

[Transcript] My First Million / #58 - How To Navigate The Upcoming Depression

All right, quick break to tell you about another podcast that we're interested in right now.

HubSpot just launched a Shark Tank rewatch podcast called Another Bite.

Every week, the hosts relive the latest and greatest pitches from Shark Tank, from Squatty Potty to the Mench on a Bench to Ring Doorbell, and they break down why these pitches were winners or losers.

And each company's go-to-market strategy, branding, pricing, valuation, everything.

Basically all the things you want to know about how to survive the tank and scale your company on your own.

If you want to give it a listen, you can find another bite on whatever podcast app you listen to, like Apple or Spotify or whatever you're using right now.

All right, back to the show.

What's up, good people?

Sean here.

I just recorded an episode with Ishan, who is my producer, editor, right-hand man who helps me out with all my different projects, and we talked about coronavirus, and we went through this email that I sent out to every Sunday night.

I sent an email out to the rest of the executive team, and it's called 123.

And normally this is private, but for this podcast, I made it public.

I talked about what was in the email.

It's all about coronavirus.

I got to warn you, it's a little doom and gloom.

It's not the most optimistic podcast, but I think it is interesting, and I think you will like it.

And then around the 40-minute mark, I announced something new.

So if you are checking this out, make sure you check out what we announced at the end.

I think it's kind of cool.

Came up kind of organically, but I like it.

We're going to do it and check that out.

Okay, hope you enjoy this episode.

We're all quarantined and we're going crazy, so we wanted to just do a conversation.

How are you doing, man?

Could be doing better, but we're surviving day by day, so I'm halfway across the world in Australia, and it's getting pretty bad here as well, so we're just hoping for the best.

And every part of the world is different right now, right?

You've got China, which is sort of like over it, so there's no new cases, or at least that's what they're reporting.

And you have some countries that have the situation on lock.

You have Italy and Spain, which are sort of devolving very quickly.

The US, which is growing, and by the end of the week, will probably be bigger than China.

What's going on in Australia?

Australia, so far, a few of the states are going into the stage one of lockdown, so all non-essential businesses are sort of closing down.

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Supermarkets, hospitals are still up, so society, generally in Australia, hasn't been responding to it very well.

People are still going out.

A lot of the bars and restaurants, like just last weekend before the lockdown, was completely packed.

People are showing up to Bondi Beach, swimming, and even after the government has urged them, to not go there.

So they've been treating it a bit like a meme, but things I think should get better, and people should start listening, hopefully.

But yeah, it's just, I think we're seeing this in waves where, like you said earlier today, in the US, two weeks later, we're going to be where you guys are, because there's a lot of inaction happening, and things are just going to follow suit.

Yeah, unfortunately, this is one of those things where you need to take action before it becomes a big problem, because once it's a big problem, it's too hard to contain.

And the tragedy of this is, there's a certain type of problem.

This is like a problem like in your company you'll have with security, or fraud prevention, where you do a whole bunch of work up front, and you hope that nothing happening is a good sign.

And if I talk with my head of security, if we're not talking, things are good, you're doing your job.

When I come, and we have to talk, that's because there's a problem, and by then it's usually too late, the damage is done.

And unfortunately, with something like this, where you have believers and non-believers, the problem is, it's a lose-lose, so let's say you don't take action.

You don't take action, and now the problem strikes, and a bunch of people get sick, a bunch of people die, and bad things happen.

Let's say everybody took precaution, we lock the whole country down, we stop travel, business, all this stuff.

And if you succeed in doing that, the virus won't really proliferate, it'll look harmless.

And then what people would say is actually not, good thing we did that, they'll say, it was an overreaction.

And so it's like a lose-lose, in terms of perception, because if you take massive precaution, the winning scenario makes it look like it wasn't going to be a big problem.

And it's a dangerous thing.

There should be a word for these types of situations, where that's the case.

They have that word, anti-fragile, anti-fragile describes when, if you haven't read Nassim Tili's book, anti-fragile is when a system breaks, and the break makes the system stronger for the next one, so it's like plane crashes.

Every time a plane crash happens, planes get safer overall, the next crash is less likely.

That's an anti-fragile system.

And so there should be some word for this too, where it's like, when you take precaution and you reduce risk, and then the thing doesn't happen, you don't want people's reaction to it to be, oh, we all overreacted, it was no big deal.

Because it would have been a big deal, you just can't see it.

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And so you send out this email every Sunday, it's called the123, and it's not public, people can't subscribe to it, right?

Yeah, I've talked about it before, but it's not public.

I used to send it to a private group of my mentors, advisors, friends, when we were doing our startup, and the ones we got acquired, I decided, hey, this would be a good way to connect with the rest of the exec team at Twitch, because everybody's so busy, we don't all get to spend much time together.

So I said, maybe I'll use my123 email, which is just me brain-dumping a bunch of thoughts on Sunday night.

I'll send it to the exec team here, and it's sort of like a private newsletter, a private blog.

And my thinking behind it was kind of a growth hack.

I wanted to blog, because I enjoy writing, I enjoy putting my thoughts out there, but I was like, man, it's so hard to break out, everyone's got a blog nowadays.

So this was many years ago, five years ago, when I was like, well, if I just had 100 people who I think are badass, read this, that would be a win, right?

I don't need a million unique visitors.

I need 100 of the people I like and respect the most in Silicon Valley to read this.

That would be a win.

So how do I guarantee that they read this?

Well, let me make it something exclusive.

So you're hand-picked to get on a list, you're only getting this, and it's private, which means I can share things that I wouldn't always put out in the public.

And so that's how this all started.

And normally it's private, but given coronavirus, this week's was all about coronavirus, and I wanted to make it public.

So I was like, let's talk through what I put in that email and share it with more people.

So hopefully this is interesting to people.

And so I thought this email was really interesting when I read it.

Let's just start from the beginning, how bad do you think this is?

Because in your own words, you said that this is really, really bad.

He didn't say one really, he said two reallys.

So double really.

And so on a spectrum from, you know, this is nothing to this is a complete catastrophe.

We're going to go into a depression.

Where are you sitting?

And why?

Yeah.

So I should actually preface this.

This is more of a doom and gloom podcast because that's kind of my outlook right now.

So if you're looking for something super optimistic, this is probably not it.

This is me being realistic from what I'm seeing.

And I'm definitely no expert in infectious diseases.

I'm no expert in the economy, but I have a lot of smart friends.

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I ask a lot of really dumb questions to them so I can learn and I read a lot.
And so that's how I form, you know, my opinion on this.
And my opinion is that this is really, really bad.
And I'll tell you why.
So what's happening right now is that we have a health crisis, you know, a pandemic, which there's not, that's not often, so we have a health crisis.
And that triggered, it started in China, so it triggered a supply crisis because the supply chain broke down, the global supply chain, which depends on China, all broke down.
And then, you know, as it's come to the US, it's created a labor crisis where all these businesses like, you know, all of American sports are shut down, hotels, casinos, movie theaters, schools, all the gyms, all these businesses are shutting down and they're not going to be able to go with zero revenue for long.
They're going to lay off employees.
So now you're going to have a labor crisis where people are predicting 20, 30% unemployment, which is insane.
And then that create, the labor crisis creates a demand crisis.
So we have a huge supply shock and we have the demand crisis and we have the labor crisis and we have the health crisis.
And so what I wrote in the email was that I stole this line from my friend Vishal.
It feels like an alien kid, you know, was, got tired of playing the video game earth and he was on level 2020 and he's like, ah, this is boring.
And he just started mashing buttons just to spice things up.
And that's what 2020 has felt like for me so far.
Right, yeah, that's a really good analogy.
So you're saying in terms of, okay, that's this, there's a health crisis that started and that triggered all these other sort of, would you say like a black swan event?
I don't know if that's the right word for it, but so it is, we haven't really, this is like really unprecedented.
And it's unprecedented.
We've never seen this or most people in their lifetime have never seen this.
And even those who kind of have seen things like this, it's very different because we've had financial crises, right?
We've had bubbles.
We've had, you know, the SARS outbreak, but we've never had these things stacked together.
And for that reason, it is very much a black swan event.
Who could have predicted my, my brother-in-law owns, I don't know, 20 to 40 gyms here in California, who could have predicted my sister runs three schools?
Who could have predicted that revenue would just go to essentially zero for months?
Like no business really plans for that.
And it's, you know, even when you're making your sort of expansion plans, you're thinking about growth, you're thinking about how well things are going, you're thinking about expansion.
And rarely do you sit down and say, well, should I prepare for, you know, the white walkers to cross the wall and everything to shut down?
Like, but that's actually what happened.

I think it's, you know, previously, whenever something like the economy goes down or something crazy happens, a lot of the, the stimulus packages there to actually try and get people to work, right?

But this is completely different where we're trying to get people not to work.

We're trying to subsidize their living.

Right.

What we're talking about today, like what is it, two and a half million people are filing for unemployment this week.

This is way bigger than 08 and you know, the ones before it's, this is, yeah, this is unprecedented.

It's a, this is a different kind of like war, it's not a different couple of war we're tackling.

No, no, war is the exact analogy here.

We're fighting an invisible enemy.

And unlike war where we usually, you know, send people out and we, you know, the whole country sort of galvanized around it, here it's like, there's an invisible enemy hiding your homes.

That's the answer.

Right.

And it's very unprecedented.

It's very un-American, really.

Americans love when bravery and valor is what is the solution.

But here it's patience and it's staying inside.

It's doing nothing.

And that's very dangerous.

So that's, that's why I think, you know, this is really, really bad.

So that's point one.

Point two I had on here was about the health perspective.

And I said, from a health perspective, we have three pathways forward.

The first one is mass testing.

So we need to quickly, cheaply, and frequently identify who is infected.

Option two, from a health perspective, you know, solution two is we find a miracle treatment.

And option three is we just face a massive death toll.

And you know, we should be clearly focusing on mass testing, but unfortunately, it doesn't seem like we're on track to solve that anytime soon.

The types of tests we're ordering, we're short, the testing that we're doing is inadequate.

You know, there's so many carriers out there that are being turned down from testing.

And you know, within seven to 10 days, the Chinese virus, as Trump loves to call it, will be the American virus because we're going to have way more cases than anybody else because we did not lock down and test temperatures and sort of the infectiousness in any, nowhere near what China did, nowhere near what Korea did.

And unfortunately for us, that means this is going to be a problem for a very long time.

So that was point two.

Right.

And do you think it's the main issue right now is that maybe a lot of people, maybe generally skewing to like a younger demographic, they're asymptomatic possibly to this, and it's spreading

faster than ever because of that, is that where you see why we need sort of mass testing. This virus is tricky, this virus is very tricky because the virus is, it doesn't kill you right away.

It doesn't show itself right away.

And, and in fact, if this could kill anybody, I think people would behave very differently.

The media sort of framed it and rightfully so because it's worse for the elderly, it's worse for people with underlying health conditions.

But the interpretation of that seems to have been if you just judge by the fact that, hey, in LA, people are out on the beach, they're playing pick up basketball, you know, like people are not, the younger people are not taking this seriously and they're spreading it.

Yeah.

And so the interpretation of it was, okay, well, you know, it's not going to kill me.

And unfortunately, we're only as good as our weakest links.

So even if the majority of people are behaving, the sad thing is that as long as some people are out there spreading it, whatever that percentage of people is 5%, 10%, 15%, this thing will continue to proliferate.

And the longer they keep doing that, the longer we wait to get testing in place, the longer this persists.

And then the longer it persists, the more itchy people get in quarantine and they start to break.

And they start to go out and then it stays longer.

So I don't, I don't see a good solution here from where we're at.

And really quickly, I want to go over this whole like mass situation, I'm guessing earlier on like, I don't know, January, February, a lot of health professionals were putting out messages saying that, you know, you shouldn't wear a mask if you're not having any symptoms. And I think that was maybe possibly so people wouldn't obviously be panicking and buying up all the masks because people that do have symptoms, they should be prioritized and they should have wear masks.

But also we're seeing a lot of data now that, you know, places like Japan or Singapore where wearing masks is very prevalent amongst a lot of people and it looks like their curve is flattened or flattening better than the other countries like US, Italy and what not.

Do you think that this is, do you think that everybody should be wearing masks?

This is like not a thing that's like, because there's a lot of people that think they read one thing and they say, okay, there's no point of wearing masks.

There's no point of covering up.

You know, I think there might be truth to both sides.

I think it might be true that it would not have been productive if everybody who didn't need a mask bought all the masks because we didn't have enough for everybody.

And so I think that part was true that we should have saved it for people who needed it.

But I think it's also true that if you have a mask, you're going to be less likely to spread and less likely to receive it than anything else because there's a barrier in front of your mouth and nose.

It's pretty simple.

So I think that would have been helpful, but you know, at this point, I'm not sure what's going to happen.

But it seems like, you know, it's the hospitals that need the masks.

So you have, you know, the healthcare workers who they're constantly at risk that need them that need masks and are running out.

And I think that's the scary part now.

I saw Bezos, he did like that announcement, and he was saying that they ordered, you know, a lot of masks for the Amazon workers, but they can't get them yet because those masks are being prioritized for the hospitals and whatnot.

And Facebook, I believe, donated 700,000 masks that they had bought during the wildfire crisis, which was a tiny, tiny speck in comparison to this, but they bought 720,000 masks for Facebook and they're donating all of them.

And so, you know, people are trying to step up and that's kind of great to see.

And we'll see, we'll see how the mask thing plays out.

I don't have a super strong opinion there.

And so we've gone through, you know, how bad we think it is and what we can sort of go, what we could do and what you see going forward that should happen.

What about, what are you thinking on terms of the economy?

What are sort of the short term, but also long lasting effects of what's happening right now?

Yeah.

So I think the economy is going to crash badly and not a recession, but a depression.

And I think that on top of that, people will blame the virus.

But the virus is the trigger, it's not the cause.

And you know, I could be wrong about this for sure.

This is not something that is easy to understand.

The economy is such a interconnected set of pieces and people who are experts in one area might miss another, right?

It took a lot, very few people saw the 2008 crash happening beforehand.

Even those who did were not taken seriously.

And only sort of later, when we do a postmortem, we realize, okay, it was these subprime mortgages that were being securitized and packaged up and then rated improperly.

And that's where, you know, the sort of vulnerability was building up.

So in my view here, people are going to blame the virus and say the virus is what shut down the economy.

The virus is why we have high unemployment, the virus is why the economy is going to take years to recover.

And in my view, the virus is the needle that pops the debt bubble.

And so in the same way that the coronavirus is fatal to people who have an underlying respiratory problem, I believe that the virus is fatal to the economy because we have an underlying debt problem.

That is the underlying illness that the economy had that the virus is going to expose shortly. Right.

And so like, you know, a huge talk right now, there's a lot of people talking about bailouts and a lot of these, not just airlines, there's a bunch of other companies, but a lot of these companies that spent most of their profits on these share buybacks and now they're asking for bailouts.

I know you explained this a bit on our last podcast, but I want you to sort of, can you just give them a quick sort of like explanation of what you're seeing right now and what are your thoughts on what's happening right now in regards to the corporate debt?

You know, my reaction initially when I had heard bailouts, because bailout sounds like that word is just very loaded.

It sounds like, you know, somebody's getting a free, get out of jail free card.

And that's how I felt in 2008.

And then as I started to understand more, and I think I've recommended this video before, but I literally re-watched it last night, and that's going to sound silly because it's such a simple video, but the reality is you really want to understand the fundamentals of anything.

It's not, like usually the problem is in the fundamentals.

It's not in, you know, sort of a PhD level of complexity around something.

And so there's this video by Ray Dalio and it's called How the Economic Machine Works.

It's on YouTube.

It's a 30 minute video.

Most people are not going to watch it.

This should be required watching for every politician and every CEO and every college graduate.

You know, before you get your diploma, go sit in this room and watch this video.

And what he explains in it is why these cycles happen.

So why do we even have cycles?

Why do we have these ups and downs?

And so he explains, you know, and I can't, you know, sort of do it justice and explain the whole thing.

But what I would say is the key to the economy is spending.

And so one person's, you know, one person's spending is another person's income.

And most spending actually is not through cash that you have, you know, sitting in your bank or under your mattress, but through credit.

Businesses spend through credit.

People spend through credit.

Businesses spend through credit.

And so a lot of what's spent is credit.

That credit becomes income of the next person.

When you get income, you become credit worthy and people will give you more credit.

And then you spend it somewhere else.

And that's how the economy expands.

And so we go through these expansionary periods where people take loans, they spend, they buy houses, they buy cars, they buy, they invest in businesses, they buy stocks, whatever they, whatever they buy.

And some of it's with cash and some votes credit.
And then as when they're spending that somebody else's income, that person who gets income becomes credit worthy.
And so then they can take credit, you know, take loans, get credit and do their own level of that.
And that's the expansion cycle.
And then that naturally overreaches.
So it seems like, you know, this party just don't stop.
This is working.
We're all getting rich together.
We're all, this is all growing.
The banks keep landing, blah, blah, blah.
And so, but you don't want too much debt out there.
And so, you know, the government uses interest rates to sort of regulate that they'll raise interest rates, which will reduce borrowing for a given time and lower the amount of credit and debt that's in the system.
And so they have this instrument that they use to do that.
So the video really explains how during expansion times, we use credit to expand quickly.
In the same way that if your company needs to grow, you'll take around a venture capital or you'll take an investment round, or you'll take a loan or you'll take venture debt.
You know, those are the ways that you fund expansion that's going to happen in the future.
And when it all works, fantastic.
You expand, you make revenue, and now you're more credit worthy.
You can raise bigger money.
You can take bigger loans, that sort of thing.
And unfortunately, human nature is that we get ahead of our skis.
And so what's ended up happening here is we have a 12-year bull run of the stock market, one of the longest bull runs ever.
And so we had this huge amount of expansion.
And it was stimulated after 2008, interest rates dropped.
This economic stimulus package happened, quantitative easing.
So we injected performance-enhancing drugs into the economy.
And it gave us a period of expansion that lasted from essentially 2009-10 till 2020.
So you get this sort of decade-long expansionary period.
And then you're going to have the sort of deflationary period where that comes to root.
And so that's like a normal recession.
But what he shows in the video is how that short-term debt cycle layers onto a long-term debt cycle, which is happening over a 75 to 100-year time span.
And what it sure does seem like is that we're now facing not just a recession, we're facing a depression.
A recession is what's happening when the short-term debt cycle is being reversed.
And a depression is when the long-term debt cycle is on the downside.
And watch the video, it paints a picture with animations.
It's really great.

It's just well-made in general.

But when you watch that, it's hard to watch that and not walk away looking at the world a little bit differently.

And so my view is that after these periods of expansions and contractions, we're now on the sort of wrong side of the long-term debt cycle, and we're going to go through a multi-year deleveraging or depression, if we're a better word.

And I think that's what's going to happen to the economy.

Literally, I sold all my stocks, I moved every position to cash, everything I could to cash, and with a little bit of a crypto hedge.

And if I could sell my house, I would have sold my house.

Unfortunately, you can't sell your house now, there's no liquidity.

So I took as much as I could out, but the reality is that we're all going to be exposed.

And I think everybody's going to end up less wealthy over the next few years because of this.

And so you say, so you got out of everything, you cashed out, you want to transition into a cash-heavy position, what would you say, without being financial advice, what should people do in terms of, okay, now they cashed out, do they just sit, do they wait nine months and then try and get bargains and try and get rich in a recession or depression, or like do you just wait for years and years and just watch on the sidelines, what do you think is the right course of action to take advantage of this?

Yeah, if I knew I would have made my first million a long time ago, and so I don't think anybody really knows, but I'll give you my point of view, and you said this is not financial advice.

Why do people say that?

They think they're going to get sued.

I think that's why.

If you try to sue a podcaster for financial advice, you immediately reverse sue to yourself.

So I don't know, my prediction would be that you're going to have these sort of ebbs and flows, and I think we're seeing that right now where the economy is swinging, it's swinging like crazy, and it's swinging because people are covering their positions, and so you get what they call the dead cat bounce, and so I think we're going to have that a few times here where it's going to, the market's going to plunge and then it's going to bounce back and there's a little bit of a rally and then it's going to plunge again, and the short term things I try not to really pay too much attention to or try to time it because that's a trying to time the market or predict the market, I believe is a bit of a losing game.

I'd rather just sort of think about the fundamentals and think about where I think this is going over a bit of a longer term and not try to predict a day to day, week to week change.

If you can do that, fantastic.

I don't believe you if you can.

And so anyhow, my plan, my own plan is essentially try to wait for what feels like the bottom and just ignore the first two times.

I think it's the bottom because it's probably not.

And I'm assuming that this is a multi-year downturn, and so multi-year might be as low as two and as long as 10, and so I think you can pick up some stocks on discount along

the way, but it's a risky game.

And I don't think there is a good answer for that, and I don't pretend that I have it for myself either.

So if we just sort of go away from capital markets or stock markets and we sort of transition to what a lot of analysts and others are, that people that are trying to start businesses and if we head into a recession or depression, is this not the worst time or it could be the best time to start something?

What would you say?

What are the sort of checklists of like, okay, you need this much money set aside, if people get let go of their jobs, what do you say to people that we're thinking of starting something, but now are probably discouraged because of what's about to come?

Yeah, it's tricky.

I texted several friends, so I advised a couple of startups, and I told the startups that I was advising, I said, you need to lower your burn rate immediately, and they had already started that, and I said, you know, even lower.

So I was talking to one of the companies I invested in, they're burning 70K a month, and they had seven months of runway left.

So they were planning, hey, you know, things are going well, we're making progress in the next two to three months, we'll raise a round, they're in one of the like kind of accelerator programs, so they were like, hey, there's a demo day at the demo day, we're going to raise money, and so that's 70K a month, and they were saying, you know, we're trying to get that down to like 45K, 40K, and you know, I was on board with that, and then the next morning I woke up, and I just texted them, and I said, find a way to get it under 25, like get it to 20, that'll get you 18 months of runway out of your same amount of cash, and I think you're going to need it, and you don't want to be in a position where this dies because you spent too early, I said, it's not about growing aggressively right now, it's about survival, and you got to know when to switch gears as a company, and so I think, you know, it's very sexy and fun to be in the growth mindset, where everything is about grow, grow, grow, but there are times when you need to play a different game, and you need to, you need to bunker down, you need to survive, and you need to weather the storm, and I think that's what's, that's my advice to the companies that I'm investing or advising, I also have friends who are out there raising money, they were, you know, they had done their seed, their angel round, and they were out there fundraising, and I texted some of them, I said, how's it going, and he goes, well, I've had three investors cancel on me this week, like, don't even take the meeting, you know, but, you know, the good VCs won't do that, the good VCs will continue to operate, they will naturally get more selective, the valuations will come down, so for example, I'm talking to a YC company, and you know, they're raising their seed round, and it's like, hey, we're raising two million on a 15 million dollar valuation, and it's like, geez, 15 million, and that's the, and I said, how'd you get to, why 15, and because he's doing, you know, basically like a million dollars a year run rate, and so it's growing, it's growing fast, so you can see how that's going to grow, but currently, you know, a million dollar a year run rate, and he said, well, the way a YC valuation works is pretty much, if you've got nothing, you're a 10 million dollar company, if you have something, you're a 12 million dollar valuation company,

and if you're profitable, like I am, you're a 15 million dollar company, right, and basically was like, you know, just sort of, he was joking, but he was basically saying, well, it's YC, we get this premium, blah, blah, blah, I'm very curious to see if the YC premium holds up, given what's going on, because I think there's going to be a tightening everywhere, and if you haven't listened to it, there's a podcast, a new podcast that I really, really love, so Jason Calacanis has been doing podcasting for ages, right, you listen to it, I listen to it, he's done thousands of episodes, and that's his podcast called This Week in Startups, but he has a new podcast with Chamath called The All-In Podcast, and I think it's still under his channel, but they're just doing the All-In episodes, like separate episodes, and they've done one episode so far, but it was incredible.

It's like, you know, if you can get Chamath, who's a super smart guy, don't agree with everything he does or anything, but you know, he's smarter than your average bear, definitely smarter than your average podcaster.

So if you get his thoughts for free, that's like, that's a conversation you want to be on the fly on the wall for, and Jason's a very good sort of interviewer, potster, conversationalist, and that's great, and so they did one about coronavirus already, definitely recommend you go listen to that and tweet at Jason and tell him I sent you.

It's a great podcast, so I definitely recommend listening.

In addition to that, one of the things they mentioned on there is, well, how does this affect a startup?

Their recommendations were businesses should have three years of runway in the bank, which I think is hard, very, very hard to have, but let's say what that really signals is, you need more than you think, don't think a year is good enough, don't think 18 months is good enough, try to get more.

If you have any option right now to take money, either a loan you haven't really fully drawn down or investment, even if it's not the best terms or not the best investor, take the money. And so that was the recommendation there.

The second recommendation they had was, or the second story they told was sort of, how does this work?

And so the way it works, you have to understand how a venture capital firm is structured. So you have the VCs and they'll say they raised a billion dollars, but what's actually happening? You don't get a billion dollars in your bank account and start writing checks to startups. You have commitments of a billion dollars, let's say, or commitments of a hundred million dollars from your LPs, your limited partners.

And your limited partners are pension funds, family offices, institutional capital, pretty much, not individuals.

And those institutions, they are basically going to allocate some small percentage of their equities.

They're going to hold bonds, they're going to hold public stocks, they're going to hold private, late-stage stuff, and then they're going to hold some of this sort of technology or venture bets.

And they'll maybe allocate 5% of their portfolio to that.

And what's going to happen is, as the stock market crashes and the bond yields go down, now that amount of money they committed, 50 million bucks, 20 million bucks, 5 million

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bucks to a venture capitalist, now makes up not 5% of their portfolio, but like 15%, 20%, whatever it is.

They can't have that happen, that's too much, that's the wrong asset allocation.

So what ends up happening, what happened in 2008, according to Chamath and Jason, was very interesting.

What they said was, the VCs didn't stop investing, but they definitely slowed down because what happens is when the VC commits to a startup, they do a capital call, they say, hey LPs, we found a startup, we need, you know, that money you committed, we need 10 million of it in the bank right now.

And so what happens when the stock market starts plunging and there's an economic freeze, is they sort of go to their LPs or the LPs come to them and say, hey, it'd be nice not to have a capital call for a little bit.

It's like, yeah, we're committed, we're with you, but like, let's not call in my capital for the next 12 months or whatever it is.

And so the whole rate of investing slows down because the VCs don't want to piss off their LPs, the VCs still make their management fees, so they're fine, they don't need to invest this money to eat.

And so that's what ends up happening, that's what slows down all of the startup investing.

So it's a long way of saying, all the shit's interconnected.

If you have options to take money, take it right now.

And if you don't, it's going to be very tough sledding.

So if you're going to start a business right now, and many great businesses have started during recessions, I would say starting it literally at this moment is going to be tough because there's a lot of uncertainty.

Once the crash happens, it's going to wipe out a lot of companies, there's going to be a lot of talent that's available for cheaper than it was before, there's going to be fewer startups in general, so it's going to be less competition, prices are going to go down across the board.

And so you can start a company then, but you have to be prepared to be scrappy.

The fat and happy period is over, and now it's back to scrappy cockroach mode.

Right.

And do you see, especially probably in Silicon Valley, do you see a lot of secondary selling happening during these periods within founders, investors, maybe employees, I don't know, is that something that happens usually?

It all freezes up, it's just like I was saying about my house, sure I'd be happy to sell now, but there's no buyers, the buying slows down.

And so when the buying slows down, there's just no liquidity in the market, so it freezes.

And this is happening at an economy level, and the government's going to pump in trillions of dollars of cash to try to bring liquidity back into the market as they have to do to unlock the economy, but there's no such thing in the startup ecosystem.

No one can print cash and give it to us.

And so that's a tricky situation.

Right.

And so for the people listening that was thinking about starting something or in the process

of starting something, you say, and a bunch of other people have recommended 18 to 36 months of runway, and preferably don't...

If you don't already have that, if you're thinking of starting something, it's probably too late to get that.

Too late.

So if you already have a company running, you need to reduce your burn rate so that you can get to having 18 to 36 months.

You're probably not going to get more cash, but you can slow down your burn.

And if you haven't started anything yet and thinking about starting, you're saying to wait out this period possibly, and wait till the market, the economy, everything sort of consolidates, and then start maybe take advantage of the resources that are left alive.

And that's probably pennies on the dollar.

Yeah, well, what I would say is, if you're an entrepreneur and you're going to start something, you're not going to listen to me on a fucking podcast, right?

You're going to do whatever you're going to do.

Entrepreneurs are stubborn, and that's why we fail often too.

But so I don't pretend that they're going to listen to this.

But what my advice would be, think long and hard about what you're starting, and if you're giving up something that's very, very secure, before, if you were in a good job, you're an engineer at Google, you can quit your engineering job at Google, go try something like if it doesn't work six months later, you can go get rehired by Google or Facebook or Amazon or Netflix or whoever, and probably at a higher rate.

So the risk was low.

The risk is now going to get a little bit higher.

Depending on where you're at, your level of safety and security is like safety and security are going to be a premium now, whereas before it was all about growth.

So I would just say, you know, think about it.

And the second thing is, if you are going to start something, just be prepared to be in cockroach mode.

You're going to get less capital, and you're going to have to be more scrappy then.

And in the end, that might be a really great thing, right?

These are the forcing functions that bring out the relentless, resourceful entrepreneurs who are going to chase opportunities that you had to run through walls for anyways.

And so I don't think it's going to deter anybody.

I think some great companies are going to get started here, but you need to have the mindset of it's, you know, it's cockroach time.

Right, and I sort of want to reiterate something you slightly touched on before.

So what you're saying now is sort of the start-up scene, Silicon Valley and the rest of the world, they go through this sort of like this pendulum swing of founders and investors.

And during periods like this, the leverage sort of now goes towards the investors, the founders sort of lose leverage in raising money, and then in bull markets, obviously the founders probably have a lot of that leverage.

And so you're saying over the next, probably who knows how long over the last seven, 10 years or in the short term, definitely founders, you're saying that founders, it's probably

going to be very hard to raise money on your terms, you're probably going to have to negotiate and sort of settle for what the investors sort of say.

Totally.

My friend Vishal, who I've stolen now two lines for for this podcast, he has another great one, which is venture capital is one of the few asset classes where the investment manager picks the security, the investor picks which company to invest in, but the security also selects the investor.

And what that creates is this really interesting dynamic where during times where it's a bull market and the good companies will have so much leverage because money is a commodity, they can pick this investor or that investor or that investor, they're all the same.

Or even if they're not all the same, there's several tier ones, there's several tier twos, and so you have lots of leverage, you can sort of get the price you want, the terms you want, and this is why you see funds that are like, no board seats, no liquidation preferences, you get all these different terms, take a million bucks off the table when you take this round so you feel secure or whatever, you can get lots of terms that you want.

And when the market turns, that changes, your leverage goes down.

So I don't think investors are going to be in a great position either, but I do think that the pendulum is swinging and the founders, things are going to be less friendly all around. People are going to be less interested in investing in you.

When they do, they're going to be on less good terms and you should be prepared for that.

And so I think we've been really dark and gloomy for this entire episode.

Is there anything on the bright side that you want to say that there's something to look forward to and to possibly give a bit of hope to people listening?

Yeah, I think that there are some great things in every situation, right?

I don't think there are actually good or bad situations.

I started this by saying this is really, really bad.

In reality, it's not really, really anything, it's what you make of it.

So what we're seeing is actually a lot of people make interesting things of this situation.

So like last night, they did the sort of, I think solidarity, I don't know if they're doing that in Australia, but they're doing it in different countries where in India,

I saw it in Italy, I saw it where people go out on their balconies, the people were quarantined and at 7pm or 8pm, they go out on their balconies and they cheer for the healthcare workers. I think it started somewhere where the workers were leaving the hospital and people were going out on their balcony cheering for them and so the whole city is out on their balcony just cheering for the healthcare workers, for the doctors and nurses and I thought that was pretty amazing.

Yeah, that's great.

And so we did it last night, we were the only ones, we're just cheering to an empty street. There's no doctors or nurses walking out, but there's still something cool of just like shouting it out into the universe.

So I really love that.

Some people are getting creative, there's, you know, there's this thing called love is quarantine, have you seen this?

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Yeah, I looked at it last night when he sent the link in the email.
And so did you watch the show love is blind on Netflix?
Yeah, I've just finished it actually last night, yeah.
Interesting show.
Congratulations.
Good show.
Good show.
So some people recreated the love is blind show just using a Google Doc.
So they basically said, hey, we're going to do something called love is quarantine.
And they opened up 40 slots and they started matching people into rooms and you have like a voice conversation.
You can't see each other and you're never going to meet or whatever you haven't met.
And if you if you like them, you talk to them again the next day or if you don't, you pass and you go talk to the next person.
And they're like running this whole thing off a spreadsheet and Instagram and that's cool.
So, you know, people are getting really, really crafty, really creative.
People are, you know, coming together in certain ways, really appreciating what they have because it's all taken away like appreciation for the, you know, the delivery people.
The workers at the grocery store and at the hospitals.
I mean, you can't look at these people the same way again because they sort of, you know, they're saving your life.
They're providing for you when you when you need to get the most.
And so I think there's some really good things for myself, you know, been able to spend more time with my family.
My daughter was born, you know, and when she was born, when she was born, I took off two weeks from work and then I kind of, you know, she's like just a baby that lays there.
And it was like as interactive as a stapler.
And so I was like, okay, I'm going to go back to work now.
And I just busied myself with that.
And now with the shutdown, I'm spending time with her for the first time and like really quality time extended.
And now she has much more of a personality six months later.
And so, you know, that's been great.
So I think a lot of people are going to reassess what's important to them.
People are going to, you know, take time to reflect because they're just stuck in isolation.
And they're going to be grateful for what they have.
That's my hope as to what's the good that's going to come out of this.
And honestly, that is quite a lot of good.
Yeah.
I think we're in such a unique time in history where especially the last decade with social media and technology evolving where we, you know, every single second it was sort of our brain is filled with a lot of distractions.
And this for the first time, people just don't know what the hell to do.

They're stuck inside.

And it's just, it's probably, this is actually probably sort of a net good that comes out of this, that people in a way not sounding cheesy, they sort of start thinking about who they want to be and what they want to do.

And they have this really good, this is a really good time to reflect.

And because we don't usually have time for that these days.

Yeah.

The only thing that could have been more powerful is if the internet went out.

Yeah.

If there was just no internet and there would be chaos and lots of problems and people would also be like, what do I do with my time now that I'm not staring at this phone?

And you know, that's not happening, but, but yeah, so hopefully this wasn't too demagloom.

I wanted to share what I kind of wrote in the email.

I hope I'm wrong.

I hope I'm overreacting.

I'm fine with that.

I'm fine with preparing for the worst and sort of seeing things through hopefully your realistic lens, but skewing more towards not what I hope would happen, but what I think what I think is actually going to happen.

And if I'm wrong, I'll be pleasantly surprised.

That'd be great.

Right.

And just one last thing before we sort of sign off, I wanted to ask you now that, you know, people, it's sort of hard to wake up in the morning knowing, you know, every, every time you sort of wake up, you're sort of paranoid or you're, you're thinking about, it's sort of hard to just ignore what's going around you.

And so there's some, there's an interesting thing you're telling me earlier today, actually, when you're messaging me about sort of your morning routine, I want to know, I want you to explain that to people listening and there's like a cool little project that we're thinking about doing.

If you want to go ahead and explain that.

Yeah.

So I'm sure a lot of you who are in quarantine or lockdown are, you know, trying to adjust to a new way of life in a way.

And, you know, people are, are, are trying to figure out how to make this work for them.

Right.

It's, you know, you can go crazy to sit in indoors.

You can go crazy just reading the news and listening to what's going on and checking Twitter and it just feels like the world is crashing.

It's very stressful and unhealthy.

And so one of the things that keeps me sane is my morning routine that I've had for quite a long time.

And I'm not perfect with it at all.

You know, there'll be, sometimes months can go by and I forget it and then I come back

to it always.

But when I'm good, I'm doing this every day.

And you know, I always wanted a morning routine, but it's in the same way like, yeah, I also want to wake, you know, I wanted to wake up at 5am and go to the gym every day.

And I did it for like three days, but then, you know, I stopped going to the gym because it's like such a tall task.

And so the one thing that worked for me was I was at a Tony Robbins event and he advises this thing that he's been doing for a long time and he says, you know, I do this hour of power in the morning.

I take an hour for myself and I really get myself primed for the day.

And he makes it, makes it sound like a lot of sense, right?

He's like, you know, if you were an athlete before you go onto the court or onto the field, you really get yourself in the right mindset.

You get your body ready, you get your mind ready and you have a certain routine that you do that gets you ready to perform.

And isn't it strange that we don't do that in the sport of life, right?

Isn't it strange that we don't try to get our mind and body ready for the day, for our, whatever our, you know, sport is?

And that resonated with me.

I, as somebody who played sports, that was something I felt, yeah, that is weird that

I, it would be unthinkable to just, you know, roll out of bed and go try to play in a game.

I would never have done that, but I'll do that with my work.

I'll do that with my family.

I'll do that, you know, on a normal day, I would wake up, I'd hit the snooze button,

I'd wake up again.

I'd be groggy.

I'd be late and then I'd, you know, I'd open the shower and I'd get dressed and I'm half, you know, looking at my phone and figuring out what I forgot at home and I finally, you know, commute to work and I get there and I'm in a low energy state and I'm not really operating with any intention.

I'm just on autopilot.

And so I got sick of being on autopilot.

So I adopted this routine because Tony had this one thing, he said, you know, I do this for an hour, but if you can't do an hour, do 30 minutes, if you can't do 30 minutes, do 15, if you can't do 15, do 10.

If you can't do 10, you don't have a life.

And he just let it sink in, he goes, if you don't have 10 minutes, you don't have a life.

So there's this thing that I do that's called the nine minute morning routine.

I've been doing it for several years now and I think it can help a lot of people.

And so we're going to, I'm thinking about this, I think I'm going to do this, you know, I'm excited about it.

So I'm going to make a podcast that's just the nine minute morning routine and I'm going to record it.

And if anybody out there wants to, you know, try this in the morning and I think it'll

help you.

If you have a clear mind as you approach your day and I can explain kind of how it works, but that's the idea.

I have this morning routine.

It's worked for me.

It's helped me a lot.

I'm just going to record it and then if it works, if it helps you, you can listen to it while you do it in the morning.

It takes nine minutes.

And if you don't have nine minutes, you don't have a life.

And so if you want to, you want to use this in the mornings, great.

This helps more people like it helped me fantastic.

Yeah.

I think anyone's listening, if that sounds sort of interesting, you should definitely tweet Sean and let him know that you want that and yeah, we should, we should get it out.

I don't even need the tweet.

I'm just going to do it.

Just going to do it.

This is like, imagine, you know how some people are with religion where they're like, no, this is the way.

Right.

So you, you know, you don't have faith like I have faith.

This is the way that's how I feel about my morning routine where I'm like, this is indispensable for me.

And if you, if you don't have something like this, you're just missing a piece of it.

So I don't really need that.

Like sometimes I'll be like, I don't know if this is a good idea.

Tweet at me and I'll, that'll give me a signal if you want this.

I'm just going to give it out.

I'm going to put it out there.

So if you just search, I don't know what we'll call it, we'll call it nine minute morning routine.

Right.

If you search the number nine minute morning routine after this, I'm going to record it and we're going to put it up there and subscribe to it and try it out.

Try it out for one morning.

Let me know how it goes for you.

All right.

So yeah, that's it from me.

Getting any last one sentence to describe the week, the year, the decade going forward.

And what would you leave them off with?

My one line would be, be a realist about the problem and optimist about the solution.

I like that.

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All right.

Sweet.

I guess we'll see you guys next episode.

Yeah.

We'll see you Tuesday.