

Financial Detox
Episode #129
Agustin Lebron

[INTRODUCTION]

[00:00:01] Jason: Hello and welcome to the show. It's Financial Detox and I'm Jason Labrum. We have a really special show for you today. I'm excited to be here. I have a good friend. An awesome golfer and also the author of a brand-new book called 'The Laws of Trading.' You're the author of the book, 'The Laws of Trading.' You've written 'The Laws of Trading.'

Is this right Agustin?

[00:00:25] Agustin: That's exactly right Jason. Thanks for having me on the show.

[00:00:27] Jason: Agustin, he's a man of many talents. Not only a great golfer but again authored this book, 'The Laws of Trading.' which we're going to have a wonderful fruitful conversation about and Alex in Studio as well. The co-host of the show. Maybe you actually, you're the more stable anchor of the show anyway.

[00:00:48] Alex: I don't know. Last show I fell apart completely though when talking about monkeys.

[00:00:55] Jason: What was our problem? We went into a full laughing gas attack.

[00:00:59] Alex: It was a fun one. We can talk about that later with Agustin. We can get his opinion on the monkeys.

[00:01:04] Jason: They're going to come back every single show.

[00:01:06] Agustin: I don't know if I have opinions on monkeys but I guess we'll find out.

[00:01:10] Jason: We'll get you going, don't worry. I think it will be good. So Agustin also co-founder and managing director of ... How do I say the name?

[00:01:19] Agustin: S-O-N.SON research.

[00:01:21] Jason: SON Research. It's a consulting firm. What do you do in that consulting firm? Just give us more background about you. Why you wrote this boke. What you do in your consulting firm and who you are.

[00:01:31] Agustin: I started my career as an engineer. And so that's what I did for many years. And at the time I was playing a lot of online poker back when that was profitable and arguably legal unlike today. And so I wanted to find a job that combined the two. And that's basically trading. So I found a job as a quad trader and researcher at Jane Street Capital which is one of the biggest prop trading firms in the world. I started in 2008 which is as you might remember a heck of a time.

I started finance, I started my career in trading just as the world was ...

[00:02:04] Alex: How were your first few trades man?

[00:02:05] Agustin: Loaded.

It was a hell of an education. Let me tell you. And for the last five years I've been running this consulting firm where we help tech companies, growing tech companies make better decisions, get better operationally using some ideas that I learned in trading.

[00:02:24] Jason: It's interesting I heard a Kitces podcast here recently. He was talking about business consulting and how many business owners need help. One of his guests, just running his business and I think us running our business there's so many components to running a business. And when you start breaking through two, three, five, million, twenty million in sales, there's a lot going on.

[00:02:46] Agustin: Exactly. And the thing is this. The skillset you need to start a business sort of that aggressiveness, creativity, risking isn't necessarily the same skillset that makes you a good manager of a stable business. So you have to pick up skills. You have to pick up new abilities and that's kind of what we help people do.

[00:03:00] Jason: Or hire consultants who help you do that. Which is where you come in. Awesome. So we're going to spend some time today talking about trading and I'm interested to dive deeper into your philosophy because we're an anti-trading firm. Our firm intelligence financial advisors is more about a very disciplined, process driven, academically historically evidenced way to create portfolios. So I'm going to see, we're going to find out where those philosophies blend and maybe where they clash and have some fun talking about that.

If you want to get a hold of this or you want to check us out more, you can go to financialdetox.com. You can also give us a call at 877 707 88 89. So let's launch into the book. Let's talk about what your book is. Let's go 60,000 feet. What is it saying? What are you telling people they can do?

Are you saying that you can go trade stocks and make money?

[00:03:57] Agustin: Very much the opposite.

[00:03:59] Jason: We're not going to have anything to argue about

[00:04:00] Agustin: Well I think there's still ... We may have things to discuss. This is my big picture idea. The thing with trading is that there is no real natural barrier to entry. I mean it doesn't take a huge amount of capital. Like if you were to go up against Amazon you'd need billions of dollars to build warehouses and all that stuff. But in trading all you need is a small amount of capital and a good idea.

And so what means is the people who are good at trading who are good in the markets are people who make good decisions and do it consistently. And so that's basically what I'm telling people. It's the best decision makers on earth are probably the people who are trading in financial markets. This is the most competitive arena on earth.

And it turns out that the skills that these people develop are incredibly useful everywhere else in life. So I wrote the book in order to try to teach people that how good traders think, at least how good the traders I've met and learnt from over the years think. And how you can apply that in your daily life. And it's not about trading stocks. It's about everything else.

[00:04:59] Jason: That's interesting because it is. I mean when you look at people who Alex is going...

When you look at how people approach and think about trading it is disastrous. Managing their money the way people think about their finances. That's why we're here on the show called Financial Detox because the toxic thought processes that people have around investing is just remarkable.

[00:05:34] Agustin: It's crazy and the thing about that is there is not a whole art of incentive for the information that you get from financial advisors, from CNBC for you to do the right thing. Like every brokerage house wants you to trade more. Every advisor out there just, well how can I collect more fees. And so you're just besieged on all sides by these messages that 'Oh you need to be in it,' and things like the Robin Hood trading app. This seems insane to me.

Like I'm going to walk down the street and I'm going to pull out my app because I've got some idea and I'm going to do a trade and see how that's going to be a good trade. When I was in the markets I had six monitors in front of me. I was absorbing huge amounts of information. I was surrounded by people who were doing the same thing. We were having this conversation all day long just to survive just to make good trades.

[00:06:24] Jason: You mean you didn't just get coffee, all of a sudden you saw a cart go by you and you, 'I need to invest in those carts. That cart was really cool.' You bought it and made millions of dollars? It was that easy.

[00:06:34] Alex: I've got the first point of contrast here. You said something just a minute that I want to point out and disagree with, respectfully. 'All advisors want to find ways to make more fees.' So Charles Swalbe, CEO, I respect him. He came out in the beginning of this year and said, 'We're proud that we're the company that has the least revenue per client.'

I think you can support that. Now, I'm not going to say Charles Swalbe doesn't make money in ways that we don't even totally understand. But if that's the mission statement of the company and we're the advisors that we're advisors, we're not looking to make more fees off our clients. I'm saying we're looking to serve more clients and keep them forever.

[00:07:11] Agustin: I think there's basically dichotomy here. And you bring up a very good point. The people that are kind of shouting on CNBC are probably one kind.

The people who aren't doing all that much shouting are probably different kind

[00:07:24] Jason: I'm going to take Agustin's side on this too because I think in general when you look at the apathy in the advisor world and you look at the confluence of mixed messaging and bad intentionally lead deceitful messaging from so many Wallstreet firms and trading firms it leaves the regular every day person who has another normal job and kids and a life and this isn't what they do professionally with screens in front of them and study it all day.

Unlike we do. We study this stuff every single day, it leaves everybody else at a major disadvantage which is why I think and we'll close for a minute on this and go on a quick break but this is what I think that the people need to hire a fiduciary advisor. It's a cliché word now and t's been run up and down the flag pole and it's stomped on and it's muddy and it's been overused.

And it's all convoluted but here's the deal. There are certain firms who do what is in your best interest all the time. They are legally bound to act in your best interest. And there's a very, very, very small subset of financial advisors out there and they probably should spell their name adviser E-Rs like intelligence versus ORS. There is a difference under the rules.

[00:08:42] Agustin: There's a huge difference. This is an important distinction to draw.

[00:08:45] Jason: We'll be right back. Stay with us. This is Financial Detox. I'm your host Jason Labrum. We'll be right back.

[00:08:58] Jason: We're back. Welcome back. This is Jason Labrum your host of Financial Detox in studio with my man Alex Klingensmith and a super special guest today. We have Agustin in the studio with us.

Agustin how do I say your last name? It's Lebron?

I want to change my last name from Labrum to Lebron.

[00:09:40] Agustin: Believe me. Something changed a lot in my life around 12 years ago or so. As it goes a perfectly normal last name and now..

[00:09:46] Jason: Now because you're Lebron. It's a bad thing? You get like negative press for that?

[00:09:50] Agustin: It's just a weird thing. You have to come up with jokes and...

[00:09:55] Jason: That's funny. And you have to pay him royalties for all of them.

So Agustin is the author of a book called 'The laws of trading.' We're talking about it and it's interesting because at first glance I'm like 'The Laws of Trading.' Oh great. When you call me, I'm like this will be interesting. This will be combative and because you'll have this theory of go trade and in turn what we're finding out as we talk is that you really have discipline, process driven ways to make trades and think about markets which is similar to what we do.

[00:10:27] Alex: Nah, we got to get more drama out of this conversation. There's got to be more excitement here.

[00:10:34] Agustin: The most important thing there is certainly to understand that the reason that I believe this is because of this idea of ads. Any trade that you do you have to understand what's the thing you understand and can do that marginal participant in the market cannot. And if you don't have a great answer for that, probably you shouldn't be doing that. And I think that's the number one that you can talk to your ...

[00:10:55] Alex: Example. So we believe in investment philosophy that on a surface level we maybe seem like counter to what you're talking about on a surface level but when we go and visit the trading floor in St. Monica at Dimensional Funds, those traders have an edge because they don't have to buy around a commercially generated index. They don't have to buy when they are told to buy. They buy when they want to buy with large sums of money.

I think that's maybe an edge.

[00:11:20] Agustin: Absolutely. That's definitely an edge

[00:11:21] Jason: And that they have massive intelligence in the system and protocols and processes and procedures to how they buy a stock and how they even get pricing because there is cents per share or some cost per share to make a trade. So how cost effective can you trade. It's not free to execute trades. I bet if you ask a typical investor on the street, and maybe our typical listeners how much does it cost to trade they'd say almost nothing. They might say it's free. But trading is not free.

There's bid ask spread. There's cents per share. There's all kinds of stuff.

[00:12:00] Agustin: Let me tell you about that from the other side of it. These companies that offer free trading. So how do they make money? That's the biggest question. People are often asked that question. And the answer is kind of subtle because it turns out that the way that they make money is that the people that the retail traders are trading against, their clients they pay the brokerage for the right to trade against those orders. It's called payment for order flow.

So large companies like Citadel and others they pay the brokers say Robin Hood some amount of money for every trade that you do so that they can take other side of it. I think as much as you need.

[00:12:39] Jason: Wow, you control both sides?

[00:12:39] Agustin: Well it's not so much that you control it. It's evidence to you that the trades that you're doing, the professionals think so little of it that they want to take the other side of that trade every time they can. So I mean, is it free? Or is it that they are just taking advantage of the situation?

[00:12:55] Jason: I wish like we can extract that out and study that statement. Because when you come from your line of experience where you're on the trading, you're working, running these trades you see dirtiness of that. And I understood it and I understand it at a very much higher level when I left big firms. I had realized towards the ends of my tenure how they were trading and they would have free trading, no trading cost inside of a managed account fee.

And I'm like it seems like there's got to be some benefit that they're extracting out of this. And they were. There was not only cents per share and they were trading as principals, not as agents. And they were making money on other side of the trade. So they're almost betting against you.

[00:13:39] Agustin: Right. I mean somebody is certainly betting against you. So what I talk about in the book is any trade that you do, you need to kind of figure out who is it that is betting against you? In particular do they know more of the situation than you do? Let's say I call you on the phone and I ask you to bet against me on the number of pencils on my desk.

You're not going to bet against me because I know more about it.

And if we trade on the number of pencils on your desk then you're going to take my action all day. It's just down to this informational symmetry. What do I know that you don't, what do you know that I don't? That's the fundamental question in trading.

[00:14:18] Jason: Then becomes a discussion of the efficient market hypothesis and how efficient has the stock bond market become over the years. Would you agree that the stock market is more efficient than the bond market?

[00:14:32] Agustin: It seems that way because there is more eyeballs, there's lower cost of trading. It's sort of lower barrier to entry. Bonds you have to source them, it's kind of hard to trade. There's probably more inefficiency there.

[00:14:43] Jason: And then do you agree that the markets are very efficient. I mean all the informations are available to the public, therefore it's processed by masses of intelligent people and there are computers and there are algorithms and subsystems. I think the markets they are

becoming more and more efficient every day with their almost no inefficiency in public liquid markets.

[00:15:07] Agustin: And the way that I see that is quite simply how hard it is to make money trading. I mean it is phenomenally, phenomenally difficult. Even if you're professional with all the access to all the best data feeds, all the best technology, all the smartest people in the world, it is still incredibly hard. And so what that's telling you is 99.99% of the time the market price is just right price.

[00:15:29] Jason: So what do you? Do you contend then, we'll save this for the last segment but do you contend that there is a way to trade and I want to talk about what you mean by trading. You mean trading, buying and selling individual stocks or ETFs from mutual funds, any of that? Or is that individual stocks.

[00:15:48] Agustin: No, when I talk about trading I think I take a very expansive view of trading. It's sort of exchanging things. And for some people for me it was my time and on the trading floor but for most people who aren't professional traders you need to think of your trades in a different way. Like I'm going to go buy a car. That's a trade that you're going to do. How do I use these laws of trading in order to think about getting a better deal on my car buy?

These are exactly the same processes that professional traders used to do good trades. You can apply those same process in the everyday things that you do.

[00:16:22] Jason: Should have been the art of negotiation maybe. Art of trade or something. I don't know. The laws of trading, same thing. It's very good.

[00:16:34] Alex: I like it. Just going through real estate transactions lately, it's exactly what you're talking about. In the table of contents alone of this book are awesome as you follow them through...

[00:16:38] Jason: It is very good. Let's wrap up in a minute. We got to take a quick break but let's come back and give some actionable items for our listeners to take home and apply today in their lives and then also make sure they know how to get a copy of your book if they want it. This is Financial Detox. You can check us out at financialdetox.com. I'm Jason Labrum your host, thank you for listening. Stay with us. We'll be back in just a moment.

[00:17:32] Jason: All right, welcome back. I'm Jason Labrum. I'm your host. It's Financial Detox and we're having a good time here in the studio. We've got Alex Klingensmith as always and also have our special guest Agustin Lebron. No relationship to Lebron James.

We're talking about trading. We're talking about the laws of trading. We're talking about philosophy of investing and the competitive edges in the marketplace. We're talking about market efficiency and can you actually extract value out of the market. And I think we have a pretty interesting perspective on this, because we do run a real estate firm.

We have been in the business for a combined 350 years of Financial Detox team and intelligence driven advisors.

That isn't 350 people with one-year experience. That's about an average of 17 years' experience. So we've been through this and I've actually tried Agustin to trade and outwit the market. I tried to outsmart the person and the people on the other side of those trades and outwit all economic information and news. And I found out very unfortunately it just didn't work. And I was not providing enough value. I wasn't providing any value to my clients and that maybe detracting.

I was trying very hard to do something great and special and after you start in the market and I started in March of 2000. Bringing clients on I started the business in 98. So I got to experience my first three years as pretty significant turmoil and turbulence. And then right about once I got my feet on the ground and had recovered from the 2002 debacle, 2008 hit which was significant and the greatest since the greatest depression.

So it was an interesting time where I said, 'That there's got to be a better way. There's got to be a better way.' There was a better way. But it took me two reiterations to find that.

[00:19:30] Agustin: At least you found it.

[00:19:32] Alex: Better late than never.

[00:19:37] Jason: Some still haven't. So many still haven't. Your book, 'The laws of trading' I mean even chapter one through eleven, you're just looking at your table of contents and the words underneath it, what would you say are some really actionable ideas we can give our listeners because... We've got some people listening to this on the radio show and we've got people listening to this on podcast. And want them to have something, some meat they can take away from this to better their lives financially or in some other way. What do you think?

[00:20:06] Agustin: So the thing that I'm trying to communicate is that the laws of trading are about making better decisions, better rational decisions and often times those are financial decisions. So we talked before about what should I think about when I buy a car. So let's just go into that a little bit because I think this is something that we all do pretty regularly, I mean every few years or something.

So you walk into a dealership, just start looking at cars. Car dealer comes over. Oh, I see you're looking at this car. You start to have this conversation

You're already doing bad trade. Why? Well because there's an incredible information asymmetry between you and the car dealer. They are trying to sell you a car, you're trying into buy it. But there is so much more about the car, about their costs, about the cost of the features.

They also have seen a couple of hundred people just like you.

[00:20:52] Jason: So they have experience in this deal.

[00:20:53] Agustin: Yeah, enormous experience asymmetry. And so the deck is already stacked against you as soon as you walk on the lot. So the question is what can I do about this? Well, here is one thing I talk about a few things in the book but here is one thing. Pre-commitment is incredibly powerful. Do your research before you walk on the car line. And I don't mean do your research like what fuel economy this car gets, that kind of thing.

That's useful too but find out what their costs are. Find out what options you actually want, what options you don't want. Try to figure out what things they might offer you. What would you pay for, better seats or better floor mats?

[00:21:34] Jason: It's like have a plan going in, what you call a pre-commitment.

[00:21:39] Agustin: Like you write stuff down. Literally write down on a piece of paper. It sounds like a crazy thing to do. Like oh, I'm just doing to sort this inside my head and... No, no. Write it down on a piece of paper with a pencil. Bring that piece of paper with you to the dealership and refer to it when you talking to the dealer. Because it's just so easy for you to sort of convince yourself that a thing you thought half hour ago isn't quite the thing you thought about. And you sort of like get into this little node especially under the gun when you're in a fun environment.

[00:22:06] Jason: And it's pressure, and you're driving the fully loaded one.

[00:22:09] Agustin: And you think, well do I want to look like an idiot here. I want to look like I know what I'm doing. It's a lot of like emotional stuff.

[00:22:16] Jason: I don't want to look like I can't afford this, so I'm just going to go ahead and step up.

[00:22:19] Agustin: Exactly. And so that's an example of a trade that you can just do a better job of with a better pre-commitment and a bit of research going in.

[00:22:27] Jason: I can dumb it down to an experience I had this morning. We got a new water heater. And so we got a quote from this company that we think is really great. We know they do a great job. But the quote was really high. And I said, 'We have to do more due diligence,' to my wife. We got at least get a couple more quotes. Because this is 35% above what we thought, and we looked online it should cost.

And you get what you pay for in a lot of situations but also sometimes you pay for a lot of extra stuff that you don't need as well.

[00:23:00] Agustin: Your actionable advice too sounds a little familiar to when we talk about like how do we help our clients? The first thing we do is we help them build a financial plan to identify what the circumstances and goals are. And then from there you then decide how you're going to invest your money. You said it in better words but...

[00:23:16] Jason: You know last example too, we were working with a client yesterday who had a bunch of life events going on. And should I stay at work or should I stay home, was the mom's question. And she makes good money and it was a very tough decision and all this and they just couldn't make the decision without the right information. So how did we get the information. It's we sat down, drafted up their financial plan. Looked at every component, taxes, inflation, spending, investments, variable rates of returns, money, car loan, probability analysis and we did all these scenarios to determine what is the likelihood of this plan working and achieving so they go into it with pre-commitment, knowing what the outcome is going to be.

I love it.

So, is your book available on Amazon?

[00:24:03] Agustin: Yes, it's available on Amazon, you can order it now.

[00:24:05] Jason: The Laws of Trading. I think if you couple that with buying Financial Detox on... You would be profoundly better off with your personal finances if you read those two books. Financial Detox and more importantly the Laws of Trading from Agustin Lebron.

[00:24:24] Agustin: The book also has a website. It's just lawsoftrading.com. So go to that website, I've got cartoons there, it's kind of a fun, little website that talks about the laws and gives you some ideas about how to apply them in your life.

[00:24:36] Jason: I think we could keep going on. Unfortunately they limit us to time on these shows. But we'll have you back for sure. Studio is going to be completely finished this week. We'd love to have you back to continue the conversation, You're a great guest. Thank you so much.

[00:24:49] Agustin: Sounds great. Thanks Jason.

[00:24:51] Jason: It's Financial Detox. I'm Jason Labrum. Get a hold of us at, 877 0788 89 or check us out on financialdetox.com. Thank you for listening to the show. As always, we'll catch you next week. Have a great one.

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