Pension Pulse

Daily Insights on Pensions and Financial Markets

The Ken Griffin Interview Everyone Should Watch

By Leo Kolivakis May 03, 2024

It's Orthodox Easter this weekend so I will keep this comment short. Earlier this week, NBIM CEO Nicolai Tangen posted an interview with Citadel founder Ken Griffin, part of his podcast series In Good Company.

This was a truly incredible interview because it's rare Ken Griffin shares so much and Nicolai asks pertinent questions as he's a former heavyweight hedge fund manager himself.

Now, I'm not going to go over the entire interview but after the market closed today, I spent the time to really listen to it very carefully and think there is a lot of great stuff here not just for students thinking about their career but also for CEOs, middle managers all the way to entry level positions.

Right before markets opened today, I had a quick chat with a finance student who is the son of someone I knew back in CEGEP. He reached out and asked me to speak to his son to impart knowledge and wisdom and I did my best to steer him in the right direction.

I told him to get his CFA as soon as possible because the longer he puts it off, the less willing he will be to complete it and to keep learning no matter what. After the CFA, look into the Macro Designation Specialist as I find the CFA is lacking in good macro underpinnings and so are similar courses like the Canadian Securities Course.

Most importantly, however, I told this young student to find a good boss and a place where the culture is right to get exposed to a lot of things young. You want to literally be in a position where you act as a sponge and learn everything from stocks, bonds, private equity, infrastructure, real estate and private credit to commodities, derivatives, you name it.

And to do this properly, you really need to find a shop that offers you the ability to do a good rotational program like the one AIMCo offers its young talent but also other large pension funds do.

I told him not to worry about moving out of province, to go where he'll learn the most and where he can build solid foundations, be it at a bank, pension fund or a hedge fund or private equity shop.

I also told him the truth about HR hiring policies: "Most of the time, they already know who they are hiring, putting out an ad is just a formality and part of their policies to appease the board so don't be discouraged if they're not calling you in for an interview."

But the most important advice I can give him or any student of finance is to learn how to risk capital, your own capital, and learn from your failures and successes.

There is a part in this excellent interview where Ken Griffin discusses the fact that too many traders get hung up on understanding their failures and not their successes **and I completely agree with him**.

That advice runs against what Bridgewater's founder Ray Dalio always recommends (ie learning from your failures) which is important but in trading, it's equally if not more important that you learn from your successes.

And to take risks, you need experience, you need to feel the highs and lows of trading, you need to sweat it out.

I can tell you trading US biotech stocks which are volatile by nature, I've learned a hell of a lot, and once you conquer this Wild West area of the market, you can pretty much trade anything.

Now, I'm not going to debate the great Ken Griffin on how they allocate money to successful portfolio managers at Citadel but I can tell you this, take any elite portfolio manager and we both start at the beginning of the year with $100 million, and I'm confident enough to compete against them trading biotechs or mega cap tech stocks using nothing more than Yahoo Finance, Barchart, StockCharts and other free services.

Ken Griffin is right, **there are a lot of people who cannot take risks** and he's not allocating $100 million, his business has grown so much that he needs to allocate $500 million and more.

The problem with that? Simple, all hedge funds end up trading the same mega cap tech stocks where liquidity is ample and that's fine but it causes herding and systemic risks when these elite hedge funds head for the exits.

That's another reason why I love trading biotechs nobody has ever heard of, sure there are elite biotech funds out there which I track closely every quarter, but the big hedge funds generally avoid this sector (it's peanuts for them so they take small risks there).

Anyway, take the time to really listen to this interview with Citadel founder Ken Griffin.

Yes, he’s talking up his firm -- after all, he's the best hedge fund manager in the world -- but he also gives excellent insights into talent, culture, pursuing your passion and his prescription for what ails our economy is bang on, we need to see a marked improvement in productivity throughout the western world.

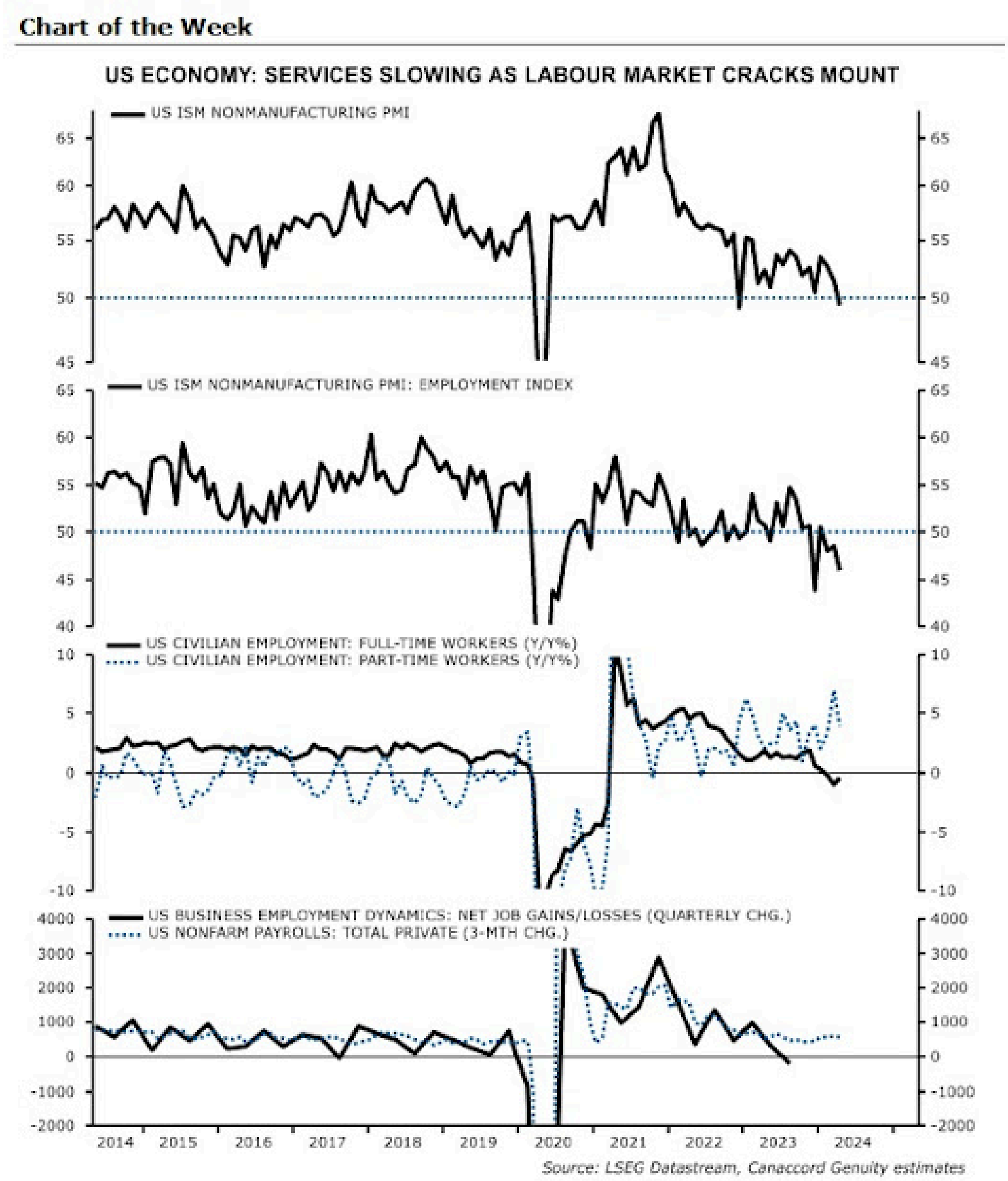
Do I agree with him on everything? No, I'm not an ardent proponent of working from the office but I understand why he thinks it's important (to be truthful, I'd lose productivity working at the office and being stuck in dreadfully boring meetings that go nowhere).

What else? **There is no right and wrong when it comes to markets and managing money**. If I feel comfortable taking on concentration risk for whatever reason, that's my call, I don't want some young hedge fund risk manager breathing down my neck, I'll tell them to get lost (hence why I'm not a PM at an elite hedge fund, lol).

There are a lot of rules at hedge funds which I totally understand since they're running a business first and foremost but sometimes I feel the excessive focus on risk management is detrimental (again, to be fair, they're running a business, not their personal book where they answer only to themselves).

Alright, let me wrap this up with Martin Roberge's weekly Portfolio Strategy Incubator on why we are back to a soft landing scenario:

> Both the S&P 500 and the S&P/TSX are flat for the week as investors try to navigate through the various crosscurrents arising from mixed earnings results, softening economic data and an unclear message from the Fed at this week's FOMC meeting. On the latter, while Fed Chair Powell dispelled the possibility of a rate hike, not much conviction and visibility were provided on the timing of the first cut. **However, thanks to today's weak nonfarm payroll and ISM Service reports, the odds of a cut largely outweigh those of a hike. Also, with the marked drop in 2 and 10-year bond yields this week, one could argue that the market narrative may be about to shift again from the no-landing to the soft-landing view.** What a difference a week can make. Otherwise, as we alluded to in the May 2024 edition of the QS published Wednesday, a net shift in economic momentum from the US to Asia and EMs seems underway. **This shift is validating, in our view, this week's breakout of the emerging market ETF (EEM) to a new 52-week high, and the catch-up in performance of international equities to the S&P 500 started in March**.
>
> Our focus this week is on the US economy. As our Chart of the Week shows, the ISM nonmanufacturing PMI slipped below the 50 boom-bust line in April (first panel). Details of the report also came in weak (more below) with the employment sub-index falling to 45.9 (second panel). **In short, activity within service sectors (~2/3 of GDP) is slowing**. **This is consistent with cracks starting to show in the labour market. First, aside from the headline number (175k vs. 243k exp.), we note that non-cyclical government (+8k) and private education & health care services (+95k) accounted for 59% of net new jobs recorded in April. Second, companies are cutting full-time positions (-0.4% YoY) (third panel). These dynamics typically show up around recessions. Last, the latest Business Employment Dynamics (BED) report (~9.1M establishments) suggests nonfarm payrolls (~670k) could eventually see big downward revisions (fourth panel). For the record, data from the BED shows the US economy lost 192k private sector jobs in Q3/24 vs. +494k gains in nonfarm payrolls for the same period.** That said, market action today suggests investors are shifting their expectations from a no-landing to a soft-landing scenario, hence a goldilocks environment for stocks and bonds. T**he real test, in our view, will come if employment growth slows further but inflation prevents the Fed from cutting rates aggressively. But this is a story for another day.**



Regarding economic data, in Canada, the trade balance swung to a C$2.3B deficit in March from a C$476M surplus in February. In short, exports declined 5.3% MoM while imports fell a more modest 1.2%. In the US, nonfarm payrolls (175k) missed expectations (243k) with the unemployment rate ticking up (3.9%, from 3.8%) and wage inflation softening (3.9% YoY, from 4.1%). In other news, the ISM mfg. PMI fell back below 50 at 49.2 (from 50.3) with prices paid rising (60.9, from 55.8) but new orders (49.1) and employment (48.6) in contraction territory. The nonmanufacturing PMI shows similar trends, down to 49.4 (from 51.4) with prices paid surging (59.2, from 53.4) but new orders (52.2, from 54.4) and employment (45.9, from 48.5) weakening. Elsewhere, in Europe, flash CPI statistics for April showed that core inflation slowed down to a 2.7% annual pace (from 2.9%). Meanwhile, real GDP growth accelerated in Q1 to 0.3% QoQ (from -0.1%). In all, these statistics come as good news for the ECB. In Japan, industrial production plunged 6.7% YoY in March (from -3.9%) while retail sales slowed down to a crawl, now up 1.2% YoY (from +4.7%). Finally, growth in China remains slow but positive if the NBS mfg. (50.4, from 50.8) and service (51.2, from 53) PMIs are any guide.

Let me give you my quick market take. The US economy is slowing but inflation isn't coming down fast enough and if for any reason it persists or boomerangs back in the second half of the year as wage inflation picks up, then all central banks have a serious problem and so do stocks and bonds.

If we get a classic hard landing where inflation expectations drop, bonds will do well but stocks will get clobbered **even if the Fed is cutting rates**.

Stay tuned, the second half of the year should be interesting but I've said that before and turned out to be wrong, we just trudged along.

Alright, please take the time to watch this interview and have a paper and pencil handy to take down notes. I love the way he starts it off and ends it and everything in between.

Happy Orthodox Easter to all of you celebrating this weekend. Kalo Pasxa!

Kenneth Griffin - CEO of Citadel | Podcast | In Good Company | N...

Enter Comment