

[Transcript] The Prof G Pod with Scott Galloway / Prof G Markets: Goldman's Earnings Slump, an ETF for Options Trading, and Fractional Jet Ownership

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Get started at Contentful.com. This week's number, 273%. That's how much tequila and mezcal sales have grown in the last 20 years. But you know what they say about tequila? I don't remember.

Welcome to PropG Markets. Today, we're discussing bank earnings and ETF for options trading and fractional jet ownership. Here with the news is PropG Media Analyst and recent visitor to London that blew me off too cool for school, doesn't want to hang out with his boss,

just signs the backs of the checks that I signed the front of, which is Latin for your supposed to be nice to me, Ed. Ed Elson. Ed, what's the good word? Well, you're coming to New York this weekend. I just checked your calendar. So you want to hang out in my hometown now? I'm busy.

I'm there for a day. I'm actually breaking up the trip. I'm going out to the west coast and at my age, if you cross too many time zones, midair, you can slip and break a hip.

And so I break up the trip. I go into New York, go to my pad. I'm going to see actually my sister, maybe hook up with my posse, which is Netflix and edibles on my couch. And then the next day, I fly out to, I'm going to a conference in Napa Valley and then from Napa Valley,

I am in a conference for two days and then I go meet some college buddies in Las Vegas at the Sphere to see you too, which I'm very excited. Nice. And then I'm in Vegas for two days and then I go to LA for Halloween weekend, where I am going as Deadpool, but Deadpool after the fire. I have someone who's going to come put scars on me because I've been told I look like

Ryan Reynolds, right? No, but it's never just you look like Ryan Reynolds. It's like you look like Ryan Reynolds after the fire or you look like Ryan Reynolds uncle. But anyway, disease, yeah. That's my lab. How much do those Sphere tickets cost, by the way? I've had varying reports. The tickets I got, I think they're like 400, 600 bucks a pot. It's actually not as much, I think. I mean, I've heard nothing but rave reviews. And I heard some people actually take, not that I would know, I hear some people take hallucinogens or mushroom chocolates before seeing it. They make, per day, they make half a million on ads. You just sign an ad sponsorship, put that thing on the dome. That's half a million right there. Such a good idea.

It's really innovative. I think it's arguably going to win, I don't know, most innovative circular venue. The Webby Award for Best of Building. By the way, what the fuck is with the Webby Award? We

were 90, 10, and then we ended up with a silver and I understand what that means. Daddy wants

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his award. Like, where do I accept? Where do, I mean, I don't get it. Yeah, no, the whole thing's broken because we got a silver award, apparently. And I look at our competitors and they also got a silver award. The fraction of the votes. The day before they announced the award, we were at 90, and they were at five and five. I'm going on strike. But thanks to everyone who voted for us anyway. It means a lot. Yeah, we're very excited. Anyways, what's in the news? What's going on? Let's start with our weekly review of market vitals.

The S&P 500 declined, the dollar was stable, Bitcoin rose, and the yield on 10-year treasuries climbed back to a 16-year high. Shifting to the headlines. Health insurance premiums for families in the US rose 7% this year to an average of roughly \$24,000. That increase has accelerated from last year when costs rose about 1%. Nvidia shares fell nearly 5% after the US government announced it would restrict AI chip exports to China. Still, the company is up about 200% this year. OpenAI CEO Sam Altman said the company is generating revenue at a rate of \$1.3 billion per year. For context, OpenAI's total revenue last year was \$28 million. Tesla reported third quarter results that missed on both revenue and earnings. That hasn't happened since 2019. The stock dropped 7%. Meanwhile, Netflix beat expectations on revenue and earnings and reported a surge in third quarter subscribers. The company also announced price hikes for its basic and premium

plans and lifted its free cashflow forecast for the year. The stock rose more than 15% after that news. Scott, reactions. In the UK, they spent about \$6,500 per person for healthcare. In the US, we spend almost double that. I think it's about \$12.5K. Despite that, people live longer in the UK are less obese and less depressed. In some, US healthcare could best be described as one might describe San Francisco expensive but bad. US healthcare is just such a shit show. I do think it comes back to the fact that the insurance industry is in the middle. 45 cents on the dollar that goes to insurance ends up with profits and administration. Even if you have an inefficient government, they're not going to get a 45% bogey. It's all going to ideally end up back in patient delivery. It's just health insurance and the health lobby, it just continues to soak people.

I think I told you, I don't have health insurance or I didn't have it for a while because if you can afford not to have it, you shouldn't have it. It's also another transfer of wealth from the young to the old because old people, insurance companies actually I believe lose money on and young people, people like you, you need to go to the doctor about once every 10 years. You don't need a colonoscopy. You're not going to have a baby. There's anything wrong with that if you decide to have one. Your healthcare costs are nil. Occasionally, you want someone to give you an IV after drinking too much, but that's not really healthcare. Go in and get tested for STIs every once in a while. Other than that, healthcare means nothing for young people and or most young people and old people need a shit ton of it. The other question that I was asking after seeing this news is, why is this happening now? Why didn't insurance costs rise 7% last year when everything else was rising 7%? Then the answer that I learned was that basically in some areas of the economy, it takes a long time for inflation to take effect. What happened here was

the hospitals and the insurers only negotiate their fees every few years. You had all these hospital providers like HCA and McKesson and all these guys who saw their costs rising in 2021 and 2022, but they couldn't immediately pass on those costs to the consumer until they negotiated their contracts with the insurance companies and that happened in 2023. Only now are healthcare consumers

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feeling that pain. It feels like the next question you have to ask is, are there any other sectors that are susceptible to this inflation lag? If there are, there probably are. It's entirely possible that the effects of inflation haven't fully come due yet and that there's potentially more pain ahead. If that's true, it would ultimately lend itself to your prediction, which is that you have a suspicion that a recession is on its way.

Yeah, it definitely feels mostly because every economist says we're going to have a soft landing.

If there has ever been an ignorance of crowds, it's with economists, but it continues to be.

US healthcare continues to be a perfect example of how lobbyists figure out a way to get in between the consumer and the provider and weaponized government, create all sorts of regulations such as insurance companies and hospital systems can get in the middle and charge unfair rents.

One of the really negative things about healthcare is that when you're not paying directly for services, there's no watchdog and that is you might decide, you might go in, you check your bill at the restaurant. Most people check when they get a bill. They check it.

You check your bill at the restaurant? I don't believe that.

Well, I don't, but most people do, right? That's not true. Did I check mine?

Yeah. Anyways, it doesn't matter. But there's no one, consumer scrutiny, consumer vigilance is a key to keeping prices down. And there's very little consumer vigilance because people assume it'll be insurance or they don't understand their billing. So I'm actually really, I think the US, the UK healthcare system, I believe is actually far superior. NVIDIA, also at the moment, I kind of summarized it. You said, unless NVIDIA finds another category as big as AI and owns it the way they own AI, it's overvalued. So I think this is beginning to rationalize, the valuation is beginning to rationalize. Tesla, this is a pretty serious slowdown. The revenue growth slowed to 9% from 64% last year, gross margins declined to 18% from 25%. So what is that? Like a 25% reduction in margins. And Musk said about the, or cautioned about the Cybertruck or optimism around the Cybertruck. Yeah. I mean, we dug our own grave with Cybertruck.

Nobody digs their grave better than themselves. And so... I don't know what he means by that.

I don't, I think the Cybertruck is so strange looking, but I don't entirely get it. The multiple is coming down, but still enterprise value to EBITDA on Tesla is 43X versus Ford and GM at 7 and 5X and BMW at 4X. So we'll see, but the road is littered with people who underestimated Tesla. The other thing he said is that Cybertruck reservations are off the charts. He said that there are, there are more than a million Cybertruck reservations. The thing that's weird is you look at Tesla's customer deposit numbers and it's actually down nearly 20% from a year ago.

So the thing that I'm thinking is like, how, how could deposit for the most hyped car in the entire fleet be off the charts while deposits overall are down? And I think it's just down to this fundamental lack of professionalism that comes with these earnings every time.

It's just you can't, you can't fully believe anything that this company tells you at this point. Yeah. I would say when you say company, I mean Elon Musk. And that is you can't trust anything he says. And he doesn't, he doesn't feel any fidelity or any sort of, I mean, when we used to prep for earnings calls and the companies I've been involved in, we literally fact-checked the shit out of everything. Can we say this? And he doesn't seem to be bound by those same standards. But I think the story of the week is Netflix adding 9 million subscribers in Q3 above, that's in contrast to the 6 million expected. So, I mean, that's, that's an enormous beat.

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It's the biggest quarterly net-out total for the company since it added 10 million subscribers in Q2 of 2020 as we were all stuck at home. Shares increased 18% Thursday morning after the firm announced it would also raise prices for basic and premium subscribers in the US, UK and France, effective immediately. In the US prices for the basic service will rise by 2 bucks to 11.99 while premium subscription will rise 3 bucks to 22.99. So basically make a 20 and 15% increase in prices, which really should help their margins assuming that they don't inspire additional churn. Executives noted that the cancel reaction to their crackdown on password sharing was smaller than expected. This company just has so much strength and I'm convinced that the head of the WGA actually works for Netflix because by forcing everyone to stop spending, it just became, they all flocked to the place with the deepest content pool, which was Netflix. They, they essentially ceded advantage to the one player that could cut their costs and develop a huge cash pile while adding subscribers because they could continue to produce content overseas. And what do you know? They massively beat on subscribers. Meanwhile, all of the other competitors who hire writers and actors have come out of this thing a shadow themselves. So they have succeeded in literally turning the industry into a near monopoly and that monopoly power is Netflix and Netflix could not have orchestrated. If they'd said, how can we massively increase our leverage, our profit, our growth and our strategic advantage relative to our competitors, I know get the writers to go on strike for 140 days such that we can have a unilateral pause in spending for domestic production. We have international production. And then as an industry, you're seeing what basic economics would tell you that we have an industry that's spending way too much money and is unsustainable economically. There's going to be consolidation, there's going to be cost cutting, and there's going to be a price increases. What do you see? You see an activist at Newscore. You see an activist at Disney. I think you're probably going to see an activist at Warner Brothers Discovery. And meanwhile, Netflix is just kind of running away with it. We'll be right back after a quick break with a look at bank earnings.

This is advertiser content from Mercury. I've learned a little bit of Chinese, Spanish, Hindi. I've improved my writing dramatically through online courses. I've gotten coaches in soccer. I've spent a good amount of time learning basketball. And I've also spent time learning cooking. I'm Gagan Biani, co-founder and CEO at Maven, which is a place where professionals go to upskill and learn more about how to advance in their careers. When your startup joins a banking service, it shouldn't be like learning a new language. As an entrepreneur, my goal is to try to build a product in a company. And most banks require me to understand a little bit more about how they operate, how they work, and what I need to do to interface with them. Whereas Mercury is the opposite. I don't have to think about anything. I can just log in, send a wire, check my balance, and move on with my life. Mercury makes banking easy so you can spend your time building your company and maybe even learning how to dance. I spend time learning salsa and Indian dance as well. Learn how you can join a global community of over 100,000 startups on Mercury, the powerful and intuitive way for ambitious companies to bank by visiting mercury.com. Mercury is a financial technology company, not a bank. Banking services provided by Choice Financial Group and Evolve Bank & Trust, members FDIC. Support for this episode comes from LinkedIn. When you run a small business, you don't have a lot of wiggle room when it comes to new hires. When you decide you're ready to grow and bring on a new team member, that's a high stakes decision. Making the wrong move or wrong hire can be a huge waste of time. And if someone's ultimately not the right

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fit, that can mean losing a big chunk of your team. That's why LinkedIn Jobs wants to help you find the right people for your team, faster and for free. Just post your open role for free, then add your posting to LinkedIn profile to spread the word. Simple tools, including screening questions, make it easy to focus on candidates with just the right skills and experience so you can quickly prioritize who you'd like to interview and hire. LinkedIn Jobs can help you find the qualified candidates you want to speak with faster. Post your job for free at [linkedin.com slash prof](https://www.linkedin.com/jobs). That's [linkedin.com slash prof](https://www.linkedin.com/jobs) to post your job for free. Terms and conditions apply. We're back with ProfG Markets. The big banks kicked off earning season last week, and overall the results were positive. JP Morgan Chase, City Group, Wells Fargo and Bank of America

all reported strong earnings that beat expectations. This was mostly due to the positive impact of rising interest rates. As rates have risen, banks have been able to charge more for mortgages and loans translating to higher net interest income. There were, however, two odd ones out. Morgan Stanley's profits fell 9%. The company cited a significant drop off in investment banking activity. Meanwhile at Goldman Sachs, profits fell 33%. Now, most of that decline is a reflection of Goldman unwinding its consumer banking efforts, which we've discussed on this program before. Nevertheless, that is the company's eighth consecutive profit decline. Morgan Stanley and Goldman Sachs shares fell 6.5% and 2% respectively. Scott, two very different pictures here. What is happening in the banking industry? It's pretty simple. If your business is largely skewed towards investment banking and M&A, you did poorly. M&A volume is at multi-decade lows. No one's going public because we talked about this. The IPO market has become less appealing.

And while there's been a bit of a thaw, Goldman was the lead book runner for Instacart and Clavio and was one of four banks heading up the ARM IPO. Whenever there's a deal, Goldman is still the premier of the aspirational investment banking firm, but the market hates bipolar companies.

If you had a company that was doing \$1 billion, \$1.2, and then \$1.5 billion in profits, so what is that? That's \$2.2, \$3.7 billion in total profits right over three years.

And then you had a company that did \$1, \$4, and \$2, a total of \$7. The first company would be worth a lot more because investors don't like surprises. They like stability. They like consistent cash flows. And the reason why they love subscription businesses is they can model out churn and what's going to happen with that business. And other transactional businesses are much harder to predict. Does Lululemon have the right merchandise in this season? Does Goldman Sachs get a big huge M&A transactions this quarter? So Goldman and Morgan Stanley are trying to move more into the wealth management business because AUM and managing the wealth of high net worth people is much more consistent. People generally don't leave. Their AUM and the market performance goes up and down, but generally speaking, I think they get between 50 bips and 1% of AUM under management. It's a nice steady growing business. And that business gets a much greater multiple.

The guys who killed it, it's very simple. They're in the business of taking money into Chase Bank or Wells Fargo or into city or into B of A. You're depositing your check and they take it and they lend it out overnight. Or if you want a six-month certificate of deposit, they give you, I don't know, 3% and then they loan the money out for a mortgage at 7%. Actually, they're probably giving you closer to 5%. But where is that spread between what they had to pay savers versus what they could earn lending that money out? That spread was, you know,

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kind of call it, they pay you 1% two years ago and loan it out at two and a half. So that spread was one and a half or one and a quarter has expanded to somewhere between two and three, the delta, which means their margins are up 50 to 100%. So it's just good to be Jamie Dimon or whoever runs Wells Fargo. I have no idea. And then if M&A volume comes back like crazy and there's a ton of IPOs, then boom, Morgan Stanley and Goldman are going to outperform the other guys.

So let me back up. Let's talk about some revenues here. Investment banking revenue was less than half of what it was two years ago and accounted for only 13% of revenues this quarter. This is talking about Goldman Sachs compared to 27% of revenues in Q3 2021. In contrast, JP Morgan, Wells Fargo and Citibank, all have much more robust consumer divisions. For example, JP Morgan Consumer Banking Division accounted for 46% of its revenues and nearly 45% of its net income this quarter. Morgan Stanley and Goldman, both relying on investment banking, as we said, have declined more than 10% year today and JP Morgan has increased more than 11%.

So first off, I mean, you mentioned the investment banking, the CFO Bank of America had a great quote. He said, quote, investment banking can come back very, very quickly. It's just that we've grown tired of predicting when that might be, which I think is a great summation of the bipolar point. But the other point I wanted to make is this theme of net interest income, which is the boon for all of these companies this quarter. What is net interest income?

It's the interest you make from lending minus the interest you pay out on customer deposits, as you mentioned. Now, the average annual percentage yield on a US bank savings account is currently 0.46%. That is 12 times lower than the Fed funds overnight rate. And you'll say, okay, well, it's downstream of the Fed rate. Interest rates aren't one to one. There are a lot of factors. Okay. My response, rewind three years ago to 2020, where interest rates were near zero. The average API on a US bank savings account, 0.46%. APYs have not changed on savings accounts. In other words, these banks have collected all of the upside on the interest that they're receiving from the loans that they put out there. But on the interest paid out to customers and customer deposits, nothing is changing. How is that possible?

It's an outray. So, Ed, welcome to capitalism where you have concentrated markets. When you have very few players, look at the oil industry. Look at gas stations. When oil prices are up 10%, you can bet almost immediately you're going to see an increase at the pump. But when they plummet,

they come down much more slowly. They're much stickier. And that's what's happening here. Eventually, they'll have to increase CD deposit rates. But right now, it's lollipopooza. It's like consumers, I don't want to say to have a notice, but consumers were used to such low rates that if you go from 46 bips to 1.46, they think, wow, that's amazing, despite the fact that interest rates have gone up 500%. And they're now charging you 8% on a mortgage. So, this is a great time to be in the business of consumer lending. You might find this interesting. First Republic, which JPMorgan acquired over the summer, when JPMorgan broke out its earnings, it gave revenue and profit numbers, including the gains from First Republic and excluding them. And in this quarter alone, the revenues from First Republic were \$2 billion. How much did they pay First Republic? \$10 billion. So, they're going to make back what they paid for this thing in 18 months. And it feels like, at least from my perspective, this was maybe the best acquisition of the year. This is like adopting a problem child, and the government pays you \$100,000 a month to look

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after this thing. You knew the bank that there was only a few that had the capital to take this thing over, that they were going to get it at a sweetheart deal with all sorts of guarantees and backstops on the downside. Yeah, this was going to be... You knew whoever got these things when Janet Yellen called Jamie Dimon, whoever said, can you take this? They said, well, okay, I will, and I'll do it fast, but you're going to give me a deal that is so bulletproof because he's still taking Advil from the hangover of when they foisted Bear Stearns on them. So, they made it such that, look, we need to give the markets certainty here, and we need to get these deals done, and we will basically give you a free option on these banks. I think the deal was, if they lose money, we'll pay for the losses, but you'll keep the upside, and the run stopped. All the people left their assets in these banks, specifically when they were now owned by a company with a much bigger malachite. And it goes back to a theme that we've had here, and that is, there's a lot of money to be made running into the fire, that when things are really ugly, when SVB implodes, that's when you want to think about running into the banking sector. Last month, the first ETF to trade zero day options launched in the US. What are zero day options? Well, they're like any other option, except the contract has a maturity date of 24 hours or less. In other words, it's a bet on how much the price of a stock will rise or fall within a day. Now, in the past few years, these types of options have exploded. Zero day trading volume now accounts for 43% of total S&P 500 options volume. That's up from 21% just two years ago. And this new ETF known as the Defiance Nasdaq Enhanced Option Income ETF is capitalizing on that. How is it doing it? By writing and selling zero day put options on the Nasdaq 100. Put another way, each time someone bets that the Nasdaq will go down within 24 hours, the Defiance ETF takes the other side of that trade. And so far it's working. The Defiance ETF has returned one and a half percent since it launched a month ago. Whether that will last, however, is another question. Zero day options trading was popularized by retail traders in 2021. And although it's attracted some institutional attention, it is still associated with significant risks. Scott, you've adopted a similar strategy writing covered calls and we discussed that on our February 13th episode. What do you make of this zero day options ETF? Well, the broader trend around same day options is a little bit scary. And I think there's some systemic risks that I don't entirely understand. But it's tapping into this need for dopa that people want to play options. And the majority of the people who buy these options are retail investors. And the majority of the people who write them are institutional. And it taps into a flaw in our species around a need for dopa, thinking that time will go slower than it does. The majority of the time, stocks don't move a lot during the day. They have to pay a premium for these things. So I think it's a really interesting product. I actually am drawn to this. So what happens when you write an option? Someone says, I think Netflix is going to go down. And so trading at \$410. So they pay \$1 or \$2 for an option that says, you have to buy it for me at \$410. So if it goes down, you have to buy a share for me at \$410. And I paid you \$2 for that put. If I wrote the put, I get \$2 in premium. Now, if it goes to \$410, I've got to buy the share from you at \$410, minus the \$2 premium, I lose \$3. But more often than not, in a strategy like this, the option is going to expire worthless and you're going to get to hold on to the premium. The way to describe this though, is that your downside is almost unlimited. When you're writing

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calls, I should say, your downside is unlimited because technically the stock could go to the moon that day, although that's unlikely. When you're writing puts, your downside is limited by the full value of the stock, which is still a lot. So it's kind of a low cost way to collect income, but it's dangerous. And what's happened with me sometimes is if I write covered calls against Airbnb and I say, all right, it's trading at \$125, I'm going to sell or write calls at \$125 that are expiring on Friday and I get \$2 premium. If it jumps to \$140, I have two choices. I either got to deliver those shares at \$125 and go market and buy them. So I'm out \$13 per share, which is a lot, or I can sell my underlying shares to cover the cost. So it's a dangerous strategy, but when it works, it's a really high return strategy. Mostly though, it's tapping into a few things. One, it's tapping into the option premium that's probably greater than the risk as represented by retail investors who are horny for these things. Two, it's not really a part of the market. It's pure speculation. I mean, this really is Vegas. And three, it's definitely a high risk, high return strategy.

Yeah, the stock that you mentioned, retail investors account for half of options trading volume. And then you compare that to just regular securities trading volume and it's around 20%. So basically, there is for sure a demand and a hunger for these casino like options contracts in the retail market that does not exist in the institutional market. And there is also a hunger and a demand in the institutional market to sell those options. So if you're selling an option, there's a one and two chance that you're selling it to a retail investor. And there's also a high likelihood that that retail investor is some kid who got into day trading during the pandemic. In fact, it's a 15% chance, 15% of retail traders only started investing during the pandemic. Two in five of them are Gen Z or Millennial. So I want to bring up an ethical question, which is, do you believe that it is acceptable for institutional investors to be capitalizing on the inexperience, the impatience and frankly, the addiction of retail investors? Or am I being overly cynical? You don't have any friends on Wall Street. And a lot of people would say, well, Ed, all of these people who entered into the market is a good thing because we want more participation from Main Street and stocks, which have been a fantastic way to aggregate wealth. Now, is this stocks? No, it's essentially gambling. And the fact that retail investors are on the buy side, a kid who has some money and is playing with Robinhood or same day option says, oh, I think the Netflix earnings are coming out. I think Netflix is a great company. I'm going to buy calls that expire today and I get to watch it and it's fun and I get a dope ahead. That type of trading strategy usually doesn't work out pretty well and you want to be on the other side of that. I don't think I've bought options in years. I've been riding them because my philosophy is the people looking for that dope ahead are being driven by emotion and emotion is your enemy. And in this instance, I want emotion to be my ally. And that is, I think that the premium that people are receiving is greater than the risk. I mean, there's a few things. One, you have to have substantial capital or margin power to cover a black swan event. So there's a limited number of people who can write options, whereas anyone can buy them. I wrote a lot of cover calls in 2021 and I made a lot of money. I made some money in 22 and in 23, I've been absolutely crushed because I've been riding calls and the market for the NASDAQ absolutely skyrocketed in the first half of 2023. So riding covered calls is essentially trying to get rent on your current options. It's

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a way of hedging, getting additional cash flow from them. It's still dangerous, but it's not as dangerous because if the stock pops, you've just lost the upside because the underlying stock you've written the option against goes up in value. This is much more dangerous. This is riding naked options

or naked calls. But I like the strategy and what they're doing is they're diversifying, they're riding them against the entire market. So the black swan event probably isn't as likely, but it represents another trend and that is the market has really become more about speculation than finance and companies. And I think it was Stanley Druckenmiller said that of the \$8 trillion in transactions in the market every year, only about 300 billion goes to IPOs or secondaries. So what does that mean? That means what 95% of market transactions are one person betting the other, doesn't know what they're doing and is speculating. But I like this product and I think it's an interesting way to potentially kind of be on the, what I would call the right side of the trade and that is selling these things into dopa hungry retail investors. We'll be right back after the break with a look at private jets. Support for Prop G comes from Intel. World-changing ideas have to start somewhere and Intel believes that exceptional engineering can provide the foundation for real solutions. Intel technology has empowered innovators around the world to push the boundaries

of what we thought was possible. Assistive AI offers new solutions for those with disabilities. Super computing is helping scientists discover new galaxies. Business owners have relied on edge analytics to propel their smart factories and open manufacturing has supported a more sustainable supply chain. But these stories are only just the beginning of what Intel has supercharged.

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There is a moment in the life cycle of most startups where a major competitor or crisis comes along and challenges you. And it doesn't just challenge your trajectory, but your entire business's core identity. There's a term for that kind of experience. It's called a Crucible Moment, and it either boosts you up or knocks you down, all depending on how you face it.

In Crucible Moments, a new podcast from Sequoia Capital hosted by Ruloff Botha.

You can hear about how top companies faced their own challenges that left them vulnerable, companies including Airbnb, PayPal, 23andMe, and more. We listened to a bit of the show about how NVIDIA bet on AI a decade before there was a market for it. Tune in to Sequoia's new podcast series to discover how some of the most transformational companies in the modern era were built. Crucible Moments is out now and available everywhere you get your podcasts and at CrucibleMoments.com.

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We're back with ProfG Markets. A year ago on this show, we discussed how the private aviation industry took off during the COVID pandemic. Today, one area of that trend in particular is still on the rise, fractional jet ownership. With fractional programs, wealthy individuals can buy

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a share of a plane, affording them a certain number of flight hours per year and the freedom of taking a trip at little notice. Meanwhile, the operator handles the hassle of managing pilots, maintenance, hangar space, and fuel. The price tag for owning 1.16 of an average midsize aircraft, \$1.7 million. Nonetheless, it's a price people are increasingly willing to pay.

Fractional operators like NetJet and FlexJet saw a 5.2% increase in flights for the first three quarters of this year. In the past four years, fractional flights are up 43%.

Scott, you're a PJ fan. What do you think of a fractional PJ ownership?

There's really three basic segments of the market. The first is charter. In that is, there's a lot of planes out there, a lot of operators, empty legs, owners who want to utilize a fallow asset. They will put it into a pool and charter operators try and find buyers who are interested in going from Houston to Las Vegas and back, taking their buddies to see the sphere or whatever. You call a charter broker and he says,

I can get you there on a Challenger 300 and back from Vegas for \$30,000 or \$40,000, something like that. Then there is full ownership of a plane. I owned a plane for several years. That is awesome because the thing about charter is that, unfortunately, the worst thing about charter is you do the math and you do the math on every trip and you start thinking, do I really want to pay 30 or 40 grand to take me and my buddies to Vegas when we can just jump on

JetBlue or American for 400 or 600 bucks a pop, each. But when you buy an entire plane or you commit to a plane, basically, you get, at least for me, I did the math. I get 13 to 17 days a year at home that I otherwise wouldn't get. Owning a plane is amazing because what you do is you write one big check a year. My plane costs \$11 or \$12 million in the second hand market, about a Challenger 300 and then about a million and a half a year. I did charter it out a little bit. Is that a million and a half a year including the income coming in from charter?

Yeah. It's crazy town expensive. I decided to sell my plane, one, because I got self-conscious about how much shit I was spewing into the air, two, it's too much plane for Europe in terms of flying domestically, everything's so close here, but it's too little plane to get across the pond. And three, it was just so goddamn expensive. Now, here we are a year and a half later

and I am dramatically less interesting, not being an owner of a private plane. And I want to be much more interesting. And now I'm thinking about fractional and FlexJets will give you one eighth ownership of a Gulfstream 650, which can get you and your family anywhere for six, call it six and a half, six and three quarter million, they say the plane is worth 50, eighth of it, that's six and a half million. And at about \$1.2 million a year and costs in exchange, you get 100 hours of flight time in the Gulfstream G650, but the real benefit of fractional ownership beyond the fact that they manage everything, they manage the pilots, the plane is available, they manage everything, you just have an app, I think you just can 48 hours notice is that you can arb down and up. So if I'm in the U.S. and I don't need a plane of that size or that performance, it's just say me and one other person, I can arbitrage down to say a phenom 300 at a rate of two to one, so I can get 200 hours. So the ability to throttle up or throttle down into different types of planes, given their scale because they have a fleet of 150 planes, the fact that it's brain dead in terms of the actual operations and logistics, I was managing pilots. I was trying to figure out the right healthcare plan and manage, I mean, that's sort of not true. I paid \$8,000 a month to a flight

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management company that managed all that shit. You were not organizing the pilots. But occasionally they'll call me and say, you know, Bob wants to move to Houston. I'm like, okay, tell Bob, thanks for working with us. By the way, pilots are strange people, they're strange people, Ed. Anyways. It's a crazy job. It is a crazy job. It's like sheer boredom occasionally interrupted by moments of sheer terror, but not managing anything here and you can arbitrage up and down. I think it's actually, it just makes a ton of sense and I think you're going to see more of it. There's just no getting around it. It's an interesting industry. I think it's going to continue to grow. You're probably going to see prices come down. It went crazy or prices of planes, which I monitor very closely. It went crazy in the pandemic and it's starting to cool off a little bit and charter rates are down 20 or 30% because a lot of, you know, a lot of people have decided that they don't, you know, people are so freaked out about being in airports and because of COVID, but fractional just makes a ton of sense because very few people get full utilization of their plane. Are you going to do it? I'm always looking at it. I'm feeling not as financially confident this year. See, above I lost a ton of money writing options to shitheads like you who correctly predicted that an NVIDIA would go up 7 million percent. So I don't feel as flush as I used to. I feel insecure about the economy in 2024. I just want to be the guy that buys, you know, one eighth of a Gulfstream 650 and then I wake up the next morning and the NASDAQ's off 40%. Let's take a look at the week ahead. We'll see earnings from Amazon, Google, Microsoft and Meta. We'll also see third quarter GDP data and the personal consumption expenditure index for September. Do you have any predictions for us? I think you're going to see an activist at Warner Brothers Discovery. There's an activist at News Core now. There's an activist at Disney. These assets are becoming distressed assets. They're becoming fairly cheap. And I think an activist is going to come in and say, this needs to be a cleaner story. Get rid of the melting ice cube that is the cable assets. And let's have, let's have in the case of Warner Brothers Discovery, let's have a giant streaming network and a movie studio. But let's get out of this shitty business that makes the story harder to tell. And I'm, you know, if you go into Warner Brothers Discovery right now, which is trading about 1050, could it go to eight bucks? Yeah. But it's, I think there's a greater likelihood that it would go to 15 or 16. So I think this is a good trade for an activist investor that has a lot of capital they're looking to put into play. So anyways, prediction in the next 90 days, we're going to see an activist pop up and file a 13D at Warner Brothers Discovery. Do you really need an activist to come in and tell them that? I mean, everything you say, I agree, but it's like shed cable assets. Like it's sort of the most obvious thing. Like surely Zasloff is thinking about this. Do you think that you need someone to come in there and muscle their way in for him to do that? I think it'd be a surprise. I think, for example, I think that oftentimes these boards are full of what I call grid iron grates or what I would affectionately refer to as FIPS and that is formerly important people who don't own any shares and want to make a quarter or a half million bucks, showing up for free dinner every three months and thinking big thoughts about the future of software. Whereas an activist who owns a ton of shares and I've been this guy and these boards goes in and actually meets with the CFO and says, why the fuck is everyone in this room paying themselves \$120 million in aggregate when your

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stock is off 30%? They'll start asking very uncomfortable questions because boards inevitably that don't have activists inevitably end up being your buddies from the country club and they're all just kind of there to be nice to the CEO and CEOs are generally always the former fraternity or sorority rush chair. They're incredibly likable people and never really say, all right, what would it mean if I laid off one in five of my friends? Would anyone notice? And I just don't. I know these companies. I know, I work with them. They don't know what cost cutting is. I want to see you in your activist days. You need to put together a syndicate or something. Do you think so? Get involved. I'd love to see you just tearing these boards apart. Yeah, I think they mostly tore me apart. I think they mostly ignored me and I left with my tail between my legs. Yeah, no, it wasn't. Anyways, we'll put together a group. If you get our numbers up bad, we'll go after the Game of Thrones and Girls franchise known as Warner Brothers Discovery. It'll be Shark Week every week for the dog. It'll be dog week. Dog week. This episode was produced by Claire Miller and engineered by Benjamin Spencer. Our executive producers are Jason Stavros and Catherine Dillon. Mia Silverio is our research lead and Drew Burroughs is our technical director. Thank you for listening to Propgene Markets from the Vox Media Podcast Network. Join us on Wednesday for office hours and we'll be back with a fresh take

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