TRANSCRIPT:
Paul Krugman in Conversation with Barry Ritholtz

(recorded 5/20/25)

PAUL KRUGMAN So, hi everyone, Paul Krugman again, latest video.

I'm going to be talking with somebody I've known a long time, Barry Ritholtz, who has a terrifically fun book called *How Not to Invest*. And I'm actually considering this to be also a session devoted to how not to talk about Donald Trump, or least not very much because he isn't going away, alas, and all of that isn't going away, but it'd be nice to talk about something different.

So, Barry is a bona fide money manager, really involved in markets, but actually also kind of an interesting person to talk to. That Venn diagram doesn't have a whole lot of overlap, but it does

have some. I’ve known Barry for a long time, and we may want to talk a little bit about other occasions when we've talked. For now let's get going.

I have a version of what the point of the book is, but maybe you should tell me about it and then we can go on from there.

BARRY RITHOLTZ Sure, so my first book was 15 years ago, *Bailout Nation*, all about how the financial crisis happened and how we can avoid it again. And I've had a number of friends and various publishers kind of harangue me over the years, “Hey, it's time for another book.”

And we're all busy. Writing a book, as you know, is time consuming. But you know, at a certain point I kind of looked back and said, “Well, I have something to say. I just don't want to say the same thing that's been said over and over again.” Truth be told, there's been hundreds and thousands of books published about how to invest. Most people are kind of lousy investors. We make all the same mistakes over and over again. The one thing we learn from history, at least when it comes to finance, is that we learn nothing from history.

And one day I'm kind of looking through some old columns and some old market commentaries and some research and I find, wow, I really spend a lot of time debunking financial BS.

Are we allowed to curse?

So one of the publishers who had reached out are these very proper folks in the UK and, “How do you feel about a book debunking financial bullshit?”

“That's been done, everybody's used that, it's a waste of time, but explore it and see where it goes.”

And so I have a big bulletin board in my home office and I just start writing chapter titles and putting them up on the board. And after a while I kind of notice they all fall into three neat categories.

1. These are really bad ideas and how they spread.
2. Here's some classic misunderstandings of just basic economic math.
3. And then lastly, all of this manifests itself in really self-destructive, bad investing behavior.

And so that became the book. And then I saved the last 10% of the book for, “All right, I've told you all the things not to do. Here's what I would suggest you do.” Focus on making fewer errors.

You'll be way ahead of yourself.

KRUGMAN Yeah, people send me books hoping for a mention. Especially when I was writing for the Times, but it hasn't gone away entirely. And I'm constantly having to clean out stacks of books where, my generic title would be:

“I Upped My Income Through Smart Investment So Up Yours.”

But yeah, there's so many books that purport to give you the secret and you've written one basically about things not to do, mistakes to avoid. It was definitely refreshing and also funny.

RITHOLTZ Well, you know, the inspiration comes from what I like to call the two Charlies.

So Charlie Munger, famously Warren Buffett's partner, was once asked, “Are you and Warren just smarter than everybody else?”

And Munger, to his credit, really a no BS sort of guy, said, “We're not smarter than everybody else. We're just less stupid.” And that is Charlie Munger in a nutshell. And I kinda was rolling that over in my mind when I found a book I had read decades ago by the other Charlie, Charlie Ellis. Legendary guy, chairman of the Yale Endowment, on the board of directors of Vanguard Group, ran Greenwich Associates, just a smart, delightful gentleman. And he wrote a paper, I want to say it was the 1970s. It became a book in the 1990s called, *Winning the Loser’s Game*, where he draws the parallel between tennis and investing.

How do people win at tennis? Well, if you're the 0.01% who are professional tennis players, you serve aces, you hit with power, you hit with accuracy, you keep the ball away from your opponent, you keep it away from their strengths, you score points. How do the other 99.9% of the world play tennis? Well, for unranked amateurs like me, we make mistake after mistake.

We make all these unforced errors. We play outside of our skill set. We double fault on serves.

We hit long. We hit wide. We hit into the net. We hit it right into our opponent's sweet spot.

We don't keep it away from them. If we just try and serve the ball back over the net, just return the ball and don't try and get ahead of yourself, you will win every game you play unless you're playing someone so far over your skill set. But if you're playing anyone with 10, 20% of your skills, make fewer errors and you will win.

And I brought that same philosophy to investing. Here are all the costly mistakes we all make because we're people and humans are fallible. Make fewer of these, keep more money. I had to do multiple searches because I couldn't believe nobody had written this book before and, well, first time for everything.

KRUGMAN Yeah, I was going to say that one thing that investing and tennis do have in common is that both are a racket. Anyway, the reaction I had is not a perfect analogy, but Mike Porter, incredibly successful influential management consultant. He studied with Dick Cave at Harvard. There was a whole field in industrial organization, which was about how public

policy can limit monopoly power. Basically, Mike Porter just turned it inside out and said, so you want some monopoly power. Instead of telling people how to invest, you're telling people how not to invest. And that turns out to be a really good thing.

RITHOLTZ Yeah, the counterfactual is always fascinating. If you're ever trying to think through a problem and the solution is elusive, it's often useful to stop and ask yourself, “if I want to achieve the opposite of my goal, what would I do?” And that kind of gives you a map of what to avoid. And you know, it's funny, after *Bailout Nation* came out, there were a lot of people blaming the crisis on The Veterans Administration, Fannie Mae, Freddie Mac, and poor people causing the crisis. But if that's the case, then why were the housing busts located in South Florida and Arizona and California and Nevada? Shouldn't they have been in Oakland and D.C. and the south side of Chicago? Like, when you take the counterfactual, if that's really what happened, well, where would it manifest? And suddenly it becomes clear, no, this was not due to public financing. Eventually, Freddie and Fannie chased the private companies, but the first couple of years of defaults, that was all privately underwritten, non-GSE mortgages. And that sort of strategy, that sort of counterfactual way of looking at the world, is very helpful to identify

when someone is really on the wrong track.

KRUGMAN Yeah, GSC is government sponsored enterprises Fannie Mae and Freddie Mac do a lot of home lending. But it was really mostly the private mortgage origination companies. And actually if you look at Europe, it was the German Landesbank

lending to Spanish Cajas. It wasn't the government. It was the private sector and a lot of private sector people who thought they were smart.

RITHOLTZ Well, I'm going to be a little generous. We very often don't know our own blind spots. And so when you think you're doing the right thing, when you think you have all the bases covered and your risks accounted for, risk is what's left over after everything you can foresee. It's everything beyond that. And it just happens on a regular basis. If you read financial history, over and over again, people think they've checked every box and then suddenly something "unprecedented" happens. Ray Dalio says "unprecedented" usually means it just hasn't happened in your lifetime, like a pandemic or Smoot-Hawley tariffs or what have you. And so we very often fail to learn from history. There are some really easy mistakes to avoid. You just have to have a little bit of humility and a little bit of self-awareness.

KRUGMAN Yeah, both in surprisingly short supply. Anyway, lots of things I'd like to get into. Actually, I can't resist. I try not to insert myself too much into these things, but we bought our New York apartment in early 2009.

RITHOLTZ Great timing.

KRUGMAN Which was absolutely an accident. I had no idea. I just happened to have a slug of money available. But when looking at the places for sale, a lot of them had bookshelves full of stuff on the Gaussian copula and so on. There were a lot of laid-off Wall Street quants selling their places and that's what was on the market.

But, I want to talk about some particular themes and I'm going to focus a lot on the first three quarters of the book. The last part is more actual investing of which I know nothing. But I thought it was really interesting what you call the halo effect. And it's in various versions.

I see that all the time. So you want to tell me about the halo effect and what the problem is?

RITHOLTZ Sure, so the halo effect: Dunning-Kruger, epistemic trespass, kind of a continuum of mistakes. The halo effect is that when someone is very successful, we kind of

imply their skill set, intelligence, acumen, judgment, apply across a wide variety of domains. This is pretty typical. We see someone who's a billionaire on TV. Hey, they made a billion dollars. They must know what they're talking about. I give a few examples in the book. Real estate, publishing and hedge funds.

Sam Zell, legendary real estate investor. The guy made billions of dollars. Nicknamed himself the grave dancer because he would dance on the graves of people who made terrible real estate investment decisions. And Zell had a tendency to forecast recessions or economic expansions, often in parallel with a candidate he either liked or didn't like running for president. So there was a little bit of political bias built in on both sides of the aisle. You know, Zell would go on TV and say, “I don't see a recession happening later in the year.”

In 2008. Hey, alert: we were already in a recession. And then 2015, “I see a recession coming next year.” We didn't see a recession for another five years until the pandemic, but the problem is people watch TV or hear him on the radio or read anybody quoting him on TV and think, “hey, this guy must know something about the economy. He's built this giant investment pool in real estate. If he thinks a recession is coming, maybe I should get out of stocks.” But it turns out that timing the economy is not how he made his money. He made his money buying really good properties that were fire sales, distress sales, and being a really savvy negotiator. He's the guy that really created the art of the deal when it comes to real estate. And so when we see someone who's that successful, we have a tendency to believe them. We put a halo around them. He knows what he's talking about. If Sam Zell says the recession is coming, there must be. His track record argues otherwise.

I'll give you two other really short examples.
Robert Kiyosaki wrote *Rich Dad Poor Dad*, arguably the best selling personal finance book of all time. 32 million copies. Insane. And ever since the financial crisis, pretty much couple of times a year, he predicts a market crash, a real estate crash, an economic crash. And another guy on Twitter who runs a research shop brought the receipts and he pulled every one of Kiyosaki's tweets and put them in chronological order. And he's been nothing but wrong for 15 years. My favorite was 2018. “Get out of US real estate, residential real estate.

There's never been a better time to sell real estate.” Well, I guess that's true if you're a real estate agent, but 2018, other than 09, could be the best time in modern history to buy real estate. Everything doubled over the next five years following the pandemic.

And then lastly, Michael Burry, made famous by Michael Lewis's *The Big Short*. Brilliant investor, unbelievably talented investor. The big short made his firm a couple of hundred million dollars. Rumor has it that he's since turned that into a billion dollars personally.

Fabulous, insightful, one of a kind investor. Also, kind of forecasts regular sector crashes and market retrenchments and that is not how he invests. He invests by identifying mispricings in markets and saying, why is this trading at five, it's worth 10? Not by forecasting a crash. In fact, even the big short was, “hey, real estate seems wildly overvalued. The credit default swaps on banks are way too valuable. I'm gonna sell those. And when this eventually finds its proper value, I'll make a lot of money on the way down.” So it coincided with the crash, but that's not his strategy.

But every one of these guys, Zell, Kiyosaki and Burry, when they make pronouncements, you know, *Rich Dad Poor Dad* on Twitter has, like, 8 million followers. That's 8 million people who, if they listen to what he said, are probably much poorer today than if they had not fallen victim to the halo effect and not said, “this guy really knows what he's talking about.” He didn't. You have to see what are people's expertise and don't take that to an

adjacent area that isn't how they made their money.

KRUGMAN Yeah, I'll give you my own example. I don't think a week goes by that I don't see, usually in Bloomberg, but someplace, Jamie Dimon's views about the state of the economy. He appears to actually be truly very good at his job, at his real job. But I also keep track of his macroeconomics over the years. And his big splash where he tried to become policy relevant was in 2014 where he said America has a terrible skills gap. “American workers just don't have what they need and we're never going to be able to get back to full employment given the skills gap.” And five years later we're at 4% unemployment without inflation but, you know, that's fine. I wouldn't try and do his job but I don't think he's any good at mine.

Yeah, so this is the halo effect. One of the things that is kind of related to that, and I think there are some other things you probably want to bring up, but the observation that people who've made a really famous, out of consensus, successful forecast are probably people you should avoid.

RITHOLTZ So there's two elements that go into that that are so fascinating. And there's hundreds of endnotes in the book, every chapter is based on actual academic research. None of this is me hypothesizing. It's all, “here's what the data shows.” So two really interesting things. One is being specific, and the other is being out of consensus.

So somebody who makes a wild out of consensus call and gets it right, when you think about it, they're feted with accolades, they get speaking gigs and book tours and all this stuff, and very few of us who have had out of consensus calls do this, but rather than saying, “gee, you know, I got a little lucky, nobody knows what the future's gonna hold. Let me try and rein it back in,” some people just keep forecasting crashes, forecasting hyperinflation, forecasting the end of the US dollar, forecasting the municipal bond market is going to collapse. And so they build a reputation. They give good quote, so the media loves them. But their track record is, the more out of consensus they were the one time they were right, the less likely they are to be accurate in the future. It’s really telling. And the more likely people are to believe you—“he got the big one right, let me listen to what he says now”—

The other thing that's kind of fascinating to me personally is how much people hate ambiguity and just a legitimate acknowledgement that a lot of the world is kind of random. And I once asked Howard Marks of Oak Tree Capital—brilliant guy, great investor, bought all the distressed debt that was around in ‘08, ‘09 and just historically, a brilliant distressed investor.

He once kind of said, luck is involved. I said, “What? Howard, not for nothing, but you're hardworking, you're brilliant. How can you say this is luck?”

And he said, “My entire graduating class at the Columbia School of Business, everyone there was smarter than me. Everyone there worked every bit as hard as I did if not harder. Not everybody had the same opportunities that came along.”

This industry really requires a little humility to recognize the role of serendipity and chance. And, you know, when the first billionaire tells you that you think, they're just blowing smoke up your ass. But after you hear it 10 or 20 times and they give you examples…

So here's how much people hate acknowledging that chance is a major factor in what happens. Two guys show up on TV and the anchor says, “So where's the market going to be in a year?”

And the first guy says, “the Dow is going to be 41,757.5.”

And the second guy says, “Listen, a year is so long. There are so many random events that can happen. Nobody saw COVID and the global economy shutting down and the market rallying in December 2019. Nobody had the Gaza-Israeli war or the Russian invasion of Ukraine. On and on every year something happens. It's wholly unexpected. It derails. So assume markets gain 8 to 10% a year. If last year was an average year, let's assume we're 8 to 10% higher.”

The first guy is completely making it up. And the old joke, why do economists use decimal points? To reveal they have a sense of humor. The second guy who's telling the truth, everybody doesn't want to hear that, they hate it. They want the shaman, they want the guru who can say, “oh, I see the mystical spirit saying 47,500,” when that's just pure bullshit. But we eat it up, we love it, we want to be told what's going to happen, even though we know it's nonsense.

KRUGMAN And there's a real systematic factor, which is that people who make wildly out of consensus predictions, it's just possible that they're real geniuses, but more often, they're just kind of crazy. And if you have a thousand crazy people, one of them is gonna turn out to have been right, and they're on TV all the time.

RITHOLTZ And other than assholes like me, nobody remembers all of the bad predictions.

Everybody forgets about it. I saved a lot of these up and they're in the book because, you know, sometimes you want to go back and I'm not even, I'm not talking about the people who were malicious or saying, “let's just throw a lot of stuff out and see what sticks.” I'm talking about people who made good faith forecasts when perhaps, they shouldn't have.

One of my favorite examples in the book, May 2000, Fortune magazine says:

“Here's why Cisco is the one stock you have to own.”

It was already down 20% from the March 2000 highs and the Fortune magazine cover story comes out May 2000. Over the ensuing 25 years, the stock proceeds to fall 95%. And as of this conversation, it's still off by more than 20% from the date that magazine came out. So it's not just that that guy was wrong. It's that he has no business saying this is the one stock everybody has to own. Cisco was going to be the first trillion dollar company and their best days were already way behind them. By the time something makes a cover of a magazine, typically, especially a mainstream magazine, typically, everything's already in the price.

KRUGMAN Yeah. Once I talked to Robert Rubin, who I have my doubts about whether he is really as balanced and sensible a person as he affects to be, right? I always have questions about that, but he always claimed that when looking back over his past investment decisions, he did not ask whether they were successful or not. He only asked whether he made them for the right reasons. And that that is kind of the attitude you should have, right?

RITHOLTZ It's like Annie Duke saying you want to avoid resulting. Former poker world champion and I think she's a psychologist, but she also spends a lot of time thinking about risk and process. So in her book, *Thinking in Bets*, she talks about a big football game where it's fourth and one, and the coach goes for it and the defensive team stops them. And everybody said that was a terrible call. But when you look at the math behind it, there's a reason you go for it on fourth and short. Statistically, more often than not, you're gonna be successful. And given that they were down 10, you know, a field goal, it was still a two possession game. If they scored a touchdown and—I'm trying to remember the exact numbers—but had they scored, they would have been, like, one possession away. A field goal wouldn't have gotten it done for them. And so she said, “hey, this was the right process, but the wrong outcome.”

And so, when you have a bad outcome with a good process, that's okay. It's repeatable.

And in the fullness of time, that will work in your favor. If you have a bad process and you just have a lucky outcome, that's not repeatable. And if you keep doing that over and over again over the long haul, you're gonna end up losing more than you win.

KRUGMAN Okay, I want to talk about two economist examples. I think most people will probably have the most fun with all of the misjudgments of artists and musicians, about all of the people who said, the Beatles are a flash in the pan, they'll never go anywhere, and all the people who refused to back the John Wick movies. And do you have it in the book that, turns out, it was Eva Longoria who actually came up with the money to make it?

RITHOLTZ I think Keanu Reeves is also one of the contributors and it's been a giant, giant win. I didn't know it was Eva Longoria, that's fascinating. But *Squid Games*, all the studios passed on *Star Wars*, on *Raiders of the Lost Ark*. I forgot which studio said, “*ET*? We already have an alien movie in *Starman*.” Like one after another, everybody said about *The Princess Bride*, “You can't make that as a movie, it's unmakeable.”

William Goldman, two time Academy Award-winning scriptwriter, is the guy who in his Hollywood expose said, “Nobody knows anything.” When you talk to people who are experts

in a space and ask them, what is the public taste or opinion going to be three years hence, five years hence, nobody knows.

In fact, I know we're avoiding politics, but part of the reason polling is so terrible is when you ask people something, “How you going to vote in the November election?” You're really asking them a couple of questions. A, are you familiar with the candidates? Because very often, a year out, the pollsters don't even know who's running. B, do you know who you want to vote for? Most people do. Not everybody does. But then the most important gap, which again, academic studies have demonstrated, “will you get your ass off the couch and get in

your car or subway and go to the polling station and vote?” That turns out to be like a 20 to 30% swing. All these people who are polled, somewhere between a fifth and a third, never vote. So you take that and throw that into the polling data.

And in the past, people have kind of shrugged. “Well, both sides don't vote, so it cancels out.”

But that turns out not to be true. One side is often more motivated than the other. So if you have a 30%, you know, spitball rate that some people aren't voting, well, unless you know who those people are and their proclivities, your polling isn't really helpful until four weeks out, something like that, it starts to become more accurate.

KRUGMAN Actually, you might like this one. I did an interview with G. Elliot Morris

who's one of the poll aggregators, formerly of 538, which rather stupidly ABC killed.

But he did something recently looking at retrospectives. And there have been several, asking people who voted for Trump, “well, given what's happened so far, would you change your vote? And basically nobody says they would. But he had a real insight. He says, nobody ever admits that they were wrong about anything. So he just set up a poll in a way that did not ask people to second guess their past vote, but just sort of asked, if you were voting now, what would you do? And it turns out that Harris would have won by a large margin. So, I mean, that's just one poll, but again, you've got to bear in mind that what people say and what they would actually do can be quite, quite different.

RITHOLTZ Yeah, I'm not a big fan of all the sentiment data we get all the time. And I'll just give you two recent examples. First, broad consumer sentiment in 2022, 2023, was worse than the financial crisis, worse than the first year of the pandemic, worse than the dot-com implosion or September 11th, worse than the ‘87 crash. And so you look at that and you have to say, something's wrong with the way we're measuring this. And then, you know, is it Wadsworth? I can't hear what you're saying because what you're doing is speaking so loudly? Consumers are saying they're unhappy with the economy, they're unhappy with this, they're unhappy with that, and yet they're outspending at record levels or at least they have been up until last month. And so the past, I don't know, four or maybe even 10 years of negative sentiment, they're saying one thing and they're doing something else.

The other thing kind of comes back to: nobody knows anything. I know the Federal Reserve pays a lot of attention to inflation expectations and the reason for that is if you have long-term

structural inflation built into the system as we did in the 1970s, what people's intentions are with spending, hiring, et cetera, may have a substantial impact on inflation. When you have a less structural—and I'm reluctant to use the word ‘transitory’ because it's become a dirty word—but transitory just took a little longer than everybody expected when you have that sort of inflation caused by the biggest fiscal stimulus at ten percent of GDP since World War II

it took a while for the pig to get through the python, but if you look at inflation expectations in late ‘21 just as CPI was starting to go up, they were at multi-year lows. Nobody had any idea inflation was coming. The collective ignorance of the crowd was very much there.

Fast forward to June 2022 when inflation was peaking and the five-year inflation expectations for everybody were record highs. So you can count on the crowd to be wrong at the exact bottom and exact top. Probably just anytime you ask a person a question about things like that, you're really getting their past six months experience and the turn is not what they see. They extrapolate trends out to forever or they're just telling you what they just experienced and my personal preference is, unless sentiment is at real extremes, for the most part, I can ignore it.

KRUGMAN Yeah, since we're on 2022 and inflation and all of that, you do have a section on someone I've known my entire adult life, which is Larry Summers. And Larry made a successful forecast of the inflation spike and got enormous credit for it, and then made an absolutely disastrously wrong prediction about what it would take to get inflation down. I mean, I'm glad to see somebody else say it, because I was on the other side of both those arguments and was wrong the first time and right the second time.

RITHOLTZ Together, you guys either got it perfectly right or perfectly wrong depending on how you mix that up.

KRUGMAN Yeah, I think on any given macroeconomic issue, probably you can count on either Larry or me having been right. The problem is you don't know which one.

But what struck me there, first of all, there are a lot of reasons to think that Larry in ‘21, ‘22 was right for the wrong reasons, sort of. But the reason that I was particularly pissed, to be honest, about his dire predictions, and not because I didn't like the predictions, but I just thought that the methodology was all wrong, that he was extrapolating from experience, post-1970s, and 2022 was not 1980. That was one of those things where it's not the fact that he was wrong, it’s the fact that he was wrong for the wrong reasons.

RITHOLTZ Right, and let's flesh that out a little bit. Throughout the book I quote a lot of people. It always annoys me when I come up with a clever thing and I see other people using it without attribution. So I'm always trying to refer to, if I can track down the original, the originator of an idea. I want to give credit where credit's due. Paul Graham, a startup investor on the West Coast, famously said, “all experts are experts in the way the world used to be.”

And what I think he means by that is, you go to college, you go to grad school, you're studying market history, you're studying economic history. What you learn if you're extrapolating forward, built into that is an assumption that the future is gonna look just like the past. Here's the model we've built on historical data. Now let's take it forward.

But as we've learned throughout history, very often the future doesn't look like the past. And it's true for you, it's true for me, and it's true for Larry Summers. He came of age in the 1970s when he went to grad school. That sort of structural inflation was built into the heterodoxy.

Everybody understood how the oil embargo and all these different things caused all sorts of problems. And so that kind of got carried forward.

My recollection of the 1970s was as a 14-year-old kid, I had a lawn mowing gig, mowing some of my neighbor's lawns and going to the gas station with a little red tank and trying to get a gallon of gas. And they're like, “uh what's your car license plate? Is it even or odd?”

“Dude, I'm 14. Just give me a gallon of gas. What's going on here?”

So that was my experience.

His experience was, “Hey, once the genie is out of the bottle and inflation runs amok, it's really hard to get the toothpaste back in the tube to mix metaphors. So I think that's what influenced him and his 70s experience was not that, “Hey, this is a once in a century pandemic and the massive fiscal stimulus that was missing from the ‘08 - ‘09 response, we're going to overcompensate and just go hog wild.”

To his credit, Jeremy Siegel of Wharton was the first economist I saw who came out and said early—I want to say it was late ‘20, early ‘21—“this is the biggest fiscal stimulus we've seen in several generations and don't be surprised if we see 8%, 9%, 10% inflation.” And I had him on my podcast and I was shocked. Like, 10%? Segal's usually pretty good, but he's out of his mind. Like, maybe you'll see four, five. It's hard to imagine that massive regime change when the trend shifts. It's just a collective failure of imagination.

KRUGMAN Yeah, well, always. Although on the other hand, if you have a long enough perspective, things do repeat. One of the best book titles I've ever seen, and a pretty good book, by Rogoff and Reinhardt.

RITHOLTZ "Eight Centuries of Financial Folly."

KRUGMAN Well, no, but the actual title was *This Time is Different*. It's a sarcastic take because, you know, usually it isn't and that's part of the problem. I guess it still exists, but within the golden days of economics blogs, there was this thing called The Irish Economy.

Ireland has a surplus of pretty good economists, and they had a discussion of "what does the market want?" And the best answer was that what the market wants is cocaine and prostitutes

because market is a bunch of 28 year old guys who don't know anything and don't know any history.

Sorry, one more economist. It's interesting. You do go after Glassman and Hassett's *Dow 36,000*, which was not only the worst book title in history…

RITHOLTZ But within the book, which I had to painstakingly read, which was painful, they essentially took the prior seven years to 1999 which were amongst the best seven years in history. You had four consecutive years of plus 20%. 1996, when the irrational exuberance speech came out, '97, '98, '99. So the book comes out, they extrapolate this fantastic run forward, and that's how they get to 36,000. It was kind of crazy.

But the other thing is "Bonds have no value relative to equities."

"You want to be an equity investor because there really is no ceiling to it."

And you know, anytime someone tells you don't pay attention to value, look after your wallet because they're coming for it.

KRUGMAN I would actually say though, and this is the only criticism I'm gonna make here, you fell a little bit short because the methodology in the book was ghastly on two levels. One was they double counted. They were counting reinvested profits and dividends and not making any difference between them. That sort of doubled their number. And then they also, in effect, we're assuming that the same 30 companies will be in the Dow 50 years from now. So they didn't have any death-of-firms in the story. But again, of course, your point was it made a huge splash. There were lots of favorable articles. And Hassett is now, after the Treasury Secretary, the top economic official in the Trump administration which means that his advice has as much impact on Trump as any other economic expert, which is to say zero. Anyway, sorry, wasn't gonna get much into politics, but it's just interesting to see how you can fail upwards through these things.

RITHOLTZ Yeah, that's not an uncommon Murphy's law. You just keep failing until you find your level of incompetence. What it really reveals to me is how many people—and this isn't a political observation, this is a marketing observation—when you see these people coming out and selling a story, they're selling a story on behalf of somebody.

And I take pains in the book to say, here's what I'm selling. Here are my biases. I run an asset management company. I want your money and your fees. I host a podcast. I want you to listen.

I write columns and blog posts. I want you to read them. And now I wrote a book. I want you to buy it. So I want to disclose: this is what my bias is.

When we see people who work for think tanks, not for investors, when we see people who are sort of associated with an academic institution but don't do research or teach classes, you gotta ask yourself, what are they selling and who's paying for them to go out and sell it? And this isn't like deep cynicism. This isn't some conspiracy theory. I'm of the generation that my mom told me ‘don't take candy from strangers.’ So if you don't know who they are, what their track record is, what they're selling and who their sponsors are, you're taking candy from strangers.

By the way, this isn't limited to the left or the right or mutual funds or ETFs. Anybody who does not know you and is offering you financial advice, you just have to ask yourself, what's in it for them? What are they selling? Very often when you figure that out, hey, you know, used car salesmen want to sell you cars. If you ask a barber, do I need a haircut? The barber's gonna tell you yes. So you just have to be a little aware of who's saying what.

KRUGMAN Yeah, even more so, I was looking at a systematic study of research papers that cast doubt on climate change. The question is, what percentage receive financial backing from fossil fuel interests?

RITHOLTZ And the answer is all of them.

KRUGMAN Oh, yeah. And that sort of thing really happens a lot.

There's so much else I would like to talk about. One of the things that you write about and I think is really important and also in its inverse, I'll get to in a second, is survivorship bias.

Why don't you talk about that for a second and then we'll see.

RITHOLTZ So the history of survivorship bias in finance came about in the mid 1990s.

There used to be all these mutual funds that were advertising their track record and they all seemed to beat their benchmark in the broader market. And one day a couple of academics asked the question, “well, what about all these mutual funds that go out of business or are dropped or what have you?” And it turns out that those had been very quietly removed from the database. And once you fold those back in, suddenly what looked like out- performance very quickly became underperformance.

The classic example is from Columbia University and the Defense Department Statistical Survey Group headed up by Abraham Wald, who the military wanted to up armor the planes that were coming back all shot up.

KRUGMAN Yeah.

RITHOLTZ And there's a very famous graphic showing where all the holes are found on these planes. And Wald, using counterfactual and inverted thinking, asked, “the planes that don't come back, where are they shot up?” When all these planes are coming back with no shell or shrapnel wounds around the engine compartment, it's not the wings or the tail or the fuselage that they're limping home with. If it hits the engine, you're done. You're out of the sky.

This really makes a difference because if you add armor to a plane, you reduce the range, you make it slower, you make it less maneuverable. So the least amount of armor you're adding extends the range, extends all these positive things. If you get it wrong, you lose the war. And he said, “no, not the wings, the tail, the fuselage. Protect the engines.” Cause once that engine gets hit, you know, especially a single engine bomber, you're done. And so that's the origin in modern times of survivorship bias.

But we see it all the time. There was a Wall Street Journal article not too long ago about all these Ferraris that are selling for millions of dollars. Well, there's been thousands of different cars and different marquees. You're telling us about ones that you now know are worth $2 million but you're ignoring everything. Not only are you ignoring insurance and maintenance and repairs and storage, but you're also ignoring all the other cars.

How about this? Don't tell me the Ferrari that sold at auction this year for $3 million that's 50 years old. What car do you want to buy today that you want to sell in 2075? And everybody starts to stammer when you ask that question.

It's the same thing with artwork. Some of the big art auctions are spectacular. If you look at how much art is, not just in the Hamptons and London and La Jolla and in the tony parts of the rest of the world, but just look at any major museum, 5 % of their collection is on the walls, 95% are all the lesser works that aren't worth $40 million. And so you only see what gets auctioned off at $100 million and “ooh, look at that.”

Footnote, Bill Bernstein, investor, former neurologist, said that if you go back to the old masters in the 15, 1600s and buy one of their paintings for $100 and it sells centuries later for tens of millions, it's about a 3% return rate. It's just the magic of compounding over centuries that are just outside our comprehension.

KRUGMAN Once I was in Italy in this church that had a bunch of not great or famous Renaissance art. And I thought for a while that the artist was named Vietato Toccare di Pinti, which, pardon my Italian, but it turns out to mean “don't touch the paintings.”

But…I was actually thinking about when I was growing up, how they said, do what you love and the money will follow. And I think that's actually survivorship bias because people who make a lot of money and also love what they're doing probably do really well. But there's probably a lot of people who try to do what they love and end up selling insurance.

RITHOLTZ Danny Kahneman would call that the availability heuristic because you remember the people. “God, that guy's making a ton of money, he's having fun, he's doing what he loves.” You don't see the guys who are just grinding away. Yeah, they're making a lot of money, but it's blood, and tears, they're not spending time with their family. There are many ways to define wealth, and that's a whole other conversation.

I define wealth as the freedom to do what I want. Yes, we want security. Yes, we want to know that our loved ones are taken care of. But if it means you don't have the time to spend with friends and family, if it means that you're grinding away on something that makes you miserable, well, you have a lot of money. But to me, that doesn't define wealthy. Wealth is agency and the ability to determine how you live your life. And we very often take that for granted. That is much more valuable.

Listen. Human being's stock in currency is time, and how you spend your time is probably, when you're younger you trade your time for money. When you get older you start trading your money for time. You may have a lot of money, but we all have a finite amount of time before we join the choir invisible. Wealth really reflects spending that time well.

KRUGMAN Yeah, a friend of mine has an old article on her office door called “The Joy of Sachs,” which was describing the career of somebody at Goldman Sachs and what you do and how you work these 90 hour weeks. By the time you're in your early 30s, you have the money to buy anything you want, but you no longer remember what it was that you want. That's not wealth in the sense that matters.

RITHOLTZ You can buy anything you want except your 20s back, because those are gone.

KRUGMAN We're at 50 minutes, so I should ask if there’s anything else you'd like to bring up. By the way, just to say to everybody, read this book. It's great fun and it's therapy. You know, these are pretty grim times. And I have to say that reading the book for me was like a small vacation on the head from the stuff I'm usually writing about. So, but anything more that you want to add?

RITHOLTZ The last thing I would say is, you know, the book kind of surprised me as it came together, because first the subtext was a kind of epistemology study on information and decision making. But the sort of subtext that surprised me was just how important it is to be humble, to admit nobody knows what the future holds. Randomness is such a big part of our lives and we could pretend otherwise we can pretend that we're in control of the future and we know what's going to happen.

I despise the uncertainty meme that every time the market gets smashed 10-15 percent, everybody comes out and says, “Well the future is uncertain.” Hey, the future is always uncertain. What has changed is your ability to lie to yourself that you know what's going to happen. And so whenever I hear someone say uncertainty, to me it means that guy's scared shitless. He can't bullshit himself anymore. So he has to now say, well, it's inherently uncertain. Nobody knows what's going to happen.

There are a bunch of other definitions of uncertainty that I go through in the book, but really the takeaway is the sort of Wall Street approach of fake it till you make it. And hey, if you exhibit enough self-confidence, the readers, the viewers will believe you, your clients will believe you. I have learned over the years that it's better to say, we don't really know what's coming in the future. Why don't we just focus on figuring out what's happening now and we can then have a better chance to suss out what comes next rather than pretending we know what's happening. It's such a false approach and it's where mistakes are made. Avoid the avoidable mistakes and you're much better.

KRUGMAN That seems like a good place to end. Thanks for talking with me.

RITHOLTZ Well, thank you so much, Paul. I really appreciate how much you've enjoyed the book. I know if I entertain you, I hit the mark I was aiming for.

KRUGMAN Okay, take care then.