Lunch with the FT Ray Dalio

Bridgewater billionaire Ray Dalio: 'I have an affinity for mistakes'

The hedge fund financier on rising income inequality and why politics trumps economics in 2018

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JANUARY 12, 2018

It is high noon in the saloon of the Jackson Hole burger bar in midtown Manhattan and I am butting heads with Ray Dalio, head of the world's largest hedge fund. A few minutes earlier, the famed financier had turned up for lunch, trailing a spokesman who asked to join our meal and "check" any quotes.

"No!" I tell Dalio. He cuts a discreet figure in slacks and an expensive-looking cardigan but his stance is confident and forceful, as you might expect from a "master of the universe". I know perfectly well that quote-checking is normal in New York, I explain. After all, an entire communications industry exists to protect billionaires from verbal slips. But there are three golden rules at Lunch with the FT: the FT pays, no PRs and no quote-checking.

I play my trump card. Dalio has just written a book that exhorts executives to embrace "radical transparency" and "tough love" honesty. The hedge fund titan is so evangelical about this that his employees apparently rate each other with iPads in meetings with public scores, like a reality television show — and even junior trainees are encouraged to challenge the boss. So surely Dalio can handle sitting with a journalist, unchaperoned, for an hour? If it makes him feel better, I joke, he can rate me on an iPad, and announce the results.

The minder hovers, looking nervously at Dalio. There is a brief stand-off. Then, with a half-smile, he waves the minder out and sits with me at a table with a cheap plastic cover at the back of the saloon, next to a jukebox and fairy lights. Originally, we were to eat at the Harvard Club, a more natural habitat. In my two decades of covering finance I have found that billionaires usually choose to eat in their university clubs, offices, a swanky restaurant or spartan health bar. But, at the last minute Dalio switched to Jackson Hole Burgers, a haunt laden with Western memorabilia. The only other guests are elderly tourists. I wonder if he is trying to hide? Or pretend that he is normal? (Most of his rivals consider him anything but.)

A server unceremoniously waves plastic menus. "I love the burgers here!" Dalio says. "The fries and fried onions are great."

Until recently, he seemed the last person willingly to eat a burger with a journalist. That was not because he had anything to hide. On the contrary, his $160bn hedge fund, Bridgewater, has long been one of the most successful of its kind: for the past two decades it has earned mostly double-digit average investment returns, helping to birth a new investment strategy known as "risk parity". This essentially chooses which securities to purchase based on the volatility of prices.

More impressive still, Dalio was also one of the few hedge fund founders who sailed through the last financial crash. In 2007 he presciently announced the end of the US housing boom. In 2008 he forecast the looming collapse of banks, and the implosion of credit markets. That propelled his flagship fund, Pure Alpha, to gains of almost 10 per cent in 2008, at a time when most funds suffered searing losses. In subsequent years, Pure Alpha delivered even higher returns, cementing his reputation.

But in spite of that success, or perhaps because of it, Bridgewater has been opaque to outsiders, and Dalio disdains the press. He was particularly angry when The New York Times reported two years ago that some employees had filed legal suits alleging the fund's culture was abusive and intrusive. "Anybody who doesn't think that accuracy is a problem in the media is blind," he tells me.

Now, however, he has changed tack: by publishing *Principles: Life & Work*, he says he hopes to show that the critics are wrong. "There was a lot of controversy about our culture. I am 68 and this is my transition year," he says.

We're headed for a world where you're either going to be able to write algorithms and speak that language or be replaced by algorithms

Dalio grew up "in a middle-class Long Island neighbourhood, the only son of a professional jazz musician". An indifferent, rebellious student, he started working as a golf caddie when he was 12 and overheard the golfers talking about the markets. He bought his first stock, Northeast Airlines*, saw it triple in value and was hooked. He subsequently found his way to Harvard Business School and joined a Wall Street broker, but was fired after he scrapped with his boss. So in 1975, aged 26, from his two-bed apartment he created Bridgewater, a hedge fund — one of the then newish financial vehicles that placed leveraged bets on the markets, aiming for fat returns.

Unlike some rivals, Dalio's fund did not focus on stockpicking; instead he tried to spot "macro" trends in the global economy and finance that might affect, say, the price of gold or Japanese bonds. Initially he was very successful. But in 1982 he wrongly forecast that the American economy was heading for a depression and his fund almost imploded from the losses.

From this he concluded he was "an arrogant jerk", he writes in his book, leading to a wave of soul-searching and from there his "principles". Their gist is that executives need to embrace their worst failures, study them, give each other honest feedback — or tough love — about their character and skills, and aggressively debate their views with "radical transparency". Employees not only rank each other on iPads, but also record all their interactions.

"It's not for everyone," he concedes. Quite so: a quarter of Bridgewater employees find it so hard to fit into this culture that they leave in their first year. Although most hedge funds try to keep a tight control on their staff, the surveillance in Bridgewater seems extreme. But Dalio claims the survivors love the rigour. "What I have developed a knee-jerk affinity for is mistakes and failures . . . I learn more from them than I learn from success," he says. His book, a New York Times best-seller, is decorated with endorsements from corporate titans including Bill Gates praising his "invaluable guidance and insights".

"To be successful in the markets you have to be an independent thinker because the consensus is in the price, and if you're betting against the consensus, there is a high probability that you are wrong. So the ability to have a group of independent thinkers who will argue with each other is critical," he says.

A waiter arrives. Dalio pauses to order a medium rare burger with mushrooms, fried onions and fries. I choose a Mexican burger and try to replace the potatoes with lettuce. It is impossible. "Beer?" I ask. Dalio brushes the idea aside; his wiry frame and sparkling grey-blue eyes exude an aura of disciplined health.

So what does Bridgewater expect in 2018? Is Dalio predicting another big 2008-style crash?

The answer is complex. Right now, Dalio thinks that conditions in the global economy look pretty sunny, and this is likely to keep supporting equity prices for a while, particularly if investors take their cash hoards and invest them in the markets this year. But he fears that as economic growth keeps accelerating, central banks will find it tough to raise rates without sparking a recession in a couple of years time; the really big economic challenges lie ahead.

JACKSON HOLE BURGERS

521 3rd Avenue, New York, 10016

Mexican beef platter $14.75

Mushroom burger platter $14.75

Herbal tea $1.75

Sparkling water $1.75

Diet Pepsi x 2 $3.80

Coffee x 2 $3.00

Total (inc service) $52.09

What's more, Dalio does not actually think that his relatively upbeat vision of "the economy" is what investors should focus on now. Before the last credit crisis, when Dalio was making his prescient calls, he used models of financial flows, debt and growth to predict where markets were heading. Indeed, he was so proud of these models that he later produced a chirpy cartoon with stick figures that likened the economy and financial system to a machine.

But Dalio recently decided it is meaningless to talk about "the economy", or trade on this overall "machine". This stems from an issue that billionaires usually prefer to avoid talking about: rising income inequality. More specifically, Dalio thinks inequality is rising so fast that it has created multiple "economies": although the elite live in an expanding economy, "for the bottom 60 per cent, 80 per cent, there is a depressed economy that is not growing well". This means we need to think how we talk about "economics", he says. America needs a "national commission to rethink our economic metrics".

But this vision has also changed how he models the future: he thinks this inequality is creating so much strife that it will be political conflict — not economics — that drives markets in 2018 and beyond. "[These days] there's not the same volatility of inflation, growth and interest rates. So political issues are more important than macro [economic] issues," Dalio says. "The world was driven by central bank policies [before]. That's not the case now," he adds, noting that what investors should watch is not (just) Fed statements, but "the next election in France or in the UK, or how hospitable will Jeremy Corbyn be to capital?"

I tell him I wholeheartedly agree, but point out that this creates a practical challenge. Dalio loves to use computer models to predict financial flows and make trades, and pours enormous resources into harnessing the cutting edge of digital technologies, including AI. But how can anyone predict populism or revolution with an equation?

"You can convert whatever you are thinking into an algorithm," Dalio insists. "We've created a conflict gauge looking at words [in the media] and things. We've done examinations of all political conflicts in the past and their impact on markets [for models]."

This number-crunching produces some alarming conclusions. Last year, Dalio's geeks calculated that the proportion of the vote captured by populist candidates had risen from about 7 per cent in 2010 to 35 per cent in 2017. This swing has apparently only ever happened once before, in the 1930s, just before the second world war.

So do the algorithms predict another war? Dalio ducks the question, but admits that he cannot see anything to reverse this trajectory. That is partly because he thinks digital technology is inexorably exacerbating inequality, by eliminating jobs. "We're headed for a world where you're either going to be able to write algorithms and speak that language or be replaced by algorithms," he observes.

Another problem is the ever-rising level of global debt. "I am not predicting anything like the type of debt crunch we had in 2008," he says. "But there is a tightening financial squeeze which is going to hurt the bottom 60 per cent more and more, particularly when we have the next recession."

So how will he protect himself from pitchforks? I raise the example of Silicon Valley billionaires, such as Peter Thiel, who have built bolt-holes in remote places around the world to survive any looming Armageddon. "No, I don't have some place to hide."

Not even a bolthole in Jackson Hole? Dalio shakes his head even though he has snowboarded there. In any case, it seems that his deepest passion — when not at work — is exploring the ocean. He recently tried ice diving in the Antarctic, and was thrilled to see leopard seals. I suggest this is because it is an escape from his obsessively measured life; nobody can judge a penguin on an iceflow with an iPad. He laughs. "Meditation has the same effect." He has done transcendental meditation twice a day since 1969, and encourages Bridgewater employees to embrace it.

Our burgers arrive: unpretentious patties and crisp fries. We dip the golden sticks in ketchup; they are hot and delicious. Then we both grab the burgers with our hands. The patties are so freshly homemade that the meat crumbles out of the bun, tumbling on to the plates in an ungainly mess. I lick my fingers as if I were six years old.

So what would he do if he were president? Does he want to see redistribution of wealth from the rich to the poor? Should billionaires pay more tax? He dodges the question, and says instead he wants to see more "social impact investing" and "bring in private sector investors who are philanthropists to partner with public initiatives". It is standard elite chatter.

So how is Trump performing? He sighs and admits that he does not want to say anything negative. However, his views have oscillated. Before the 2016 election, Dalio predicted that equity prices would plunge 10 per cent if Trump prevailed. "I didn't expect him to win," he admits. But when Trump took office Dalio suggested that his programme of tax cuts and deregulation would be beneficial for the economy. "He's a lot less reckless than I originally thought he would be," Dalio says. But he does not like the balance of tax cuts, enshrined in the recent bill, fearing like most economists that this will increase income inequality and social fractures.

Dalio has pushed his vast burger aside, half eaten. He refuses a dessert, opting instead for coffee. What lies next for you, I ask? It is a sensitive issue. Almost a decade ago Dalio tried to create a succession plan. However, this has unravelled several times. "We went through a difficult succession evolution. I thought it would take three years or so, but I was wrong, it took us eight," he admits. "But learning comes from making painful mistakes and then reflecting." Eventually, Dalio took outside advice: Jim Collins, author of the fabled management book *Good to Great* is a favoured mentor. He has stepped down as chief executive, but remains chairman and chief investment officer.

Some rivals think the turmoil might continue. Jim Grant, the veteran analyst, was deeply critical of Bridgewater in a recent research note, suggesting its performance is deteriorating, partly because shifts in the interest-rate environment make the fabled "risk parity" structure less effective. Dalio vehemently rejects this. "Jim Grant doesn't have a clue. I like him as a thinker but this [report] was bad — he had to retract almost everything." However, the fact Dalio is on a book tour has reminded some investors of the long history of corporate leaders who grace magazine covers and publish books at the peak of their success but later crumble.

What about a move to politics or public service? He shakes his head. "It's not my thing." He does not even like using his wealth to shape politics: unlike other hedge fund titans, such as Robert

Mercer, the co-chief executive of Renaissance, who was the biggest single donor to the Trump campaign. Dalio does not endorse political candidates. "The only candidate I [ever] supported was John McCain . . . because he was bipartisan and I thought he had a good character."

The bill arrives: a mere $52. The angry Americans suffering in the modern global economy and who are prime candidates for rhetoric against the 1 per cent cannot pillory him for that. As we walk out of the restaurant, I regret one thing: not having asked him to bring one of his iPads to put him through his own radical transparency test.

** This article has been amended since publication to correct the original airline name*

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