PROFIT TO PURPOSE

Last year I promised some big updates in 2023 and do not want to disappoint. So here we go! I've got two big announcements to make:

1. I am launching a podcast this year…I know…finally. Thanks to all of you who have encouraged me so much to do this over the last few years. I'm still working on the name for the show. I wanted to call it "Profit to Purpose" but there are some Trademark issues with that name. Anyway, the idea is to explore how the world's most interesting people find fulfilment and meaning amidst success. The show is designed for that driven individual who's hungry for personal and financial success but also know there's something more out there. In each episode we will dive into the tools, practices, and tactics to achieve success while also living a life of purpose. Episodes begin airing on March 1st. I cannot wait to get this out into the world and hear what you all think. Stay tuned for updates on where you can find and sign-up for the podcast.

2. I am changing things up a bit with the newsletter. First of all, there will be a change in the name—TBD— just to keep things consistent with the podcast branding and more accurately reflect the scope of the content I'm creating. Secondly, while I'll still be publishing long-form content once a month on the 15th, I'm also going to start publishing a much shorter weekly version of the newsletter with a few bullet points. As always, the focus will be on interesting and actionable ideas. Of course, you will have the option to opt-in to whatever frequency makes the most sense for you.

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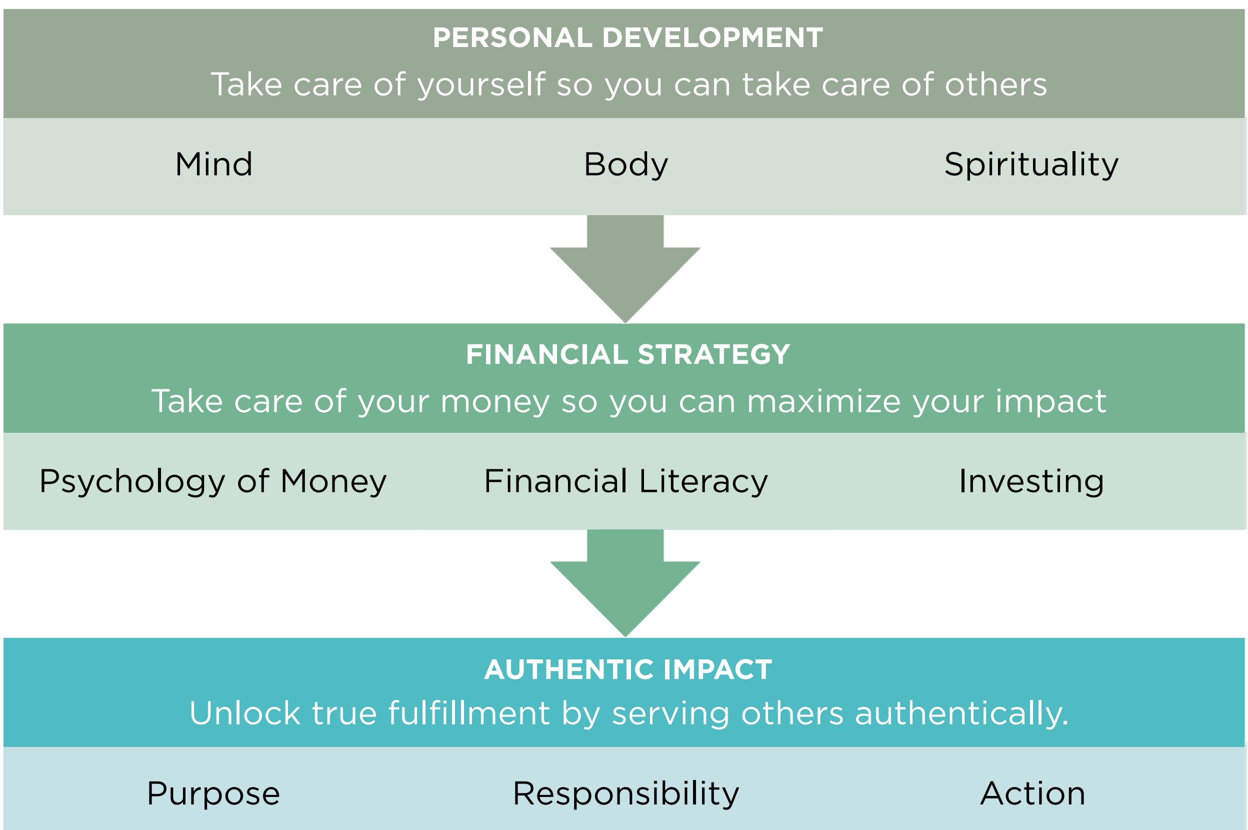
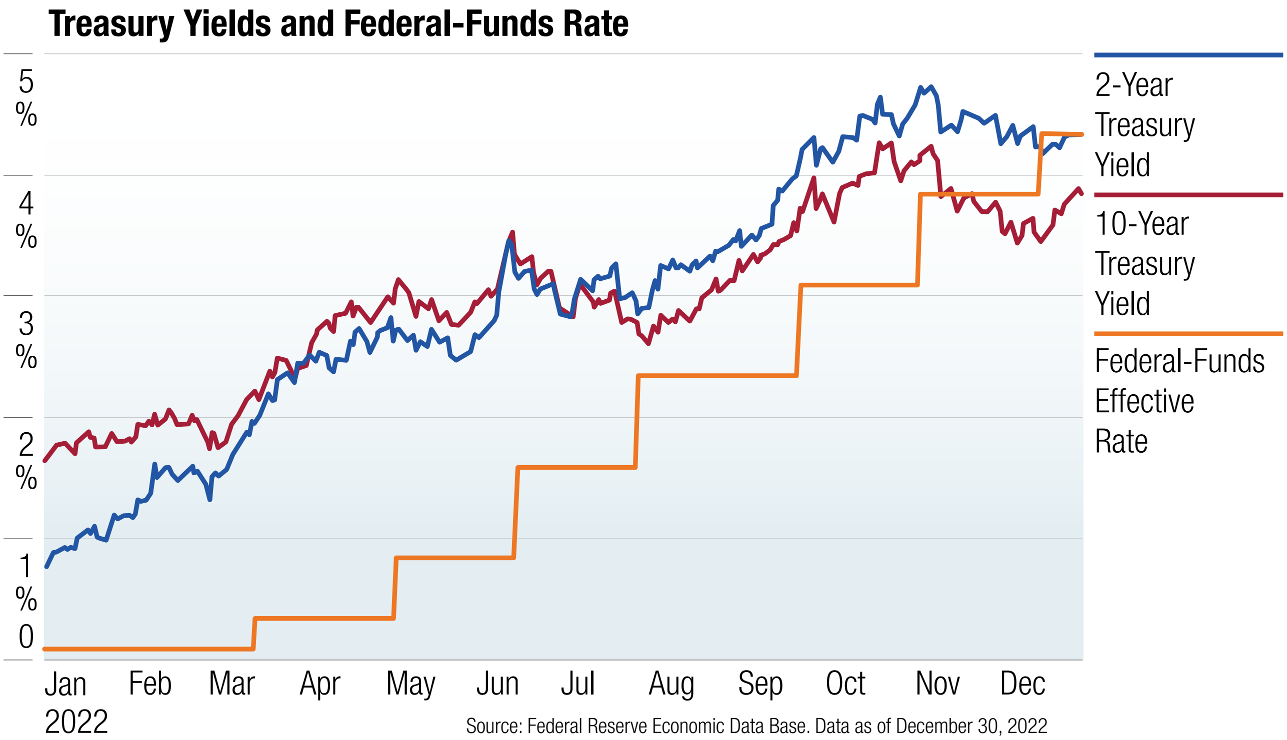
Framework for a Life of Purpose

When I started writing Profit I didn't really know why I was doing so. I just felt like I had something to say and, more importantly, felt like I just had to put it out there. Now with the benefit of a few years of hard work and a lot reflection I am starting to understand the truth. There's nothing quite like a disciplined writing practice to clarify things in your mind, that's for sure! What happened to me as a result of all this writing is that I came to understand actually just what it is that I think and believe. It's easy to just assume that you know the answer to these big questions. How would you not know what you think or believe, right? But I've found that true self-understanding is as far from non-trivial as it gets.

As the clarifying process of writing removed the clouds of doubt and uncertainty in my mind, I came to realize that my motivation for becoming a creator was driven by a really strong reaction in me to something happening in our culture. I had spent the better part of a half a lifetime diligently reading, studying and reflecting, looking for the answer for just what it means to live a good life. In the process of all that, I came across some powerful ideas that were just obviously missing from the public self-help dialogue, at least in its popular manifestations. As crazy as this sounds, I came to believe that culturally we've just gone too far in the focus on the self. There are some powerful ideas, both ancient and new, that can really make a difference in people's lives and I've made it my mission to share these with all of you.

As part of the process for planning and launching the podcast, I started working with an amazing company called the Brand Builders Group, a consulting firm for creators. They have created this really cool business that specializes in helping mission-driven creators think strategically about their work. Don't worry, I'll be interviewing Jeremy Weber, one of their founders and senior leaders, for the podcast so you'll learn all about them and their unique process. I mention them now because their process really helped bring things home for me in this clarifying journey. Over a series of all-day meetings, we came up with a unifying theme for my work and a high-level framework for the types of content I want to create and share. In future editions of the newsletter and on the podcast you'll be hearing all about this theme and the framework but for now I wanted to just leave you with a little teaser:





A CHART YOU SHOULD PAY ATTENTION TO:

Fed Funds versus Bond Market

This chart illustrates perfectly what I think is happening in the economy today. What we see here is the bond market forecasting the end of the Fed's hiking cycle. There was a period of time from July through October last year where the bond market actually bought-in to the Fed's hiking program (bond yields moved up almost in lock-step with Fed Funds) but starting in November you begin to see a different picture. As the Fed was hiking further, bond market yields started flattening and even trending lower. What this is signaling to me is that the bond market just doesn't believe that the Fed can raise rates much higher without damaging the economy.

This goes back to the modern game theory around Central Bank market interventions. By the way, this has basically become the dominant game for alpha-seeking professional investors, especially since the Great Financial Crisis. Everyone is expecting that the Fed will reverse course at the first sign of trouble in the economy. All we need is some negative GDP or a move higher for unemployment and we'll be right back a lower rates regime.

Ultimately, I think this is kind of an optimistic development, even though it's forecasting economic weakness. The alternative scenario where the economy keeps producing inflation, the Fed keeps hiking and the bond market follows suit is one which just does not look good for all of us. Our governments would run even more massive fiscal deficits and every asset in the world would get repriced lower, materially so.

A PRACTICE YOU SHOULD DO:

The Annual Financial Review

For some reason we've convinced ourselves that basic financial literacy is some really hard to understand thing. I'm not sure where that comes from—probably Wall Street's subconscious motivation to make things seem really complicated as way to justify their continued position near the top of the financial hierarchy. But in truth, it's not just that complicated.

I'd like to do my part today to demystify some of this. One practice that I recommend for everyone is to do a basic annual financial review. If you have any New Years' resolution, let it be this!

Step one is to make sure you have all your data. These days you can keep pretty comprehensive track of your financial picture without too much brain damage. I use Quicken but there are plenty of other automated programs out there like Mint or NerdWallet. With these programs you can easily link all your accounts and they do a decent job of categorizing things automatically. I usually do a double check on the categorizations because they aren't perfect.

Once you have the data, all you have to do is look at your finances and answer two questions:

1. Are you earning more than you are spending?
(Income Statement)

2. Do you have more assets than liabilities?
(Balance Sheet)

If the answer to 1 is no, either find a way to earn more money this year or just spend less. If the answer to 2 is no, come up with a plan to acquire more assets or eliminate some debt.

At a high-level, it's really that simple. When it comes to the details and execution things do get a bit more complicated but not overwhelmingly so. Here are some tried and true strategies for making progress each year:

- If you find that your Income Statement is out of whack, try to put together a budget for your spending and stick to it. Fixing your Income Statement usually just comes down to a matter of discipline.

- If you find that your Balance Sheet is out of whack, focus first on getting rid of the debt which has the highest interest rate.

- As a rule, you should try to eliminate all non-productive debt, with one exception for a standard mortgage on your house. Non-productive debt is anything that's not tied to a cash-flow producing asset, things like credit cards, student loans, car loans…etc. I recommend getting rid of these as soon as possible.

AN IDEA YOU SHOULD KNOW

Dalio's Beautiful Deleveraging

For some reason Ray Dalio gets a lot of flak from the hedge fund / financial gurus active on social media. I think mostly because he's the most successful of them all. Maybe there's a back story there that I'm just unaware of but from what I can tell the vitriol and various conspiracy narratives seem rather unjustified. Anyway, in recent years Dalio has been sharing a ton of good content and making it freely available! He's been talking about everything from the art of investing to comparative historical economic analysis to how to build a successful company around a culture of radical truth / transparency. Interesting and useful stuff for sure!

One of Dalio's ideas that I think everyone should know today is his idea of a "Beautiful Deleveraging." It's an important idea because it's exactly what the Fed is trying to make happen. I don't want to get into all the nitty gritty here but if you are interested you should read Dalio's longer explanation **here**. The basic idea is that there is a way even for heavily indebted nations to work themselves out of a debt problem without suffering a deflationary bust or some kind of hyperinflation. If you can get a situation where nominal economic growth (real growth plus inflation) runs higher than nominal interest rates for a long enough time, an economy can delever without one of the aforementioned crisis scenarios. Essentially when growth is higher than interest costs what happens is that debt burdens fall relative to incomes. ▫