it's kind of a, a different era, right?

I mean, the way you might give a, you know, you, you talk about on tftc wedding gifts, et cetera, you're giving, you know, open dimes with stats on them. Uh, you know, it's just, it's just a different era. Technology is, is is dying or a monetary instrument is, uh, phasing out. Uh, we're moving to the new, but you see that number three, savings bonds.

My, yeah, haven't gotten one of those in quite a while. Um, and hopefully you cash those in quite a while ago too. Number four is a little bit surprising. This group directly held stock. So this is, this is like when the American household actually has a broker to account and they're buying single name tickers, like Nvidia right now.

Right? How many households are flocking into that? Um, this was 2019. It'll be interesting to see in the, the latest round how many households plowed into brokerage accounts, especially [00:14:00] in, in the pandemic. Like we saw, you know, massive waves of people moving onto like Robinhood or other, um, cash mobile, but brokerage.

Right? Exactly. Um, so it'll be, it'll be interesting to see that trend, but over this timeframe, massive bull market and, and, and equities, um, you saw ownership decline and the median account balances decline. So like the average household was not making money, buying single name stocks. Um, number five, other financial assets.

Um, this one is stuff like, like oil and gas rights lawsuit or like, just pending settlements. It, it's just a, a catchall for other like paper claims or loans made to other households, for example. Um, really just a catchall, but the other categories even dying there on financial assets. Uh, and then number six is other non-financial assets like this could be.

Um, commodities, [00:15:00] gold stored in a vault, you know, somewhere a safe, um, something like that. That's, that's also in, in decline as well. So you see that, that red cluster, kind of, the way I take that bucket is the, like this, these are the industries of, of, uh, uh, like the, the monetary products that are, that are no longer working.

Um, you know, the, the, the paper savings bond, you know, that, that I got on Christmas or, or your grandmother giving you a certificate of deposit. You know, I, I don't think we're gonna be getting too many more of those in the future. Um, but, uh, time will tell. And then, uh, the, the left one, the limited ownership gain value, I think this is where, you know, you speak of the kids Ill in effect, um, a small number of people making a lot of of money.

You saw, you know, fewer than 10% of the population owning these assets, but medium balancers are, are skyrocketing. Just increasing. Yeah. So the, the number one here, uh, that line is other managed assets. This is really, uh, um, [00:16:00] annuities and then, um, things like managed accounts. So if you have a financial advisor managing a brokerage account in your name, that'll be mapped here.

Um, specific types of pool fund, hedge fund ownership, you know, stuff like that. Um, so those have obviously done really well over the last three to four decades in a financial asset. Um, kind of like boom. Um, And then number two, directly held bonds. So if you actually own the QIPs, you know, the people who are buying the, I could say treasury bonds, but it's, you know, corporate bonds, securitized debt, those like the people who own those have really large balances.

Um, in, in, in those accounts. Number three is pooled investment funds. This is what BUILD actually does, uh, which is just you manage one to many, um, kind of, uh, just, just vehicles. Uh, where you, you have an investment manager, someone who is credentialed, regulated, um, you know, s e c oversight, that type, that type of stuff.[00:17:00]

Um, but this is, these are investors, um, you know, American household balance sheet holdings and, and those asset, those assets. So those have gone up as well. Uh, and then four is other residential real estate. So just like your primary, uh, residential real estate went up, like if you held your second home or third home investment properties, et cetera.

Um, those are also, um, going up in value that's a mi like a tiny minority of the population. Uh, but what you see here is, you know, it kind of tells a picture of what's going on in this massive four decade, um, asset bubble ever since we came out of the 1970s. Great inflation, you get a, um, interest or you get an environment where interest rates are just in secular, you know, but cyclical decline, um, bull marketing bonds, bull market inequities.

Um, this is the way it works out, but the. The crux of the story really is, you know, as we enter this kind of next phase of whatever we're turning into, um, and Bitcoin adoption is, is going to have to compete in, um, kind of the legacy, [00:18:00] uh, holdings, the store value for the American household. Everything is riding on your primary residence.

Your your household, your your ho home price is holding up. And number two is, is your retirement accounts. So your retirement accounts have been favored by policy. Um, we can do like a brief history lesson here. Um, but really this, this, this came out of, um, a movement and like after World War ii, between the fifties and the seventies, you saw a lot of American, just industrial companies, a lot of businesses starting to struggle to, to uphold their pension benefits.

You saw some failures, uh, in the fifties, kind of as, as you know, America exited World War ii. We were the kind of the factory of the world. Uh, but you gradually saw under this, you could say the Bretton Woods Monetary System, um, the dollar system, uh, US companies became less competitive. And, and that liability on the balance sheet to, to maintain pension benefits for [00:19:00] your, your agent workforce, um, that became a problem.

And you saw a lot of, uh, pension failure. So first step was this law, I think it was 1974. It's called erisa. Um, it basically put, put the first layer of kinda like regulation over the pension industry. Um, but over the next, let's say eight years, 10 years, um, you saw a shift away from, from companies wanting to put that liability on their balance sheet, right when you had a pension.

Uh, if you're a retiree, you just get a check in the mail every month. Um, it doesn't show up on your balance sheet. It's not like a recognized or valued asset. Uh, but as the company, as, as American corporations kind of shifted away from that, the model shifted over into what's called defined contribution.

Uh, but you, uh, which, which basically just means instead of the company's, um, kind of signing up for a benefit amount as the worker exits in the retirement, it becomes, um, [00:20:00] just they'll give you a, a specific contribution, which with each paycheck, and then that sits in account. So you, you as the worker actually holds some, some level of ownership over the asset.

Now, the amount you get for that asset, once you turn 65, that's that's on the worker. Now, that's on you. That's your responsibility to invest it, um, and, and build up a nest egg that you can kind of pay for yourself once you're past your working years. Uh, but it does, you know, if you think about this from the Bitcoin perspective in the, in the sense of ownership, I think it is kind of a if big picture trend, you know, as you measure things over.

Decades and centuries. You, you, you kind of see the ebb and flow towards individual ownership, individual responsibility, even in, uh, that one move right there from defined benefit to defined contribution. Now the assets pulled, piled into that defined contribution plan have all been, it, it's basically stocks and bonds.

When you look, go look at a 401k, right? Your, your, your investment menu, right? You'll, you'll generally get 10 to 15 funds you can invest in, [00:21:00] uh, if it's a corporate retirement plan, and you'll see some, some equity funds, some bond funds, and then usually it's just like investment mix right there. We'll, we'll talk about this later, but the movement and the target date funds, which is, which is just basically a fancy industry, a financial industry project to just say, own your age and, and bonds.

Um, but you, you do see that mix at, at least in, in terms of if you're looking for a silver lining and the data we'll talk about, I think one of the positive things is you're giving more control to the individual, more responsibility to the individuals they, as they own those, those assets. But, um, yeah, this is just a highlight here.

We were looking at that chart. Um, it's, it's very clear the system right now is built upon a kind of like a foundation of house prices. And we talked about that the housing stock is aging. We're not really building to, um, at the rate we need, uh, in the American housing stock. And then after that it's, it's just retirement.

Plans, re retirement [00:22:00] accounts, and then stocks and bonds, uh, kind of piled into that. So that's, that's kinda the landscape we're, we're running, uh, or, or, or we're working with as, uh, we enter this kind of new phase of, uh, what comes after the, you know, the covid monetary impulse. Yeah.

**Marty:** And it paints a pretty precarious picture, excuse my alliteration, uh, because it does a number of things.

One, one of highlights like the, the emergence of the black rocks and the Vanguards of the world, essentially providing people the menu of the different, uh, stock and bond blends that they can opt into to pour their retirement funds into. Uh, so really that chart that you just shared, so if your freaks are listening, we do have charts that are, uh, accompanied with this episode.

If you wanna go watch on Spotify or YouTube or Rumble, um, you can see them there. But just to try to articulate what we just saw, for anybody who does not want to go watch this on a screen is [00:23:00] just listening. You essentially have, uh, a large portion of American's wealth being transitioned into real estate and retirement accounts specifically.

Uh, and why this gets really precarious is on the real estate side, as Matt mentioned, a lot of these houses are very old and houses are physical things that do decompose and have upkeep cost, and. Um, it just simply wear and tear throughout time than the other, or these retirement accounts, uh, that people are just funneling into.

Uh, you get your menu, even though you do get optionality within that menu, you're essentially just dumping your money into stocks in bonds that are heavily dependent on monetary policy, essentially injecting liquidity into the system. Um, and then on top of that, we have the demographics that come into play, which is, we have the baby boomers retiring [00:24:00] right now.

And so when you couple all that with what's going on in the economy, obviously the financial system seems to be a bit fragile right now, as we've seen with the bank situation over the last six months, as we've seen with the debt ceiling, uh, impasse that we recently had. But, um, got over, we raised the debt limit again.

Um, and is it what After talking with Matt many times over the last six months, this particular section of American wealth held in retirement accounts is a very scary situation because if you have all this tumult in financial markets, uh, driven mainly by monetary policy and the value of the bonds, and, you know, stocks are still holding up pretty well, but, um, it, it wouldn't be too crazy to think that they're not gonna perform as well.

Moving forward, if we do head into a recession, um, you [00:25:00] have the value of those retirement accounts falling just from pure um, performance. And then on top of that, we have the demographics coming into play where large section of the American economy is gonna be four sellers. Cause they need cash to live their lives in

**Matt:** retirement.

It's a, it's a difficult setup. That's, that's for sure. Um, when you're talking about, you know, the, the impending recession, like that's, that's very sh maybe short term, what, how do you get through the next six, 12 months? Um, you, this is a problem that's gonna need to be worked through, uh, and resolved. And, you know, we talk about Bitcoin is talk about this transition, um, you know, towards Bitcoin adoption, a bitcoin standard, um, you know, keep that has to be built.

Um, but what we're talking about here is a kind of a system built upon pillars that are, you know, on a shaky foundation as is. So, you know, I kind of compare it to that Indiana Jones, what, [00:26:00] what was the movie? Was it Raiders of the Lost Ark where he flips, he puts his back off the gold statue. Like it's got like pulling a, uh, an easy handoff.

Um, you know, that's gonna be hard to do. Uh, yeah. But, you know, in, in the, to paint a positive picture here, I think just to point out and we'll talk about what we're, what, uh, build is doing, uh, with, with some really. Important partners and people, uh, we hold in a really high regard and, and what they've built on Bitcoin in the last, let's say, five to 10 years.

Um, you know, this transition's not going to be easy, uh, but, you know, keep building. But on, on that topic, I think that the, the next chart based on this data series, if you put the da, if you lay out the data, um, in a certain way, you, you see a very clear trend that this big picture system, you know, zooming out on a three to four decade time horizon is already struggling here.

So you, you see [00:27:00] retirement account participation, you know, we mentioned how it is a pillar asset for, uh, American households. It's, it's already, I I would say it's an structural decline at this point. Like it is, it is, it is already buckling. Uh, I would say the sign's already there. So you, you saw you, this, this data series every, every three years.

They, they print the survey of, um, consumer finances report. They break out all this data, so you can see not just for the, like collective American, you know, household audience. You, you see it by age group. So they bucket it by 10 year ranges and what you see on the slide or once you see, once you lay it out, it, it is very clear that participation in these retirement accounts is, is past its peak.

So we haven't been able to get more. Americans saving into this retirement system. If you think about it, an investment trade, right? That's the, you know, entering the, the accumulation period. Now, what happens when you [00:28:00] get to the, um, the distribution phase? Well, that's, that's kind of scary. Um, but you, you see here, the peak and retirement account participation, um, you know, across all age groups, um, really hit an inflection point like between 2007 and 2010.

So, the GFC was a kind of a critical moment. I know in, in our lifespans, it feels like it was a long time ago, but you go back and read these episodes in history about prior, um, equity bubbles, sovereign wealth bubbles, like these take a lot of time to play out. Um, so 15 years here is really just a, almost a blink, like, uh, uh, in the scale of, of the phase of the system.

But like right now, the, the, the system looks for the retirement accounts, it looks like we've hit that point where this pillar, that policy has become re reliant on that savings has become reliant upon, uh, for the American households. We've, we've passed kind of that point of no return, where now the, the second order effects [00:29:00] of, you know, getting people in, in employed, uh, at companies where they can save in a retirement savings plan, um, that's kind of fallen.

Um, and I say that it, it's, it's pretty clear that like policy makers are aware of the problem at this point. So in 2019, uh, Decem, before we even got into Covid, you had this big push to. Um, past the, the Secure Act. I mean, it's, it's a, it's another great Washington DC acronym and it has a great one. I don't know what secure stands for, but it's, it, it, it's, it's very clever, almost, uh, almost comedic.

I mean, it's just good marketing, right? Uh, because this is, it's not secure, uh, from a standpoint, uh, but it, it was an attempt to kind of bandaid, uh, onto this, this problem in structural decline. It, it obviously was a bandaid because you just had secure Act 2.0 passed three years ago. Uh, so the fixes, you know, the holes in the dyke, if you will, um, or the, the Dutch boy plugging the, the holes in the dyke, um, they're, they're, they're coming [00:30:00] faster.

And, and the kind of the timing between those attempts is, is just the, their hands are being forced, uh, to, to, to resolve issues in, in this kind of framework. But secure Act one tried to fix this by, uh, expanding access to retirement plans. So maybe not 401ks, but like simple IRAs or, you know, stuff like that, approaches that let, um, either, um, individual, uh, workers, what do you call those?

Like, um, self-employed Self, yeah, right, exactly. Um, startup kind of a government saving or government tax favored, uh, retirement savings plan, or it expanded it also to part-time workers. So this deal was never part of the kind of the bargain between. Employ employers and the part-time, uh, work help. But as you've seen a shift, um, you know, full-time employees, um, full-time employment numbers kind of topping out, [00:31:00] um, more workers, you know, falling into part-time work, um, this, this, that kind of trade is like, well, we can, we can reverse this trend by, you know, lowering the criteria to be able to participate in one of these plans, and that'll hopefully pull this participation back up.

Um, it also pushed the, they call it the required, required minimum distribution age. So basically it's just a forcing point for when, or it, it gives you the ability to work longer, right? Without having to take mandatory withdrawals from your retirement account. So it pushed that age to 72, right? So the answer here is just you can resolve this problem if you're an American household by, by working longer.

Uh, and, and I don't know about you, but by the time I'm 72, I'm, you know, I'm, I'm trying to be chilling. Yeah. And you're also spend like, it, it's, uh, it's hard to work. I, I imagine it's hard to work 500 hours a week in most jobs at, at age 72. Uh, but that's [00:32:00] one of the key, um, answers right now that policy is throwing out, uh, for, for this system as it's going through these issues.

You're seeing the same thing or, you know, similar across other kind of G seven countries, other developed, um, economies. You know, France, this thing with the yellow shirts and. Macron trying to pass this. Mm-hmm. Uh, mandatory age limit and, you know, people don't like it, obviously. Um, they increase the max contributions for 401k, auto enrollment.

Just basically just save more, plow away, more of your savings. You know, this, this, as you know, we're going into, uh, kind of an inflationary impulse where household, um, disposable income and savings are, are, uh, are, are squeezed. Um, it sounds nice and, but in, in practice it, uh, it's, it's hard to do. And then four is increased tax benefits for, for small businesses to, to launch a, uh, uh, retirement plan.

The thinking is, well, if you get all these small employers to launch this, um, there'll be more [00:33:00] access. And that, that was the problem. Um, yeah. I love the, oh, go ahead. I was gonna say

**Marty:** the, um, so the explicit intent with something like the Secure Act and Secure Act 2.0 is to increase the participation rate in these retirement accounts, but is the implicit sort of acknowledgement is that they need the flow of those dollars into these assets that keep them, uh, elevated in value?

**Matt:** Um, I think so from a standpoint of, uh, keeping the, I call it a credit bubble, right? Keeping the bubble going, the actual size of the dollars here, um, this is actually a silver lining lining, I think for, for the American household. Um, The, the scope and scale of what the, what the households actually own here.

In terms of the entire credit pile or the equity market cap, it's relatively low. So total four assets cost [00:34:00] six to $7 trillion, right? Somewhere in that ballpark equity market, it's probably about 35 trillion. Um, and then the bond market tradable QIPs. And that's pretty much what all of these, uh, qsip is just a bond that is, you know, a registered security and it trades publicly.

Uh, when I use that term, total QIPs outstanding. I think there's, there's, I mean, easily 45 trillion total credit outstanding in the us. Like, like just measured, uh, from the fed's perspective is, is in the 90 trillion range. So total assets here in 401K plans is six to 7 trillion. Households own a a small sliver of the entire bubble.

So they might be a marginal buyer of, of, of dollars, uh, and, and financial assets, but they're not holding the bags. So that, that, like, the good news is if this is a generational bubble, um, which I think you look at the charts and you don't know it while you're in it, you won't reveal it until we write, you know, five more chapters.

And we're looking back on hindsight, um, we go through some numbers here. [00:35:00] Uh, towards the end there's a slide. I think it's, it's pretty clear that the, the financial asset bubble is similar to what, you know, other societies saw in the past. You know, UK. With, uh, what is it, south Sea France with the Mississippi Company, Netherlands, with Dutchie, et cetera like this.

This looks a lot like those. But, uh, from the household's perspective, the, the, the bid, their bid into, um, financial assets in 401k, it's really not holding up market cap. They're not the driver. They're just there because it, I mean, it did work. And then, and then the policy, my interpretation of it is, hey, let's, let's funnel them into what's working.

Okay. Um, and then also let's do it in a way that, um, works for, you know, American corporate balance sheets, et cetera. Now, this is just household balance sheets. Um, you look into like public pensions, including like things like [00:36:00] CalPERS, state of Illinois. You, you have some MUN municipalities that are, you know, in trouble in funding their pension obligations through, um, you know, municipal bonds, right?

So you're just, you're paying your pensioners by taking on more debt. Now that's a problem. Um, and then I think, you know, if you dive into social security, it's, you know, in a similar situation where you got the number of workers paying in, you know, hitting a, hitting a transition point where workers paying in is much less than, you know, workers drawing from the system, that's a problem.

But in terms of just asset, Ownership on the, on the bubble. I think, I think it's actually driven by international, like the data, this is a different time series than what we're looking at here. You know, you look at like the treasury auctions and stuff like that, it really looks like the international bid for the dollar and dollar assets is, is driving up the stock and bond prices.

So the good news is, is I think we, there's a, there's [00:37:00] a really a silver lining opportunity here. Um, you know, 50% of of Americans owning, you know, the housing stock at, you know, ultra rich valuations. And same thing with stocks and bonds. Like we can get hurt, but we also have time to make this transition and, and, uh, you know, save a lot of starfish.

I dunno if you know that analogy. It's like the starfish. Anything else? Shouldn't you throw it back in the water? Well, I saved one. There's, there's, there's a lot of good I think we can do here. Um, you know, collectively, I don't want to, I don't wanna fall too much into the black pill. Like this is, this is a white pill.

Episode freaks a hundred percent. There's, there's a problem. But, you know, and, and, and there will be, there will be, um, you know, damage. It will be painful for, you know, a system going through transition. But I think there's a big opportunity here and relative to, uh, where a lot of other, a lot of countries, other, other.

You know, economies are, it's not great [00:38:00] for anybody, but for America, I think we do have an opportunity to, to, to make a nice split. But my answer there, going back to the, the Secure Act, um, I don't think this is a, a, you know, the big kind of tectonic plates moving here. I don't think this is something that just legislation is gonna be the, the solution.

Um, and it, and it's very clear. Like you put an act out, you know, secure Act 2019, now we need 2.0. Um, it's kind of the same thing. Um, you've seen in a lot of the different big spending bills, you know, touching on retirement savings. So I forget what one of the 21 20 21, uh, congressional spending acts was called.

You know, there was inflation reduction, there was the affordable recovery or something, American recovery, I think it was the American Recovery Act, but it included a bailout, like $900 billion, almost a trillion dollars for the central state's pension plan. So all these just collection of American businesses with failed pensions were kind of bundled up into [00:39:00] one vehicle.

Um, and we needed a, like, part of one of these spending bills was bailing those out. And you think about, or if you, if you read about how the, this pension or like these thousands of pensions got here, right? And, and once they were bundled up, this, uh, kinda like managed oversight of this vehicle, um, was operating.

They needed to hit like a 7.6% return target. I don't know if like to a decimal is what, like all these pensions structure themselves. Like you gotta hit your 8% bulky, right? That feels possible In a three to four year bull market, what they realized was like a 5.2% i r r or maybe like a five point, something like that.

There was a IRR in the fives, which I mean, relative to historical norms and, and asset returns that that's not bad. Um, especially given a, you know, a certain level of risk, but just tells you like the difference between hitting a five versus your seven or eight [00:40:00] boge is insolvency and you need a sovereign bailout bailout.

It really tells you like this is a system that, um, you know, it's pushing up against its constraints. It, it, it, it is now struggling to deliver after, you know, 30, 40 years of bull market. And then the answer I think is, it, it, it's like, think about the analogy of like a king in the middle ages and, and like this, the, the problem shows up, you know, at the, in the keep of the castle.

Um, you know, if you're decentralized or if you're, you know, other lords, your institutions, whatever, if they can't deal with it, well now it's your problem. Now it needs to come onto the sovereign balance sheet. That's kind of what you're seeing here with both pensions. And then, um, exactly this, the re the, the retirement plan.

So we're trying to bandaid it with, you know, secure Act one, two, I, I. Pro, I'm gonna go out on a limb here and say I'm not, I'm not convinced. Like 2.0. Got it. Done. Like, we'll be back here. Um, and, and there will be another kinda like [00:41:00] sovereign action, like it rises up ultimately to the, to the sovereign balance sheet.

Yeah. 3.0

**Marty:** will fix

**Matt:** it, I think. I think they got it figured out. Third time's a char charm.

**Marty:** Yeah. Well that's what like, as you can see, I'm looking, um, at the notes you sent me, let's give a shout out to Matt here. Uh, I think you are the guests that have sent me the most detailed prep notes for a show, uh, in Tftc history.

Uh, I've been reading through them the last few days and I think one of the, the big drivers of sort of the, like this passive investment model and this problem that we find ourselves in is the structure of these funds. So I think we can dive into like stable value funds and target date funds, like defining what they are and how they've really sort of driven flows into particular financial assets over the last five

**Matt:** decades.

Yeah. Um, oh, before we do that, I put this third slide in there on the, the housing. I think this is the key point to make you see [00:42:00] that. You see the same crack showing up in that other pillar, the primary residence. So that is in decline. Um, make sure we hold that thought. So we go back to target date funds, um, but.

Primary residents, you're in the same ownership decline here as, you know, just retirement accounts. So the problem is getting more of the middle Class N and this is kind of part of the broader theme of headlines you see in the, the 2000 tens, right? This isn't something new like the, the American middle class is struggling in, and at this point, every, like the pol, the policy makers all know it.

Um, but when you look back on what happened in 2020 and 2021 on the fiscal and monetary policy, just flood, um, kind of makes a little bit more sense, right? Primary residence is the pillar. If we start seeing a contraction and, and home prices like we did in 2008, the problem just becomes [00:43:00] worse. Like you enter gravity.

Well, so put a chart here on the right or a table of, uh, the QEs and you break it out between treasuries, agency bonds, and then agency mor uh, mortgage backed securities, right? Mortgage backed securities are just bundled pools of, um, like Fannie, Freddy, Jenny May, home Loans just, just rolled in, in, uh, the last qe.

It was actually more agency mortgage backed security is like 2.9 trillion versus treasury bonds. I think, you know, the. The, the Bitcoin Twitter memes. Like we obviously see the, the money printer go, bur we think about it as treasury debt. Um, but it was actually the, the agency MBS 2.9 trillion of, um, new issues.

So you, you, you see in the, in the data here, the, the housing market in 2020 and 2021 was essentially subsidized by the Fed. I think they bought like 85% roughly of all agency mortgage [00:44:00] backed security issuance. 85. Yes. Like that's how if I, in Bloomberg you can scrape all QIPs. So I put together these numbers myself.

That's, that's my own number, what I see on it. But I think it is like, it's about 85% of, um, agency mortgage issuance. So the jumbos like your, I think it's like 750 K. Don't quote me, I'm not a, you know, mortgage industry expert. So they, the Fed didn't buy the jumbos, but the agency mortgages, like your bread and butter conform loans like it's packaged and pooled, packaged and pooled the Wall Street ships 'em out, uh, to the world.

Yeah. Fed bought 85% of the 2020 and 2021 issuance. It's just, it's, it's um, uh, it's just shocking. Like when it's all inspiring.

**Marty:** That's what I was gonna

**Matt:** say. It truly is. It truly is. Um, I mean, now we can just get into another side tangent here. Just interesting points. They're, they're not, they're obviously not, they're in QT mode right now.

They're forcing [00:45:00] private balance sheets. So banks right now, um, you can still buy agency mortgage backed security issues, but they're, they're gonna be shipped to private investors. And this is where, you know, everybody's kind of seeing the charts of mortgage rates, right? So the jumbo rate is now above 7%.

Your, your agency, uh, lending rate is gonna be lower. Like I say, it's like six to seven. But right now, kind of the housing stock, this, this, this, I don't call it a bubble, um, is being kind of fed or like forced to absorb, forced onto the, the private balance sheets to absorb new, new mortgage debt, uh, at six or a six to 7% coupon.

So what it amounts to is the borrower, uh, who is gonna be typically younger, buying their first home. You know, the bottom of this pyramid or of, sorry, pyramid. Um, you know, the less than 35% group here who is struggling, um, [00:46:00] with, uh, home affordability, right? Um, you're, you're forced to buy in now after the fed has pulled back from subsidizing.

Now to get your first home, forced to buy in at a six or a 7% mortgage rate for 30 years on the same house, most likely, um, you know, uh, your entry level home is probably not gonna be the. The brand new, uh, construction. Um, so it's kind of an interesting moment here. What's, what's going on, um, in, in, in the grand scheme of things.

So, I don't know. I just thought that was interesting here. Um, that second pillar here, the same way, you know, QE is supporting the financial assets. It's like no, it's, it's also supporting your other pillar too. It's supporting your primary residents. Um, so that it's 2.9 trillion. That's a shocking number here.

Once you, once you understand it in the grand scheme of, of the housing industry.

**Marty:** Yeah, it just edged out treasury. So if your freaks can't see it on the, um, on the box on the side March, 2020, it's March of the covid stimulus. They bought [00:47:00] 2.916 trillion in treasuries and 2.926 in mbss. So that's 10 billion more in mbss than treasuries when everybody thought they were just, most people thought they were predominantly buying treasuries.

**Matt:** It's truly awe inspiring, I think you use that word. Um, so I think, uh, yeah, we were gonna get into the talk about target date funds and then there's another niche that I specifically focused on called, uh, stable value. Uh, but target date funds are, you know, basically this kind of new, new financial product that started showing up, uh, I wanna say in the 2000 early two thousands.

But they got their kind of like anchoring and, and. Industry regulation. Uh, right in 2008, so April, 2008, the Department of Labor issued this ruling for the, they call it the [00:48:00] Q D I A qualified, uh, defined investment alternative, I think is the acronym. But basically what it means is it's the set it and forget it, the default option for when your new employee signs up or whenever you start a new retirement savings plan, uh, with your employer.

So it used to be, you know, you could just plug 'em right into the equity market, or you could save 'em in. I'll talk about stable value here. It's, it's, you know, just to lead the story here, it's like a niche money market account. Uh, it's got some specific problems with it, uh, at this point, uh, in its history.

Uh, but the tar target date fund is essentially just, uh, you know, a passive investment mix between stocks and bonds. And it sounds like a nifty, clever product, but basically it just foots to the, the heuristic own your agent bonds. So the idea here is if you're younger, you should be able to, you should be willing and able to take more, uh, risk in your investment profile.

Uh, versus if you're, [00:49:00] you know, older, you're in retirement, you're 65, 70, 80, et cetera, you have less time horizon. The money is more important for you. You're more dependent on the flow for your investment, uh, or from your investment portfolio to, to deliver your, your, um, You know what you need, uh, your, your, your food, your rent, your healthcare, et cetera, to, to, to live.

You don't have a paycheck, so you're totally dependent. So in that aspect, you'd shift towards more bonds, um, less risk assets, less risky. Correct. In, in, you know, risk. What you're gonna, in financial, academia with the CFA curriculum's gonna test you. Yeah, yeah. Yes. Um, lower risk. Um, and as you have an aging kind of population, what happens is, you know, if your median age is trickling up from, Hey, we were a young country back in, you know, 1982, you know, as we came outta the great inflation, now, you know, you have lower population growth, fewer bursts per household.

You, you, you get, you, you [00:50:00] age. And then the, the, the, the investment mix then will shift inside of this pool towards, uh, fixed income, you know, bonds. Um, that's where really where you land yourself. Uh, you know, right now, like we're, we're, we're in this little window where you've got the biggest demographic exit from the American workforce.

And, and every developed economy now is, is kind of hitting this at the exact same time. You know, you look at Western European countries, I mean, Japan hit it way before everybody. Um, but, uh, we're, we're all like seeing this kind of transition point at the exact same time. Um, so we go into a, a slide here.

This is, this is just an example of a. Target date fund. So this is Vanguard. If you go to their website, um, basically just the, to describe the chart for the people listening on audio. Um, you've got age on your X axis, so it cranks up from 20 to [00:51:00] 95. And then on the y axis you've got your investment allocation.

So if you picture a portfolio with a hundred percent that you, you know, invest, um, when you're young at age 20, um, you know, Vanguard says, um, like 90% in US stocks and international stocks, 10% in, uh, US bonds, international bonds. And they also add some, some tips here at the end, but basically it just kind of glides down.

They call it the glide path. Um, you, you lower, uh, that mix from like 90, 95% stocks down to, I mean, they, they call it on theirs 30%, let's say by, by the time you hit 72. And that's it. And this has been like the big industry push, uh, probably like the biggest product in the retirement space. I mean, there's, there's a little bit of, uh, I, I guess nifty stuff that you'll hear people talk about at conferences.

How do you get the, uh, uh, auto escalations up, all these little things. But like TDF has been the [00:52:00] biggest product and it's just this be own your age and bonds rule. Um, and that's, that's really what we're riding on. Yeah. Yeah. It was just,

**Marty:** A lot of group think, I think that's how I would describe it. That's again, against precarious cause when you have a material amount of people riding this particular model of investment strategy paired with the demographic situation it, and paired with the rate. So that's the one thing that scares me, is an individual who has many loved ones who are entering their retirement age.

We're looking at a fed's fund rate above 5%, potentially going higher. That's having a very material effect on the value of the bonds that have been shifted to a majority or the large portion of many people's portfolios as they're about to retire. So the last two years of fed [00:53:00] rate hikes have completely borked this model, have they not?

**Matt:** So I would, uh, my kind of mental bond or like framework for understanding the system, you know, as, as you learn more and more about this, I think the Fed is less in control than we appreciate. And that's actually like the market is in, like the bond market is in control. So the, the selloff and the bond market, um, And I, I mostly just watched like the US dollar denominated bonds.

I'd have to go, go back and check the dates on sell, let's say the European bond, the Euro bond market, the J p Y bond market. Um, those didn't time exactly the same way, but the US dollar bond market has been in selloff since August, 2020. See, they about, like, we put the mother of all stimulus into this thing.

Um, you know, six, 6 trillion of qe, five, 6 trillion of, of fiscal stimulus that put the bond market in [00:54:00] a rally, basically from just March, 2020 through August of 2020. And then it's been, it's been selling off since. Um, we'll, we'll see how this goes here. Like, the bottom on the chart right now is, um, end of Q3 2022.

So last year when we had the, um, like the big event was the, the, the uk um, asset liability, Hey, it was pension plans again. Go figure. Um, creating this, this unwind. Um, after that, um, there's, there's been like nine months of, you know, it's been, it's been windy, but, but it's recovered. You know, my answer here is like, I don't, I don't think it's the Fed that's actually responsive in creating the, the, the market selloff.

And if you, if you go back and look at the tape, um, you know, the Jackson Hole conference in August, 2020, they thought the problem was actually gonna be like systemic deflation. And I said, yeah, we'll get a little bit of inflation, it'll be transitory. Um, but you've just seen the [00:55:00] opposite. Like they, they were caught off guard.

I think as you know, the inflationary impulse was much stronger and surprising, um, than they expected. And they've, they've had to kind of catch up, um, and, and kind of roll, roll back their playbook, if you will, on, you know, how the system works. And so you, you kind of could see this in their quotes. They were given to the media last May.

You saw like Janet Yellen making statement statements, like we didn't fully understand or grasp, um, the inflation or, or what we're going on. So they were, they were behind the eight ball, I think, um, in, in, in terms of, uh, under understanding the, the real system dynamics and, and what was going on. Um, this is an insanely complex situation.

Like once you get under the hood on how the bond market works, there's, there's so much going on. Um, and it's tied, it's tied extremely closely. If you look at fixed income markets, uh, credit markets, [00:56:00] like all the investment banks, structure them into groups like F I C C, they call it fixed income commodities and currencies.

And this plays into the bigger picture of what's going on, um, in, in the grand scheme of things in the global economy. Um, that's a huge can of worms to unpack. We're just trying to focus here on how does the American, you know, middle class household get through this thing. Um, preserving as much as possible.

But if you think about like the, the Fed was wrong-footed, they've had to hike rates, um, and, you know, give that incentive to pull dollars in, uh, to, to savings, uh, like for, you know, front end, low risk, uh, you know, investments and, and currency iuss. Um, if you think about it that that's kind of good for a 65 year olds, you would think, right?

So let's say you've saved up, um, and you've got, let's say like the median account balance, something like 150 [00:57:00] k, um, in your retire balance. Like now I can shift that in to a money market fund and I'm gonna, I'm gonna get 5% right now. Um, that sounds like it would be good, right? But not everybody did that right away.

Like, positioning doesn't happen, like by definition, um, the entire kind of like group isn't going to be in the right position before the trade. Um, so that one, it caught them off guard, and we'll go into like the actual results here for these target date funds, um, in 2022. Um, but uh, it, yeah, I think it, it's just a tough environment too.

Like you're, you know, I'm gonna be pulled into 5% money market rates, so it's like, how long do you think that's going? That stay there? Yeah. Or could be, is that actually going to keep up with. Your future consumption needs. And I think, you know, consumption gets a dirty word. It's like, it's not going to the mall and buying, you know, new [00:58:00] shiny clothes or taking a fancy vacation.

Sometimes it's just like your food, your healthcare and your rent, right? Your, your, your basic life, life needs. Um, so it, it's, it's, it's insanely hard, I think for a 65 year old or a 70 year old, um, to kind of like plan their life and then their savings in this system around whatever is coming around the corner over the next five, 10 years and what they're inter entering

**Marty:** into can't, you shouldn't have to worry about it either.

Like you're talking about like the average middle American, middle class American, they just go to work, they do their job. Something Bitcoiners have said ad nauseum over the years is like your average American saver shouldn't have to have a vast understanding of the intricacies of the financial, monetary system to make portfolio allocation decisions on the go to ensure that they have money when they [00:59:00] get to retire.

**Matt:** Mm-hmm. Yeah. And even still, I mean, you know, we treat Bitcoin for, for what it is. This is, uh, this is the project to be building on. This is the c you know, the, the long term. We're building the cathedral here, if you think about it that way. Um, this is something that's gonna pay off and build a system of.

You know, resilience. But even if you think about a 70 year old, uh, with a Bitcoin allocation, like if you bought, uh, or you built up your, your allocation and let's say like three, four years ago, you're, you're fine taking what happened, uh, to a portfolio in 2022. But, um, that's not the way most markets actually work in terms of like forming a trade, right?

Most people, you know, enter a trade on the run, like as the exit liquidity. So you started piling into this trade as a 65 year old, and there were probably one, like, there were are definitely examples out there of people who did this. Like they heard the narrative [01:00:00] 2021, it made sense to them, I need to buy a Bitcoin.

They probably, like, if you bought it 40, 50, 60 K, like now after what happened in 2022, you took the draw down and now you have to have the conviction to stay in that trade. And it, it, it, it, it's just, just tells you like, even if you are thoughtful, you think about this. Like, this is really hard for a 65 7 year old like to solve this problem.

Um, yeah, as, as much as kind of the narrative goes, like, uh, there's a, what's called like an age clash going on, I think in, in American society right now, like young people resent boomers for. Pulling the ladder up on, on, on the way up. Uh, boomers resent the younger generations for not having the work ethic that they, you know, I'm just speaking, you know, painting with a broad brush.

But, uh, it's not easy, like just speaking from, you know, I guess I'd call myself right in the middle of those two things between the young and the old. It's, it's not an easy environment. I, I don't view, [01:01:00] um, to be, you know, 65, 70 and, and, you know, trying to plan out the next 10 to 20 years of your life into this is, this is a massive challenge building on top of this kind of shaky foundational system.

Yeah.

**Marty:** Yeah. Should be easier. Should just be able to save money and a good asset.

**Matt:** I love that. Yeah. Uh, but like building the bridge to get there is, I think the, that's, that's the work to be done. Yeah. Um, hopefully we can talk about that later, but I got hopefully only one or two more slides we can go through here.

But, and the key thing is these target date funds, um, the, the way they work is you'll set your target retirement date, that's where the name comes in, and you'll have a year. And they, all, the industry, every investment manager will bucket them into like five year buckets. So you have a target date, 2020, you have a target date, 2025, you have a target date, 2030.

And then as the retire or as the employee in this plan, you'll just have to choose. You're like, all right, how old [01:02:00] will I be? What year will it be when I turn 65? I was like, round it, you know, the closest five years. Like that's my, that's my mix. And then you. You're just gonna get whatever was on that glide path chart, uh, for your, for your mix.

Um, so how did these actually perform in, in 2022 when, when it was like time to deliver? Um, it's like things that sound great in practice or they, they worked, uh, in your back test. In reality, you know, once your plan meets, it's kinda like the Mike Tyson fight. Everybody has a plan until they get bit punched in the face.

It's kind of that in 2022, right? You saw everybody exit came after that. Uh, boomers exiting from the workforce. I think it's like 10,000 per day. Uh, our retiring, uh, which is a, just a crazy number to think about. Um, and then you saw kind of the, the exit hangover from the 2020 and 2021 monetary and fiscal policy [01:03:00] saw this massive pullback, um, for these near retirement funds.

So I bucketed these in Bloomberg. There's no good benchmark here. Um, and that's part of secure act 2.0 is now we're gonna get benchmarks on these target date funds and that will supposedly help fix it. And it doesn't change anything, um, and from, from my opinion. Um, but you just bucket these funds into like just kind of three year groups, uh, 2016 to 20 20, 20 21 to 2025 and 2026 to 2030, uh, for these targeted funds.

You look at the chart and they all perform the same. Everybody's doing the same glide paths. You're just gonna get the, you know, the plain vanilla, you know, whatever's off the shelf. And what we actually achieved at the end of the day for 2022 for this, like this was like the biggest development, I, I would say in the, uh, retirement savings plan kind of industry.[01:04:00]

And, and also pushed by the Department of Labor with this Q D I A rule in 2008 where the rubber meets the road is like the, the year that it mattered. Um, these near date, target date retirement funds lost, like this is just measured like 12 31, 20, 21 to, we're like end of April, lost one fifth of their purchasing power in that timeframe.

So big hit, like that's your, that's your number two nest egg. Your home price is still holding up. You got that, but you just lost one fifth of you're purchasing power, um, in 15 months. And, and this is what needs to, you're counting on this for, for like your remaining time horizon. It's uh, it's scary. It's, yeah,

**Marty:** inflation.

It's only transitory though. Don't worry. It'll be fixed.

**Matt:** Yeah.

**Marty:** And so [01:05:00] is there a recognition in. The target date fund industry, if you will, that this isn't working? Or do you think they're sort of hoping and praying that, uh, we'll have a reversal here. This is just a temporary, uh, so downtown? Yeah,

**Matt:** good question.

Um, I think that's the, that is the default kind of mindset. Um, hey, markets sell off. You gotta buy the dips, be up for the long run stocks go up into the right. You know, bonds have worked for 40 years. I think so far the, the general mindset, you know, if you show up at an industry conference, it will still be like, markets recover, this happens, stay the course, stick with your plan.

I, I, I would say that's, that's generally where things line. I haven't seen anything. Um, there's a couple big industry trade groups. I know, you know, I've been focused on going [01:06:00] to the, the bitcoin conferences lately. Um, we've seen each other a lot, met a lot of great people. Um, but, you know, as, as you go to these retirement conferences Yeah, the, the, the new kind of approaches, what do we do, what do we change?

Um, there's nothing that stands out to me as particularly innovative or, or that stop or that changes the, like these are tectonic plates moving at the, at the. At the base level, level that are driving these trends. Um, you know, you're not gonna solve this on a piece of paper or, you know, some industry consultant comes out like, Hey, you need to put commodities and you're this fund, or whatever.

It's like that's, I don't know, like I just don't see that being as, uh, kind of transformative, um, to get out of this problem. But right now I'd say it's in, like the general mindset is in the middle of like some, like, [01:07:00] uh, uh, still a, like they're, they're shaken but not broken. I would say. They, they still think this model isn't under, like, um, systemic threat or, or systemic decline.

Yeah. And you would argue it is, I think, yeah. If, yeah, if, uh, if you really look at the data and you take a long term time horizon and you take the collective body of evidence, I think, yes, this looks like a, I mean, build, build from first principles. This is a monetary system, um, that's, you know, maxing out on, its on its end of life.

And then this retirement plan, uh, kind of complex is built on top of that. You know, same thing with your insurance, um, sector, you know, it, it all plays in, um, on the same things. So I think. Yeah, part of it, you know, who's the, the quote, sometime it might be Kanes, uh, sorry to mention this, but [01:08:00] he was like, it's hard to get someone to understand something if their livelihood depends on it.

Mm-hmm. If you go to the, the industry, you go to these conferences, like it's, it's still slow, um, to, to absorb, um, and, and, and realize we, we don't just need something, um, you know, status quo. We need, we need to innovate, you know, from, from the studs, from the foundation up. Yeah. And I think you see that same thing I talked about the industry.

Um, you go and talk to retirement professionals, you know, there's asset managers. There's a whole consulting industry built along this where, you know, employers don't, you know, they're, they're in the business of making widgets, you know, providing goods and services into the economy, and they're just gonna follow best practices of what, uh, retirement savings plan consultant says.

And I think the same thing from like a, like a politician or a policymaker. Like, they're just going to [01:09:00] take advice from who they trust. Um, and I think right now they're like, they're still built. They're, they're still plugged into this industry where they think they can, um, they think someone else still, still knows the answer.

And I think it's similar to what you see in the, you know, the energy pro industry, you know, all these other industries we're going through and how government responds to. Um, structural issues. We're still at that phase where, you know, you're, you're the king is still listening to his existing council until things continue to decline and you gotta pull out and start listening to new people.

So I'd say we're, we're somewhere in between those, those two settings. Lovely.

**Marty:** Well, let's, let's give, let's give the freaks the white pill. I mean, that's why I'm excited to talk to you because you have dove deep into the, the data. Uh, you've painted the picture very clearly, not only during this conversation, but in other [01:10:00] conversations I've had with you.

And you think that, that there is a place for Bitcoin to help smooth out, um, the, the proverbial landing of this plane, particularly with the, the retirement accounts of, of Americans. That's why you build,

**Matt:** build a hundred percent. Yeah, exactly. Um, build, um, the only way out is to build the future. Um, so if you look at it from a standpoint, I think what, you know, you, you hear in the, you know, the Bitcoin chatter, the, in the space.

It's basically, we're, we're thinking about this in terms of how do you get more and more people to own Bitcoin, right? And if you look at an adoption curve, where are we on the S-curve? Uh, you probably have a better guess than I do, but like true people who see this as a store value on their own balance sheets.

3%, 5% that might feel high. Might be one to 3%. I was gonna say one to three. Yeah. Yeah. One to three. I, I'd [01:11:00] probably ballpark about there too. Um, and have bitcoiners essentially, kinda like already intuitively feel this. It's like you, you describe it to someone, you explain it, um, you know, half the people might just, you know, tone out.

Yeah. Tone out, pound, sand. Um, we're not going to listen. You might get interest or curiosity from, I don't know, another big group. Um, but they ultimately don't do anything. They won't act on it. Um, and then it's just very slow. You're very slow to pick up new people into this transition. Um, and that'll continue to happen, right?

You're, you will continue to see adoption here as people are pulled in by the kind of those, those first principle values. Um, all the freaks know this, right? Like, why, why would you choose this money versus other money? Like, very familiar with the, [01:12:00] with the, uh, with the value prop and all those use cases that Bitcoin, um, delivers and, and uniquely delivers.

Uh, that's why you think this adoption continues, right? But in the, in the big picture, you've gotta do, uh, some sort of transition. We talked about, um, you know, if you're gonna transition the middle class, you've got 50% of people. Totally dependent on their primary residents and uh, uh, just financial assets in their retirement account.

How do you, how do you smooth that out, right? Because this, this is going to be a messy process, right? It's al it's already kind of obvious, like just picture where we're at, like mentally, like where were you 18 months ago? How did you feel about making financial market, like how, like everything that's taken place, the geopolitics, everything, like this is just an extremely violent process, um, to go through like this type of, you know, potentially what we're facing as a [01:13:00] monetary transition.

Um, and it's not all gonna come smoothly, right? I think everybody kind of sees that happening, you know? Uh, hopefully agree with that. Yeah. And, and history's playing like live reality is playing that out. But I think from my perspective, what I've tried to do and, and we talked about build, why did we found this company?

Um, we saw this problem there in the 2000 tens. You know, once you put three QE on the board and you saw the slowness to respond and right about that 20 15, 20 16 election where, you know, it was very clear where something, something had changed, China was doing a massive currency devaluation. Um, what else?

You've been through two sovereigns. So you had a us um, I call it the GFC was a credit crisis, and then you had the European credit crisis back to back. It's like, oh, we gotta, we gotta start figuring something that, and I'm talking about, uh, what, [01:14:00] what we started here at Build. Uh, we took the approach of helping, you know, that middle class transition out of this, um, from the perspective of kind of resolving the problems and their fixed income allocation.

And that's the, talked about it, the, the largest kind of, uh, asset class in your investment allocation that the industry, the financial industry is going to push you towards. Uh, once you hit that kinda like 65 retirement age bucket, you're gonna skew into, into bonds. Um, so for better or worse, that's where kind of me and, um, my co-founder chose, like, we're gonna try to solve that problem.

Um, and in the, uh, from our, from our early days, like our foundational, uh, kind of approach was, okay, if you have to own bonds in this mix, and that's the only way you get in the door, right? And like, through the consultant, you know, gatekeepers through the [01:15:00] regulations, you know, you gotta have a target date fund mix, you gotta have all these things.

Um, it's like we gotta, we gotta, we gotta meet people where they are, right? So that's, you know, let's solve the bond problem because that's, that's really the. Where the rubber meets the road on a currency that's entire or, or a monetary system that's entirely built on IUs. Um, if you're holding those IUs, let's, let's try to, uh, to save you there.

Um, mm-hmm. So our firm, we launched our, our, um, you know, our first investment funds, um, in January, 2020. We got out, you know, after going through all the regulatory red tape, you know, becoming a, you know, a fund manager. Um, it's, this is not an industry built for startups to compete, right? It's, uh, a huge amount of gatekeeping.

Like, it's, uh, it's unbelievable the amount of, um, compliance and overhead. And, and the, the, the good thing too is it's also proof of [01:16:00] work. Like you have to have a track record, uh, to compete. So they wanna, if you're being evaluated, right, as a, as a fund manager, as, as you know, someone who's going to manage other people's money, um, you have to have that kind of time series of here, what did you do?

Did you deliver results? Um, so it, it's kind of aligned with Bitcoin in that way. The proof of work aspect does stand out. Um, but it also, and that's in that sense though, it, it also kind of value, like it puts the incumbents in a, in a seat where, well, by definition they've got the longest track records, um, they delivered in these bull markets.

And, um, for the most part, you're not going to see kind of like broad or complex thinking in terms of. How investments are, are going to be positioned, especially from the, from the employee. You don't understand the big picture of financial marketing and, and what's going on. That, that shouldn't be your, your day job.

Um, because your day job is making goods and services right. To provide 'em to the real economy. But, um, [01:17:00] um, um, what I was going with there is like, even in the, the consultants, like what you look at is the history. It's like, what did you do? And if you had this great bull market, well, until something goes otherwise, um, you're just kind of gonna assume on that.

Say here it's, uh, it's proof of stake. Yeah. In, in the yard. Like you, you, you can't get in in the door until you've done that proof of, proof of proof of work. Um, so on, on that point, um, we built out kind of an approach. If you think about this, every time you get a monetary easing, what happens, um, you know, you, you, you see the, the fed or, or any central bank, buy a lot of bonds on or absorb a lot of bonds or do the cash swap, um, take bonds onto its balance sheet, inject liquidity into the economy.

What happens, you see risk assets go up, right? So our first kind of suite, I would [01:18:00] say, um, of, uh, of products in this space to compete in, in the fixed income market was built around that concept. It's like, The duration trade. Um, you know, if you look at the bond yield chart, um, going back to, you know, early 1980s, all the way to 2021, when we went from, you know, a fed funds from 20% to zero, um, duration really carried you right?

As, as a, as as a bond investor. Mm-hmm. Um, yields go down, your prices go up. So as the system, you know, goes through these issues and you have to keep lowering rates to like continuously bail it out, it actually makes asset prices go up both bonds and equities, right? Um, but in bonds you don't keep up with the, with the risk profile every time that happens with what you call just risk, premium of risk assets.

So it could be the s and p 500, it could be, you know, tech stocks. It could be, [01:19:00] um, it even shows up in, in, um, like high yield credit, right? High yield credit behaves like a stock. But basically this first round of, of what we launched, we were like, let's keep up with that. Every time we get an easing, let's let the bond investor, instead of having to just absorb, you know, I have a two, two duration fixed income portfolio rates go from two to 1%.

You're not gonna get that much of a lift. And, you know, a lot of these investment portfolios that your 65 year old retirees are kind of migrated or like shifted in, allocated into, uh, from the indu industry perspective. Um, they're not. Getting the full benefit of what policy was, was, was doing. Right. So that's what we launched in Jan 2020.

We were one of the, the top performers in, uh, investment grade intermediate bonds, which are like a, the core building block of, of, I would say the bond market and these, um, investment portfolios. Um, especially as [01:20:00] you get into this near retirement kind of age cohort problem is the inflation. And then also this, this massive selloff, um, despite being one of the best performers and like accomplishing what we were setting out to do, um, you know, we might save, let's say, let's say it's like instead of a one fifth drawdown, it's like, well, if you don't, if you don't draw down at all, that's a win.

Well then you take the inflation charge, right as that, that 65 year old, um, so by like 20, 21, 20 22, like the, the inflationary impulse was there. The selloff was already well underway. I started to realize like, this isn't gonna get it done. And as you see these two things working in parallel, um, you know, I've been working on this project for, I would say like the greater part of my, my thirties.

Like it's, it's, it's been a while, uh, what we're [01:21:00] doing trying to save a bond market in parallel. You've got what's going on in Bitcoin and I've been. You know, long time Tftc listener, you know, been involved in this space. Um, and I think after the cycle, I would say, was it 20 16 20 17, we, that was the point where we, where I saw we actually had really good people in the Bitcoin space just describing, um, the monetary system like you and Matt, Odell included.

Um, I, I don't wanna name, just add incremental shout outs after there, because I'll leave someone out. But there are a lot of great people along the way who helped me put these, um, just kinda like two parallel streams together, and you kind of see what's going on, uh, and where the leapfrog can happen. So anyway, um, about 2021, I started reaching out, uh, to figure out how do we get Bitcoin involved, um, as a solution, right?

I, I think, um, Bitcoin, [01:22:00] uh, the, the community, and it's pretty small we're, the business development is going on. Um, you know, you see about like strike the custodial solutions, like Unchained, et cetera. Like your, your 10 31 portfolio companies. They're really doing an awesome job building out this kind of nascent, developing, you know, new monetary system, like just from the ground up, like building.

Um, that's obviously what I love. Um, it's the, the, the name of, of our project, name of our company, but in parallel now, Um, you know, what I've tried, tried to start thinking about is how do you, how do you connect those two systems and the people who are at the, you know, the, the middle class who is primarily invested in these, you know, the legacy framework of, um, kind of parallel system that is in structural decline.

How do you, how do you bridge that gap? And when you think about what this kind of entire system is, [01:23:00] is built on, um, the legacy monetary system, it's, it's just dollar credit IUs at the end of the day. Um, you know, the dollar system is insanely complex, you know, once you think about it, or, or if you try to map it out, you know, repo markets, swap lines, you know, what's the, uh, the fed, uh, counterparties, dealers, treasury, like, all of this stuff.

Um, but at the end of the day, it's, it's, it's dollar IUs and that's what these, you know, the, the, the bulk of people in the middle in America, um, besides their primary residence, that's what they're invested in. So my thought here was, all right, you gotta find a way to bridge them into Bitcoin. Not a lot of them are just owning, uh, Bitcoin on their balance sheets.

And even, even aside from that, owning Bitcoin in a way that is, um, you know, self-sovereign, you know, taking, taking it into their own custody. Um, you know, all of that. Like, we see these problems going on like as we go through this transition. [01:24:00] Um, but the idea here is, you know, you've seen a. Lot of, uh, great kind of thoughts, uh, put out into this space since, I wanna say I'll give, I'll give the shout out to Nick Batia.

I think in 2016 or 2017, it was the first that I knew of to describe this as like a collateral layer to, uh, Bitcoin as a hard money ledger to back up as a, um, you know, a collateral for, for dollar lending. And that's, you know, just a slow moving process of everything that's been building in my head as I'm thinking about how do I, how do I help save this, this, um, you know, retiree.

And, you know, if you map these onto real people, it's our, it's our parents. It's, uh, aunts, uncles, coworkers, people in our community, they're invested heavily into dollar IUs. So the thought is, um, you know, if you bring in Bitcoin custody or Bitcoin into that dollar [01:25:00] IU landscape, can you help bridge the gap?

And this led to conversations with people like I, I would say Parker, uh, just to give the shout out at Unchained and everything that Unchained has developed, uh, from the backend custody, uh, model, as well as their servicing operations. Um, they led the way on, uh, from my perspective, like a lot of companies were entering the space on, I'll, I'll just like blanket here.

They call it like crypto lending and just mm-hmm. Garbage approaches where they just re hypothecate. Layer collateral. You see the same effects with daisy chains that you see in the existing, like repo market problems. And all of these guys, like, I don't wanna say all, but like you've seen just massive amounts of failure.

Um, so while it's viewed as like tremendously risky here, um, to, to build this dollar credit foundation on top of Bitcoin, meeting with this team at Unchained and everything they've [01:26:00] built, um, shout out to to Joe Kelly. Um, I could just name up and down the list of, you know, the, the really solid, uh, people they have there, the team of, and what they've built out on the ip, uh, but mastering that Bitcoin back lending.

And just to briefly describe just the profile here of, um, from a supply side, as a provider of do dollar capital, you've got, you know, you're, you're looking at the entire landscape of, of credit to invest in. You've got treasury bonds, you know, the, the risk free asset if you will. I don't wanna go through why there's hair on it.

You've got corporate bonds, um, you've got securitized debt, and then after that you're getting into just other stuff. And in a bond market where you've got the largest sell off since I wanna say like 19. 31. Like, like it's basically the Great Depression. I had a big selloff and then you had a big selloff, um, at the tail end of the Revolutionary War.

What we saw in 19 or in 2022 was like on par with those. So you gotta choose [01:27:00] like, all right, if I'm gonna save my investors in dollar IUs, because everybody's still piling into those, like as a, as an asset manager, and this is where my day job comes in, you know, not wearing that hat, you know, as we're talking right now.

But when I wear the hat of cio, uh, for our investment manager, like my job is to choose what is going to be the most performant, um, fixed income, you know, dollar i o u, um, at a perceived, uh, level of risk for that investment. So if you look at what Unchained is built out, when I saw this, um, we came to a, you know, that aha moment you see on their loan profile.

Like you see a lot of these loans going out, you know, I wanna see them going out to Bitcoin companies for one, like, I wanna see it going out to, to, to entrepreneurs who are providing goods and services into the economy. So when we talk about this, what I don't wanna see is people levering up, um, their own balance sheets, posting [01:28:00] their Bitcoin to buy more Bitcoin.

Um, you know, listen, listen to rhr, listen to Matt and Marty, folks, like stay humble and stack stats. Do not. Do not use leverage like you will get taken to the wood chipper. You are not, you are probably not, um, you know, a, a savant trader like you, you most likely will deliver pain, uh, to yourself and your portfolio.

Just, I would say stay away, uh, for, for, for most people humble advice. But when you, when you lo when you loan into the, the Bitcoin economy, you loan to the Bitcoin entrepreneur, you know, I, I like to think about this. I picture this. I wanna see, um, businesses collateralizing their, their Bitcoin on their balance sheet, um, using that to obtain dollar capital, go out into the, into the economy, create the goods and services that, that, you know, our community, the market, our parents, siblings, neighbors, et cetera, need [01:29:00] food, rent, energy, et cetera.

So if we're lending out, and this is where the unchain loans come in as the profile, they're like a 14%, um, nominal yield or a p i on those, um, they're about, a average is about a one year duration. And then the backstop, they're about, lemme say 40% loan to value. So if you, if you have $250,000 in, in, in, uh, and Bitcoin, basically that's gonna just give or take, um, you, you're gonna be able to pull a loan of a hundred K against that.

So from a lender standpoint, You really like that, you like that mix? Um, in an inflationary environment where CPI is running seven eight at its peak class, June, um, and this thing's gonna be my opinion, um, we're probably going to be in a, in a volatile kind of inflation cycle. We got one impulse last year, you're gonna keep getting these.

But to have your di dollar aisle use kind of maintaining their [01:30:00] purchasing power, you're gonna need that high level of yield shield, right? Let's just say right now the 5% treasury yield, uh, on the front end, I'm not a hundred percent sure that's gonna get it done. Um, you know, a lot of people are, you know, flocking in, um, as that rate kind of attracts more people, but in an un uncertain future, you see a system, um, getting more and more volatile, um, you don't know.

So the bigger you build that shield, um, I'm speaking on behalf of like a, a fixed income or credit fund manager, the higher that yield shield, the more likely you are to, um, to kind of fix that, that, yeah. And, and maintain, maintain purchasing power of, of those dollar highs after that, the, the one year kind of maturity, you know, basically, if you think about this, you structure this as a, as a pool, right?

And you've got many loans, uh, behind a, um, a, a one to many [01:31:00] fund, right? Um, so say on average, you know, you've got half a year. Uh, for, right? Cause you have some maturing tomorrow. You have some maturing a year from now, and, and then they'll just kind of wind down between one day at a time. On average, you got a half a year duration.

Rule of thumb, uh, you hear that metric duration, uh, you talk about it in bond portfolios. Basically what it means is, say like your duration of your portfolio is one. It means like, what's the average length of, um, all the maturities, all the cash flows in the year. When does the average come in? So if you say duration of one, it means barbell one year, or sorry, a bullet one year.

Uh, your fixed income portfolio is basically balanced right there. Um, so your duration is this metric where it tells you, um, let's say you have a duration of one. It means that if interest rates rise 1%, they'll go down. Your, your, your value of your bonds will go down, uh, 1%. So same thing, it just two duration of two means interest rates.

What? [01:32:00] Rise 1%, your bond portfolio value is gonna go down 2%. Um, in a rising rate environment where we had this just massive selloff, um, in 2022 duration's, not your friend, right? Versus in, in the, in the environment where, where rates are going from 20% back in 1982 to zero and 2021, you love duration. Like it's gonna, it's gonna carry you.

Um, it'll be a volatile process, but it's gonna work in your favor. Um, you know, no, no. Crystal ball is, is perfect. You know, the future's always uncertain, but. Imagining, like just saying, uh, this next phase is potentially looking at, uh, uh, an environment where rates are gonna rise as opposed to just structurally come down.

Mm-hmm. Um, duration's not gonna be your friend, so this loan pool. Um, and then on top of that, you've got, um, something actually backstopping, like [01:33:00] backing your dollar credit. Don't like it. I, I don't know that I can like harp on this too much. Like so much of the credit in your bond portfolios, your bond funds, so much of this is what you would call, uh, unsecured.

Like it just sits on the capital structure. You have some bankruptcy positions, but most of these bonds don't have anything underlying, specifically tied to Yeah, exactly. Um, sometimes you might see like a first mortgage or you see some piece of real estate or like a utility has assets that they're backing it up.

But, you know, if you're just lending to like a corporate bond or the US Treasury, it's all just on a good faith. I o u and you just call it unsecured, um, lending. Um, so in, in an environment where this, you know, the credit bubble just keeps growing. Like you think at some point, like, well, you, you keep going through these violent spasms.

Like 2008 was a heart attack, saw minor ones, you know, in other places across the globe. [01:34:00] 20 12 20 16. Um, 2020 was, was another. Heart attack. Um, and you know, once you, once you get into those, it's, it's, or, or you're in a resolution event where you're going into, you know, bankruptcy and you're, you know, you need, you need some sort of recovery, um, on your, on your credit, right?

You, you should generally be, um, senior in the capital structure or in the proceedings. Um, you want that, I think as we go into the, you know, this forward-looking environment that you're investing in Dollar I,

**Marty:** yeah. Cause if you don't have it, you're gonna have massive loan

**Matt:** loss. Yeah. And you're seeing that in the data.

You know, you said I was massively prepared. Uh, there was a, a Bloomberg article, I'll find the tweet for you and, and send it over. But, um, bank loans, you know, there, there's this kind of niche. You see all these niches in, um, fixed income credit investing, um, and this little sleeve called leveraged loans, basically, it's just that, it's like there's [01:35:00] a pool of loans and there's leverage applied to buy more loans.

And then, and then you own the equity and, and layer on that. Um, the, the profile here, the recovery rates for this newest tranche of, uh, levered loans and default is, you see the trend line, it's down. But, um, the Bloomberg print, um, just coming out last week, it's like, it's looking like, it's gonna be like, like right now realized rates are like 20 cents on the dollar.

You know that. Holy shit. Let's, let's keep it white pill here. But here's the beauty thing, like if you're looking, um, and this is where, you know, you, you go, we were just in Miami. We, we went to some talks, you know, 10 31 had, you know, a panel up on stage. Like why would you not, um, you know, search out this type of backstop in your dollar i o u.

Um, we're slow. Like, it, it takes a lot of time for people who are [01:36:00] kind of trained on the existing frameworks. You use the word group thing, but just like steady habits. Um, you're not just gonna throw those all out the door. Um, I mean, it was a massive sell off, but you're, you're not gonna totally give up on 40 years of what you learned in your career.

Um, all in one go. And the other aspect too is this is a tiny, like we were talking about Bitcoin back loans. Um, this is a tiny sleeve on the entire dollar credit market. So just for perspective, like how many dollar IUs are out there? Um, it's hard to calculate. Uh, there's no centralized ledger. It's is like surprisingly, um, if you think about it, it's actually a, it's actually a highly decentralized system with banks all across the globe.

Securities all across the globe. Um, but there's a industry trade group. The, if I think they just quoted it, it's about $300 trillion. That's your credit pile. So this, [01:37:00] this industry, the legacy industry who's doing fixed income investing, they need size, right? If you're gonna invest 300, like you've gotta be big and you start with like, what's the market cap of Bitcoin?

Like, if you're gonna build on that for a new credit layer, market cap is, I don't know what it's just to say half a trillion dollars. And then your daily tradable liquidity. I don't know that number. Like right now off the top of my head, let's trade it on exchange or Bitcoin to dollar markets. It's, it's probably about the size of like an on the run t bill, like just measuring, but that's just like one qip.

Um, so it's still relatively small in the scheme or in the like, relative scope of this giant dollar credit market. And then the actual, what I would call the good lending, sound lending built upon Bitcoin and like smaller that, it's what my perspective on that is that universe is, is what Unchained capital is doing and [01:38:00] what they've built out.

Like in all of my deep dive due diligence, the, the conclusion I made was unchained as, I'm not gonna say there's not other parties out there who, who are sound, but they are the most. So yeah, the bulk, it's not that big. It's eight figures. So what we're doing, like, we're just getting

**Marty:** started. Yeah. And to take a step back and to break this down for the freaks listening, so Matt.

Running a credit fund looking to allocate dollars to credit facilities to get a return on that. And Unchained is very attractive for many reasons. Number one, let's start with, uh, start with the custody. It's a two three multisig. It's multi-party custody. So you have unchained holding a key Kingdom trust holding a key, and then the borrower holding the key as well.

So the borrower has some insight into that escrow account, uh, where the collateral's held to [01:39:00] know that it's not being re hypothecated, it's right off the bat. Unchained with this product is reducing risks because they've built it in a way where they can't move your Bitcoin to take risk, to try to get yield for themselves and, and their customers.

And they, they, they don't have the ability to uni unilaterally move Bitcoin out of the escrow account. Two, the collateral is over collateralized. 40% loan to value, like you said, put $250 thousand worth of Bitcoin in. You get a hundred thousand alone. So the price of Bitcoin falls, you still have collateral.

And another important thing with Unchained, I feel comfortable saying this cuz they say publicly all the time, they've never had a loan loss on their book. So any credit lender who's given them money to then lend out the Bitcoiners and never lost a dollar that they've given unchained. And that's when you juxtapose that with the crazy leverage credit facilities that exist out there.

They're. Gonna return 20 cents on the dollar. That's extremely attractive. [01:40:00] And then number two, you have Bitcoiners don't wanna sell Bitcoin. They'd rather take a loan out and pay a high interest rate because they don't want to eat the tax burden of selling their Bitcoin. And they believe they can do something productive with that money to pay back that loan, keep their Bitcoin, maybe get some more Bitcoin on the back end from producing a productive business that creates cash flows that allows 'em to stack more.

And the p y associated with, as the interest rate on the loan is high, cuz it's deemed risky by a lot of allocators. And so that produces a quality return for these credit funds. And this is something we've talked about at 10 31, like the Unchained lending desk. If your a credit fund is the biggest no-brainer in the world, people say treasury is risk free.

Nothing's risk free. Obviously there's risk. Bitcoin can go to zero, which would be a systemic risk to this type of product though you have to put probabilities on that. I put the probability very low. Um, it's as close to risk free as you can get when you factor in, like the transparency [01:41:00] of the escrow, the over collateralization and your customer or, or Bitcoiners that can either pay back the loan or if they don't.

Um, you just liquidate the Bitcoin and the money goes back to the lender. Um, it's, we've been beating the table at 10 31, like if you're looking for, uh, Outsize credit returns as a credit fund. Like you should be pouring your dollars into the unchain lending desk.

**Matt:** It's uh, yeah, I don't, I don't like to use the language of risk free anymore, period.

Um, cuz like you, you, this is a, uh, it's a, it's a, it's an unknown prob probability distribution of, you know, what's in the bag. But at the end of the day, it's, uh, it's track record. I, I talked about that earlier. What, you know, as a launching this fund, being an s e c, registered investment advisor, all of that and, and the existing, [01:42:00] um, track record we've built up, um, since, since launching our firm.

You go into these discussions with, uh, you sit around a conference room or, you know, you make a board pitch. You're pitching to, like, it can be any institutional pool of capital. Um, they could, at the end of the day, what they care most about is returns. I like it. It like, it's, it's proof of work, right? Um, so ultimately it's performance, uh, is, is what the, what the, uh, the equalizer is or at, at the end of the day, capital is going to fu fund to its highest and best use, or highest and best, uh, or its best allocators.

Um, and, and so you heard a lot of discussion about this topic. You know, 10 30 ones talked about it. You've talked about a lot. Um, I think what's been missing, um, from kind of that plugin of what we're doing, dollar [01:43:00] back loans, all of that, or sorry, Bitcoin back dollar lending, um, and one, it's, it's, it's hard to segment out like, oh, what's the difference between you and a, I guess we can just name dead name, block Celsius, et cetera, like that.

It's, it's hard as a kind of a, an investment committee member, like you're on a pension or you know, a family office and you really have to dive deep and, and understand why is un why is what unchain doing different than what block, why is their custody model superior to, I I would call it the absence of study of a custody model at a lot of these, you know, shops who are just, you know, there, there's no on chain footprint, it's just, you know, I have a, I have an I O U A Bitcoin i u somewhere at a Postgres data or something like, it's, it's really hard.

And then on top of that, you've gotta understand like what's going on in this legacy system. You have to have a view, um, and then you have to understand what Bitcoin is and, and what it's [01:44:00] doing with its parallel framework. And it's insanely hard, I think, to, to grasp everything at once. Especially coming from a standpoint, most people making these decisions are going to be having, like, having sat in that seat for three or four decades.

So it's, it's at that time where, Usually you're not gonna arrive at this, this, you know, these conclusions or make these choices based on, um, first principles. Like you need to see things work out. And I think, you know, at the end of the day, you know, I met a lot of great people, you know, in, in the bitcoin space who are thinking about these things from first principles building on top of them.

I've chosen to build on top of that as well, um, you know, making that bet and like ultimately it comes into, I wanna pull more dollar capital into the space, um, you know, allocate to the Bitcoin entrepreneur, um, who's gonna deliver goods and services into the economy, solve this problem. Um, [01:45:00] you know, collectively that's the exit path out and we win.

And to do that, I think the, the, the, the point in this highly regulated industry, like the, the missing piece is you've gotta have track record. Um, at the end of the day, it's, it's a gated industry. So like people won't listen to you, like most people won't act same way when you tell them, Hey, you need to buy, like, like you should book into Bitcoin, you should read more, you should think about this.

Whatever. Like one out of a hundred might answer your call. I think it's, it's the same way. Like you, the results are what, what, what bears out, um, the change and those key decisions at the end of the day. Yeah.

**Marty:** So putting this in the context of how allocating. Dollars in a credit fund toward a product like Unchains lending desks.

Like what could that do to save your average American retiree or somebody saving for retirement? Like [01:46:00] how does this help with the transition?

**Matt:** Yeah, so we talked about before, like let's say you're 65 and people make an investment decision, usually based on news or something they hear. Most people aren't, you know, process oriented or, you know, putting a lot of structural thinking into why this, is this a good time to enter a trade?

Is this a good time? Yeah. To acquire this asset. Um, they, they usually just kind of react like there, there's, there's an emotional, um, kind of driver to that is, is my opinion. So even if you think this is the promising system, um, you know, a truly disruptive innovation, it's, it's the, the framework to build a bond if you buy in 2021, like you [01:47:00] maybe waiting, you know what I mean?

It's like the same thing of buying a tops of other cycles and it, it, it hurts and then, and then you're left with this bad experience and then you, you know, instead of, uh, Questioning yourself or taking personal responsibility, you might, um, instead just turn sour on the entire asset class. And I think that's kind of the natural human instinct, right?

It's, it's hard to look in the mirror and realize, like, I might have been right, but I was wrong on timing, or I didn't think about certain feature or aspects, or I didn't, you know, Hey, I'm 65. I didn't realize I shouldn't have, you know, rolled into something that hasn't at that timeframe that has a track record.

Every time a dollar cycle enters a contraction, it can draw down 80%, 90%. Um, so where you build in with that pitfall, how do you cross the line there? Well, I don't know. I, I think just from a creative perspective and looking for, looking for solutions, I try to piece together what, what [01:48:00] has promise, what works.

And if you think about, well, the, the bond market was responding to the same, you know, dollar cycle, you know, 2022 that, that, that Bitcoin drawdown was. But how do you put the pieces together in a way that kind of fits the, the parameters for that customer you're, you're trying to solve a problem for? I think that's where the, the Bitcoin back lending this, this nascent space is growing space.

If you do it the right way, with the right operational integrity, um, with the right people, um, you know, just, just. Do, do the job well. Um, and I, I think, uh, you know, saw down on a mission to find that, and that's, I think the, the rocks we've turned over in this space. What we've talked about before, if you put people in that type of a vehicle, you know, that, that target cut, like work ba work backwards from your customer's needs, um, you know, you're a 70 year old, you need income, yet it's an [01:49:00] inflationary environment and you can't take drawdown.

Um, well maybe 20, 20 one's not the right time in the cycle to, for you to be accumulating a Bitcoin position or like heavily in, you know, gradually wrap that up. But the loan profile, if your dollar credit, same thing that's struggling, uh, from duration or rising yields, well, if you flip those parameters on their heads where now you've got a high nominal yield, reduce the duration and then put a strong backstop behind it, you've gotta, you've now gotta something, uh, to allocate towards for that specific customer, that client, um, that that fits their use case.

So I think, yeah, uh, from that standpoint, you know, you think about, or the way, the way I think about the envisioning what 10 31 is so good at investing with, with these companies, you know, building the, building the monetary system like from the studs out, your strikes, your mute me wallets, like all [01:50:00] of those we.

Apologies to all the other awesome companies and, and entrepreneurs I've met, uh, doing that work. It's like, okay, now what can I do? And, and bringing into that for this, this, I'd call it the mission of what I've been working on for the last like five to 10 years. How do we save the fixed income investor?

All right, let's build the bridge from that side as well into the, the bitcoin economy. And, um, I'd say the, the, the promise to get excited about is you can solve both problems and at the same time, pull in more dollar capital into the Bitcoin economy, those same entrepreneurs. And that's just a flywheel.

Like it's, it's just another asset. It's pulling in more capital into this, I mean, truly a, a sliver of a space. Like it's, it's, it's, it, it really is astonishing how much headline attention Bitcoin has gotten with no marketing team. Shoestring budgets, a tiny sliver of the population, even rowing in the boat in the, in the right direction.

It's even [01:51:00] worse than that, like the dollar capital, like from the VC space. And you know this better than, than I do. I mean, it's like 99 to one going into, yeah, that's absurd. Crypto squad crypto junk and just exit, exit schemes. Um, so I don't know, you, you start small, but I think this is one more bridge. Um, sounds fiat, right?

How do you, your, your business is, uh, Focused on a mission of bringing more dollar IUs into Bitcoin. It's like, no, I, I like, if this is hopefully transitionary in terms of where Bitcoin is going in the, in the grand scheme of things. But in the, the day-to-day picture, uh, pulling in more dollar capital into the Bitcoin economy pulls in more resources for, for Bitcoin development.

And I think, you know, as I map out the economics, what it does for the entrepreneur, I said this before, I, I, I don't like the idea of, of retail borrowers collateralizing their Bitcoin. Like you need some sort of [01:52:00] value creation, or you're gonna use that dollar capital, create something into the economy. You cover that high cost of capital, like 14% is hard.

Like this is, this is a credit card rate type of hurdle. Uh, but in terms of access, if you're a business, you need, if you're an energy minor, you need asics if you're, or, or a new pipe to get your wealth connected into the, um, you, you, you know, the existing legacy network, you know, um, you're a farmer. You know, I haven't met the Bitcoin based farmer yet, but I'd, I'd love to hear that episode on Tftc, but, oh, the, uh, the shoutout from the, uh, live RH r at Miami, that dry cleaner.

Right. I love hearing that. He's like, how am I gonna incorporate Bitcoin into my business? And this is where as an entrepreneur, as a business owner, like it's on you. Like you have to be the master of your, your income statement, your p and l. But if the problem is capital shortage, I. Uh, and, and when I say dollar capital shortage, ironically, the [01:53:00] problem we're looking at right now looks to be a shortage of dollar capital, not a surplus, right?

We think about the money premium. There should be dollars flowing everywhere. It's actually not the case. You have bank balance sheets constrained in the domestic banking system. Um, you see the data in the high yield bond market. So the, the more you venture out on, on riskiness as a business like credit risk, um, the less willing the existing system is to fund your project, your business at this point.

So stepping in there, and it's also like the, the smaller your business is, the more risky you are from the system's perception. Um, and I think, you know, in, in terms of actually resolving the, the problems at the base there, you just flip it on its head. It, it's, it's more likely the exact opposite. Bet on the entrepreneur bet.

On the bet on, um, the soundness. That those that do survive are the [01:54:00] ones that are gonna be the ones that exhibit strong balance sheet management, strong capital discipline, uh, manage their income statements tightly. Those are the ones I wanna see allocated capital to. And, and in this case, Bitcoin is the vehicle, um, that gets us there.

Yeah.

**Marty:** Speaking of flywheels too, like I, like, I love that this is like a bridge. Product where it's like, all right, you're 70 years old, you don't want to ape into Bitcoin, but you do. You don't even have to understand like the loan dynamics and the collateral and what happens, but you just wanna see the performance.

You can get a return of 10, 10 to 12% after everything's chopped up, uh, in a credit fund, which is extremely high for credit funds. And they get into it and they're like, oh, this is backed by Bitcoin. Then maybe Build does this successfully. Unchained keeps running their desks successfully, and your returns outperform a lot of your competition.

And then that sends a [01:55:00] signal to the market, like, Hey, what are these guys doing? And forces people to dig into your strategy and what you've found, and that leads them to Bitcoin or the collateralized loans, and then to Bitcoin more broadly. And it's just a, I could see it being a legitimization of Bitcoin as super collateral that people really don't recognize yet, um, which forces them to ask questions to learn more, to get closer to the point where they realize like, oh, this is not just some pyramid scheme.

It's actually something that's very foundational to our transition into the new monetary system, to a new monetary order, if

**Matt:** you will. Yep. And I think human beings are, uh, you know, we are, we are clever. We go towards what works. Um, And in this environment, like the business owner, you know, was hitting on this before, if there's a capital shortage, you can't get a loan from your bank.

Um, you know, the only [01:56:00] capital is gonna be available too. The highest quality borrowers, you know, perceived by the system of US Treasury, your large cap companies, apple, Google, metal, meta, Oracle, you know, all of those. And, you know, the biggest issuers, um, in the system. What do you do if you're the, uh, the small business owner?

You know, that that's kind of where the, the rubber meets the road for most of the goods and services we consume. Uh, that, that keeps society running. And, uh, humans are problem solvers and I think they're ultimately gonna move towards what works. Like, just how do I survive? How do I create value? Um, so that's the beauty of it.

I was gonna say one more thing, like the, the Tftc rebound, uh, rebrand of Truth for the Commoner. Um, you, I think that's awesome and it puts to the conversation we've been having, um, and you just start from that perspective of what, what is this system exp like offering [01:57:00] the commoner, right? The retirement accounts and your primary residence as your, as your bedrock.

Um, and you think about what's, uh, you know, the crack showing up in the system, the, the problems. You know, and hearing an everyday life, the problems for a small business owner, it's like, what, what more is there right than to just show people for, for Bitcoin? Like now this is, uh, something that works for that, that that broad group of people to help our, help our entrepreneurs, our communities move forward.

Hmm, thank you.

**Marty:** It's the, uh, it's funny, most people would find this conversation or like the subject retirement account, it's like boring, but like, after sitting down with you for two hours now and digging into it not only, not boring, it's like a, a big problem that a people should understand, and the perception of it being boring has probably allowed the problem to get to the extent that

**Matt:** it has [01:58:00] it.

Uh, and it resonates with, uh, I mean like the, I should put in a word cloud, like the, the, you know, the driving ideals of Bitcoin, the low time preference, right? What is retirement saving like? You're supposed, like I work today to put a nest egg aside for tomorrow. Like, that fundamentally is just a, a core concept of the, the, the understanding of what Bitcoin offers.

So I think it, it's like these big picture moves and how people move towards systems and all the complexity, um, you gradually shift towards what works and it's a messy process. But yeah, hopefully this is, this is additive. Um, Per and across all parties too. Like a win-win win is kind of what I, what I'm hoping to accomplish.

**Marty:** Yeah. Well thank you for doing what you do. I think it's very important. I think I made that clear through our [01:59:00] conversations. All fair leading up to this. It's uh, again, I mentioned this is something we talk about a lot at 10 31 and it's like no-brainer. Um, you on chain landing desk if you're a credit fund allocator, um,

**Matt:** for some, no, I don't like the word no-brainer.

Cuz it implies you like you didn't put any thought into it. So you need to get people like think, um, yeah, people are like, there's, there's a shortage of thinking sometimes I think in, in these decisions and a over reliance on what a committee tell or what a consultant tells you or what you learned for 30, 40 years.

Um, it's like, who moved? Who moved? My cheese? That boy? Like you gotta be the, the mouse who, who thinks, um, about where, you know, things are heading. Not, not what worked in the rear, rear view mirror.

**Marty:** Yeah. Yeah. Well this has been incredible conversation. [02:00:00] Very dense. We've dove into a lot of your freaks. If you're listening and you want to, um, read the charts, I'll have a, I'll have Matt send me a pdf.

I'll put a link to the pdf. Perfect. Um, in the show notes so you guys can follow along if you're listening, um, or if you wanna go check out the charts after listening. And obviously if you go to YouTube, Spotify, rumble, you can see the charts, Bitcoin TV for yourself. Um, Ima yeah, again, thank you for doing what you do.

I think what you're building up build is extremely important and can be, excuse me, I think a model for, um, allocators in the traditional financial space to unlock something that, that shows them the way to creating this bridge to a Bitcoin standard in, in helping using Bitcoin as a way to help what they do in [02:01:00] a day-to-day basis with their allocation strategy.

**Matt:** Yep. It is, it is. Hopefully the light vote,

**Marty:** uh, for any freaks are listening. I wanna find out more. Where should we send them?

**Matt:** Yep. Uh, so on Twitter, uh, my handle is build cio, just letter cio. Um, and then, uh, from a product space, what we talked about today, this project that we've undertaken with Unchained, uh, for right now, we talked about how do we bridge the gap, solve problems for the middle classes.

Right now, the only way we could do this is in a private fund offering and the requirements there. Require, um, that we only work with accredited investors, so there's certain standards, um, that need to be met. So, big picture goal, what I wanna work towards is expanding this, um, to all supplies of, of dollar capital.

So, cause this [02:02:00] is a, the, the dollar credit problem impacts everybody. Um, what's going on in the, the legacy system, uh, and just investors across the board. Uh, but right now just how we could map this solution onto what was like, feasible and attainable. Um, for the first, I'd say run at this, um, the requirement in it is, uh, we have to work, uh, with accredited investors for the, for the Bitcoin back nature of, of, uh, dollar IUs that we discussed, uh, before.

But, uh, we've gotta site up@buildbitcoin.com. It's a domain. I was, you know, really happy I was able to still get back in. I wanna say I got it in like 20 20, 20 21, but we're using that as our, kind of our masthead on, um, describing this project. So I think that's what the, the bitcoin audience here today will be, will be most interested in.

But, uh, that's kind of [02:03:00] the, the landing point. If you're interested in learning more about, uh, what we talked about and what I'm gonna be working on, um, to solve this big picture problem from the bitcoin. Focus perspective.

**Marty:** Thank you for the white pill, Matt. We need more white pills.

**Matt:** Awesome. I think we can do this.

I think we can do it. I do too.

**Marty:** We're gonna win. We're gonna win freaks. Matt, it's been a pleasure. I'm sure we'll talk soon. You too, Marty. Going on. Enjoy the rest of your afternoon. And uh, yeah. That's all we got today for each peace and love.