

What Happens Next – Sunday June 20, 2021

Writing Fiction, Raising a Thief, Internet Stocks

My name is Larry Bernstein.

What Happens Next offers listeners an in-depth analysis of the most pressing issues of the day.

Our experts are given just SIX minutes to present. This is followed by a Q&A period for deeper engagement.

This week's topics include Raising a Thief, Writing Fiction, and Investing in Internet Stocks. Our first speaker today is Mark Mahaney who is an equity analyst who covers internet stocks. He has consistently been ranked among the top analysts by Institutional Investor for internet equity research. Today Mark will discuss why we should buy stock in Amazon, UBER and Spotify. Mark has a new book coming out entitled Nothing but Net which provides 10 lessons for internet investing including focusing on revenue growth and customer metrics and NOT earnings are what matters most to tech investors.

Our second speaker is Scott Turow. Scott is a legal fiction writer who has sold more than 30 million books. He is most famous for his works 1L and Presumed Innocent. Scott has a new legal thriller entitled the Last Trial which is his 11th book set in Kindle County. The Last Trial is based on one of the long-standing characters, attorney Sandy Stern, who represents the CEO of a pharmaceutical business on trial for murder, fraud, and insider trading. Scott will speak about the conflict of interest inherent in corporate participation in the testing of new drugs. I also plan on chatting with Scott about writing fiction, adapting novels to films, and the creative process.

Our final speaker is Paul Podolsky who is the author of Raising a Thief about his adoption of a 16-month-old girl from Russia who grows up to be a criminal. Paul will speak about lessons learned including the importance of attachment at an early age, how a troubled child affects family life, and why early intervention is more valuable than support later in life.

I would like to expand the What Happens Next audience so that more people can enjoy our programming. I started a social media outreach using Twitter to increase listener engagement. I am going to continue an experiment today where I include twitter questions on the live program, so please tweet me and I will do my best to include your comments. Our twitter username is whathappensin6, where six is the number. I want to hear from you. So please tweet, whathappensin6. You can always email me at larrybernstein1@gmail.com.

Our first speaker today is Mark Mahaney.

He is the longest lasting and oldest equity research analyst in internet stocks. He works at Evercore ISI. Mark has a new book coming out called Nothing but Net, based on his 25 year experience and picking internet stocks. It includes 10 lessons for investors. Mark, go ahead.

Mark Mahaney:

Okay. Thanks a ton, Larry. Yes, the book is already available for pre-order on Amazon.com a company I'm pretty familiar with having covered it since 1998. What I wanted to do today is go through what I think is happening with the internet sector. And by that, I mean, some of the internet advertising names, the Google's and the Facebook's, the internet subscription names like a Netflix or Spotify, the retail names like an Amazon or an eBay, the travel names like an Airbnb and Expedia. I want to talk about the fundamental trends that these businesses are seeing as we emerge, hopefully permanently, from COVID and then talk about valuation trends. And then I'm going to pitch some stocks here. My favorite names in the mega cap, large cap and small cap space. Some of these names should be familiar to you, some of them probably won't be so I'll try to cover them and I'll try to do all this in about six minutes.

So here we go, what's happening to fundamental demand trends in the internet today. Net advertising, internet advertising, I think is one of the most interesting sectors. So, this includes Facebook, Google, Pinterest, Snap, Twitter, most of those are household names, Roku. That is what's undergoing a super check mark recovery. This was probably the biggest surprise to me over the last 18 months, internet advertising like all advertising just got crushed for a couple of months last March, April and May. But the growth rates have recovered since then. And more than recovered, they are exhibiting a super check mark shaped recovery. I.E., growth rates exiting 2020 we're faster than it was exiting 2019 and continued to accelerate in the March quarter and are continuing to accelerate into the June quarter. There a variety of factors behind this. But I think one of the biggest ones is what we've really seen as this surge in new business formation in North America in the last nine months. And a lot of these new businesses they get their product or the service, their launch ready, and then they go look to market it and they market it on these ubiquitous digital platforms like Facebook and Google. So ironically COVID in some ways has really been an accelerator for these businesses. So anyway, I look at internet advertising as kind of a super check mark shape recovery.

Online retail surge, that was initially just surge, whereas net advertising got cut, online retail got boosted. Amazon saw these record growth rates. So did eBay, eBay grew faster in the middle of 2020 than it had in 15 years. Other companies like Etsy, relatively well-known names. So online retail had this initial surge in growth. And then the question is, as we go facing these tough comps now, how sustainable is that growth? And some of these companies are going negative. eBay's growing negative. What's interesting to me is that Amazon is actually sustaining premium growth despite really tough COVID comps. I refer to them as being a permanent pull forward of demand winner or a COVID winner.

The web presence category dramatically benefited from the COVID crisis. I'm talking about Shopify, Wix, GoDaddy, companies like that that helped small businesses and large businesses make sure that they were on the internet as physical stores shut down, companies had to have a digital presence. These companies were there, they saw a surge in growth for their businesses, and I think it was going to be reasonably sustainable post COVID.

Then there's the ride sharing category. I'll just do two more, ride sharing and online travel. Ride sharing, I'm talking about Uber and Lyft. That business is still on its back feet that got knocked

down, demand declined as much as 70, 80% in some markets. And you still have parts of their business-like airport trips, which is one of the biggest use cases for Uber and Lyft, airport trips are still down 50% year over year. Now, leisure airport trips are down less than that, but of course, business airport trips are down more than that. So that was a COVID loser. It is a recovery play and it's going to be a long-tailed recovery play; it's going to take them a while to really get back to 2019 bookings levels, but they will.

And then finally online travel kind of similar to ride sharing, that category was really clipped, cut off at the knees. And I'm talking about names like Airbnb, Booking, Expedia. They probably won't recover to their pre COVID levels, Airbnb actually already has, but Booking.com and Expedia won't until sometime in 2022, it may well be deep 22, but as they do, those have already had a nice recovery in their stock prices to capture that. I think Airbnb is particularly interesting though, because I think they've actually had a couple of structural wins from the COVID crisis. I think we're going to see leisure travelers in particular broaden their usage of alternative accommodations, which is Airbnb's power alley, sweet spot. So those are kind of the fundamental trends.

There's one key valuation trend I would highlight. We may be at the end of this trend, but I've called it the great de-rating. You saw multiples in this group, go through a great re-rating in the back of 2020 through the end of 2020, just to throw out a few numbers, you had the average forward multiple on cash flow or EBITDA reach 23 times at the end of 2020 for a sector that typically traded around 15 times. So those were almost record high multiples for the group. And what would you expect? You would expect the reversion to the mean and that's what you're seeing. You've seen these multiples start trimming down since the beginning of the year. It's one of the reasons that growth stocks have underperformed versus value stocks this year. It's not because estimates have come down it's because multiples have come down and probably rightly so.

There are a few cases where what I'd love to see is give me stocks or companies where their forward growth rates have actually accelerated because of COVID, but their multiples have come down. Boy, that would be an interesting combo to invest in. I've got two ideas for you, Roku and Amazon, and I'd also throw in Facebook, it's multiple hasn't come down, but it's future growth prospects have increased. Most other stocks though re-rated or the multiples went up as their growth prospects increased. There's a few of these interesting exceptions.

So now I'm going to wrap up here in about a minute with our top picks. In mega cap I think the three best ideas here are Amazon, Uber and Facebook. Amazon, again, forward growth rates have accelerated because of COVID yet its multiple has come down. So that's that dislocation. It's obviously a super high-quality stock. Yes, there's some debate about how well Amazon does in a post Bezos world, but Amazon is so well set up in terms of its retail business, advertising and cloud computing for the foreseeable future. So high-quality asset somewhat dislocated top pick. Uber is our kind of COVID recovery play. I liked it last year too, but it's one of our top three picks. The delivery business that they have, Uber Eats, is actually been a beneficiary of COVID. And I think ride sharing will come back, it's just a matter of when not if. This stock could go through a material re-rating, trades at around three, four times EV to sales, I think that multiple

could go up to 5, 6, 7 times EV to sales. So, you can get 50% growth in the stock just on a re-rating, you don't get that too often.

And then Facebook is the number three pick for us. It's started to perform nicely; I think they're a great beneficiary of what I call social commerce. The idea that people are going to start shopping, doing retail on social media sites. And it's still a company that's got a couple of really interesting option values and probably faces the least antitrust risk of all the major tech platforms, because they don't have this conflict of interest owning a marketplace and competing in it that Google has, or that Amazon has, or that Apple has.

In the second category of stocks is what I call large caps. So mega caps, the three I just listed Amazon, Uber and Facebook have market caps above a hundred billion. Large caps are between 20 and a 100 billion. Spotify, I just think has about one eighth the market cap of a Netflix yet I think its end market is probably relatively similar. Just how many people have smartphones around the world that will use those for music? Most of them use it for video. Most of them. And the price points are relatively similar, at least on the subscription side. Spotify has been a dislocated stock and had a really nice run last year on its move into podcasting, and then the market fell out, the stock fell out of favor. It's also one that's not really dramatically profitable. So those stocks have traded off in a focus on value. But as we recover to growth, I think the market will come back to Spotify. This year, it has its first ever price increase. We think that will be successful. They've got an 86 country or market expansion, and they've also rolled out a bunch of really nice new product innovations, both on a consumer side and on the advertiser side. So, I think you've got a fundamental inflection point, i.e., revenue growth acceleration, margin expansion. So, Spotify is a number one pick in this large cap space.

And then in the small cap space, I'm doing less than 20 billion in market cap and that may be too generous, but I'm doing it anyway. Wix is our number one pick, great digital presence company, with millions of users and a couple of hundred thousand of paid subscribers. This has been a very consistent management team. I've tracked this since their IPO eight years ago. I just love to see these highly innovative companies, very consistent management teams against large market opportunities. Wix is our top pick. Stitch Fix, an online fashion subscription business, highly controversial call here, reasonably high short interest on the name, but I like it. I think they're a nice COVID recovery name, and I think they've also got some really nice product innovations that we can go through.

Mark Mahaney:

And finally, GoodRx is our number three pick. That's a somewhat recent IPO, at about six months ago. Their recovery play, as physician and pharmacy visits start to recover, and just one of the best, what I call crucial combo stocks out there, i.e., they've got high revenue growth and high margins. They're doing something like 35 to 40% revenue growth with north of 30% EBITDA margins. You don't see that combination too often. I know it's got a high multiple, and it's well warranted based on what I call that high crucial combo. So those were our top three picks in the small cap space. Larry, that's my pitch. Back to you.

Larry Bernstein:

Fantastic. All right. I want to start with Amazon. We had Brad Stone speak on our program a few weeks ago. I want to ask about Amazon as an advertiser. One of the things that's interesting is that when someone wants to buy something, you think they would go to Google first, but lately there's a trend to go to Amazon to find that product, and there we are already on their site and ready to buy. How do you think about Amazon as an internet advertiser competitor?

Mark Mahaney:

Okay. Well, first Brad Stone, I'm a huge fan. I've read all of his books, and I also hosted a call with him too. So, he's written two books on Amazon, one on Airbnb. I think if you want to understand Amazon as an investor, as an individual, I don't think you could find a better book than first The Everything Store, which he wrote, I forget, 5, 6, 7 years ago. And then most recently Amazon Unbound, which is the history of Amazon over the last five years and particularly a history in which more of a personal deep dive into Bezos himself. So, I think the world of him.

I've referred to Amazon as the best mix shift story in tech as a stock. I've been referring to it that way for a couple of years. And what I mean by that is it's great to have your core business, which for Amazon is retail, and it's got good, solid growth. It's had 20% revenue growth for more than a decade. That's extremely rare-air, but they've done that. It's a very low margin business. Low single digit operating margins. We're talking 2, 3, 4%. But then the faster growing businesses, that's cloud and that's advertising, they are growing two to three X faster than that core retail business, and they've got dramatically better margins. Both of those are 30% operating margin businesses. So, their operating margins are maybe as much as 10 times higher than the margins of the core business, which means you've got this mix shift. You're going to have the structural rise in Amazon's operating margins for the next five to 10 years as the more of the revenue comes from these higher margin businesses.

It's a wonderful position to be in. It's like the opposite of Google, which started off with this hugely high margin search revenue. Everything they went into after that had lower margins. And it meant that the margins for the business as a whole kept coming down over time anyway. Amazon is the opposite and they've now become ... I used to think about internet advertising as a duopoly. Google, Facebook duopoly. I think Amazon has inserted itself in there. And the big advantage Amazon has is that it's the marketplace. They can close the loop for marketers. Like you know how your ads do because you know when somebody clicks on your ad, whether they actually bought the product, because it's all on Amazon. They have really well positioned themselves in this.

Now I do wonder a little bit, and this also came up in Brad's book about whether they've been a little bit overly aggressive with some of these ads. Maybe there are too many ads. There's a risk that they've eBay-ed their shopping marketplace. We've seen slightly declining or declining customer satisfaction scores at Amazon over the last, I'd call it five, six years. And I think a little of that is due to the cluttering of the Amazon marketplace with some of these ads. I think that is a risk for Amazon and I think that's something they need to correct. But there's no question,

they are a target rich environment for anybody who wants to advertise. And who would want to advertise on Amazon? All those companies that are selling products on Amazon. It's a natural commerce marketplace and advertising marketplace, and it has wonderful benefits for Amazon's P and L, and therefore for Amazon's shareholders.

Larry Bernstein:

Jeff Bezos is taking a smaller role. In Amazon Unbound, Brad Stone also focused on how important Jeff was to going into all these new businesses. He gave an example of Alexa specifically, where he actually designed the product and sent them off on their way. You mentioned the importance of management teams in your previous discussion of Wix, for example, which you thought they had a tremendous management team. How central has Bezos been to Amazon's success and how good is that next layer of management to push Amazon into new businesses to really allow for further take off?

Mark Mahaney:

One of the key points I have in my book Nothing but Net is the importance of management teams. There's a couple of screens that I try to get people to focus on, level of product innovation at a company. Most consumers, they'll have a sense of that. It's almost like if I can steal from Peter Lynch, like the coffee, buy the stock, and that was Dunkin Donuts. To ruin the analogy, if you see that company rolling out a bunch of different types of coffee in different sizes and different flavors, that's product innovation in coffee land. So anyway, I focused on how innovative companies are in terms of product innovation, how large their market opportunities are. And I look for consistency in management team. I think I mention management team first. That's probably the single most important factor.

I've referred to a four M framework when I look at companies, markets, business models, competitive modes and management teams, but the most important M of those four M's has always been management team in my book. So what I find interesting about Amazon is this S committee, there's 20 to 25 senior execs that the longevity, the consistency in that management team has been extraordinary. I don't know why. I have a couple of theories on why it is, but that committee, the top lieutenants, the top executives, I mean, they've been with that company for over 15 years. You rarely see that now. You want that if those are good executives, but Amazon's shown some pretty rare-air type of skills, the ability to succeed in vastly different businesses, retail, advertising, cloud computing, three businesses with vastly different core competencies, very different types of business models, very different types of skill sets, different types of managerial skills required to run these businesses.

Mark Mahaney:

So that's just really impressive all under one roof by one management team. So, the fact that that team has been very consistent. Andy Jassy is an ex-CEO. If you had any time in the last five years said, "Well, who'd be the best person to replace Bezos?" You would have said one of two people, either Jeff Wilkie who ran the retail business, has run it for 20 years, but is retiring. Or Andy Jassy, who's been with Bezos for 20 years as well. It may have been 19, but it's close

enough to 20. And he ran AWS for the last 10 plus years. You got exactly the right person running the business going forward. I don't think there's going to be any slip up at all in terms of the operational excellence of Amazon, because Jeff now is going to become the executive chairman.

Whether there's a slip-up in product innovation, that's the question. That doesn't impact earnings in the next 2, 3, 4 years. It could impact earnings years 5 from now, years 10 from now. Of course, is somebody else at Amazon going to come up with that aha moment, that aha discovery, that aha new product innovation? My guess is that somebody will be able to do that. They've got enough senior talented execs and no one person can ever have everything figured out. There are also other risks with Amazon. I think regulation is near the top of that list, especially-

Larry Bernstein:

Yeah, let's talk about that next.

Mark Mahaney:

Okay. Let's do it.

Larry Bernstein:

Let's talk about antitrust. We had Fiona Scott Morton, Josh Soven, and Doug Melamed on an antitrust panel back in February. And the focus there was on big tech. What's interesting is that it seems to be almost bipartisan in their antipathy towards big tech power. Republicans don't like the fact that the management teams hate and undermine Republican efforts and speech and support. And the Democrats just don't like big, powerful corporate institutions. So, we have this unique combination of political forces opposed to big tech. Who do you think is most exposed? How do you think it will play out? And the Biden administration seems to have picked some of their most progressive antitrusters to be in a management team in this area. Your thoughts?

Mark Mahaney:

Your last statement is factually true. If you were going to pick one person to head the FTC, that was most on the record in terms of being critical of big tech, they picked her. That's Lena Khan. she's done great groundbreaking work on the antitrust challenge, paradox of how do you regulate companies that clearly provide great consumer benefits? Facebook, Google. It's free, and Amazon, not free, but clearly cheaper than most mainstream retail options. How do you regulate companies like that that clearly show great consumer benefits, but also because of their size have such potential for acting monopolistically whether they do or not? So anyway, she wrote one of the definitive pieces on that. So they clearly have somebody who's on the record as being very pro-regulation for these companies.

So yeah, it is a risk. I guess at the end of the day, I think that risk has already been priced in. This isn't new. This has been a rising concern for these companies for years. We've already gone into the 15 billion plus in fines paid by Google and Facebook to regulators for certain actions that

they've taken in the past. And there's no question these are aggressive companies. The real conflicts of interest in these new bills that were just introduced are really focused on the conflict-of-interest areas. Now that's less of an issue for Facebook, but clearly, it's an issue for Amazon, which runs an e-commerce marketplace and competes in said marketplace. And for Google that runs an online advertising network and competes in that online advertising network.

So that's where the conflict-of-interest issues arise. I doubt that there'll be a forced breakup of these companies. Think it'd be very hard to do. I think at the very least you've cut off the opportunity for them to do large strategic acquisitions. I think that's just completely off the table. At some level, that probably dings the growth outlook for these companies. That's why investors have taken their multiples down a couple of turns. I think Google would probably trade at 28 times earnings rather than 25x, if it wasn't for this regulatory risk overhang.

So, investors need to be careful about it. I don't think it'll affect the E for these stocks, the earnings, the earnings growth. I don't think it will materially, at least not in the next two to five years. But it has impacted and will continue to impact the PE, the multiples that investors are willing to put on those earnings.

Larry Bernstein:

I invest a substantial portion of my net worth in the S&P 500 and then dabble in individual stocks on the side. And one of the most extraordinary aspects of investing in the S&P 500 is the amount of exposure I already have to Amazon, Google, Microsoft, Facebook, etc. It's incredible. I think Amazon is more than 5% of the S&P 500. When you think about that, I'm already so heavily exposed to Amazon as it is. What do you think the right portion of your portfolio should be in Amazon given your incredibly positive outlook on the stock? Is it a market weighting? Is it less, is it more?

Mark Mahaney:

It should be more than a market weighting. I think if you want exposure to the internet, if you want exposure to a company that's a leader in online advertising, online retail and cloud computing, you can do it with a very seasoned management team with an extremely good track record. In outlook, I think that's rare air. In my book, *Nothing but Net*, I talk about the 20% rule. I love to see companies that can generate consistent 20% revenue growth. I prize that over almost anything else because in the history of the internet is I've learned scale eventually begets profits. You can't generate earnings if you can't generate revenue. And companies that can grow 20% year in and year out, or greater, they will scale their selves to profitability.

And by the way, Amazon now in the next five years is probably going to be the world's single largest generator of cashflow on an annual basis. I was tracking Amazon early on when nobody thought it would ever generate a single penny of profits. Well, they're doing it now, and they're doing it in spades. So anyway, I think you want to have exposure to Amazon. If you want growth in your portfolio, you want a name like Amazon. Amazon's underperformed or traded in line for the last nine months. And that's because the stock outperformed so much last year, so you're going through a consolidation phase. But because the market swung over the value.

Why did it swing the value? Because when you're coming off of these terrible COVID comps from last year, Caterpillar and other cyclical companies are growing just as fast as Amazon. But that's not going to be the case when we go deep into '22 and into '23. Then the secular growth premium of Amazon is going to reassert itself. And the market is going to want to bid up more for a company that can grow not off of easy COVID comps, but in a regular market can grow 20% top line. You just don't get that with the S&P 500.

The number of S&P 500 companies that can grow consistently 20% year in, year out, year in and year out, it's small single digit percentage of them. I'm highlighting for you one of those companies. That's Amazon. Great management team, large market opportunities, and it's trading it, I think, at a very reasonable valuation. It's actually a slight discount to its historical average. This is when you step in on Amazon.

Larry Bernstein:

All right. Let's move to Uber for a second. When I think about Uber, I think of it as really two things. I think of it as labor cost and cost of an automobile. And lately, if you look at and try to get an Uber, the prices are much higher to get an Uber than previously, pre-COVID.

We have just tremendous demand for labor right now, all over the economy. And Uber takes advantage of labor markets where they're not completely in sync, where people looking for in between jobs, the marginal labor user. How do you think about Uber's ability to participate in a market where labor is in tremendous demand and where car prices are through the roof?

Mark Mahaney:

Okay. Let's see. Uber's our number two pick in mega cap space. Why is it going to work from here? Well, because it's drive business, it's ride sharing business. What they call Uber Mobility, I think it's a COVID recovered recovery play. It's still on a year-over-year decline, but the clients are getting less and less. So, the fundamental outlook is for a recovering Uber on the ride sharing side, on the mobility side, and then on the delivery side, the Uber Eats side, that is just a structural winner from COVID.

Then I've got a company, an asset, that I think is going to finally reach EBITDA breakeven in the back half of this year. And I know what Charlie Munger says about EBITDA, but still, you get positive EBITDA and then eventually it leads to positive earnings, and positive free cashflow. Like it's a trigger, it's part of the earnings process. And when they start showing consistent profitability, I think they're going to show this in 2020, you're going to expand the group of investors that get interested in the stock so that you can get ahead of that.

I still think that the percentage of people in the U.S. that use ride sharing, I think that penetration can double, it's about 36% of the population based on survey work we've done has used ride sharing. And I think that number, given the value proposition of ride sharing, I think that penetration can double over the next five to 10 years. It saves money, it saves time, maybe not in this environment, but I'll explain how that's going to change. It's more reliable than taxis or public transportation.

I think that can double, and then I think the frequency of usage, the people who use Uber now, there's only about a quarter of them use it on a weekly basis. I think the value prop is so strong

that the percentage of people that use ride sharing on a weekly basis can at least double to get the 50% or higher.

I just really like this long growth runway. Near term, there are problems with prices of Uber's, particularly in places like New York City. And that's because they're not enough drivers. Why aren't there enough drivers? I think there's four factors here. First are the stimulus checks have been a bit of a disincentive to get riders in the cars, but that's going to end by the end of this September. This is a problem that gets resolved in three or four months.

Secondly, there were concerns about letting strangers in your car during COVID. Well, as vaccination rates rise, that problem is going to get solved.

Third, is that they had competition from some of the food order deliveries, the Instacarts and the DoorDashes, that'll remain a factor, but at the end of the day, you'll probably be able to make more per hour driving for ride sharing than you will for food. It's just, people pay more to have their bodies driven rather than their burgers driven.

And then finally there is some friction involved with setting back up on Uber. Like for you and I to go use Uber again, all we have to do is open the app and click, and we're back on as riders. As drivers, if you haven't been driving for a year and a half, you've got to get your vehicle inspected again, you got to go through background checks again. So there's a little bit of friction, but that will be worked through. I think you'll see the supply ramp up pretty aggressively through the back half of this year, and I think you'll see pricing come down. The value proposition is going to get stronger for Uber. I like buying Uber here before all of that's priced into the stock.

Larry Bernstein:

I want to talk about Spotify next. I worry about the moat. They have all this content, but how do they prevent others from taking that exact same content and providing it on a platform that works?

Mark Mahaney:

And I'd say of our top picks, this is probably our most contrarian call, Spotify.

And the stock, for what it's worth for bulls, it's off 30% plus, at least from its peak earlier this year. Let's see, why I like Spotify, you've got a large end market. I think it's \$100 billion, \$125 billion and market. And you can think about the 3 billion smartphones. If you were to pull a thousand smartphones worldwide, what percentage do you think would have some sort of music app on that front screen? 99% or something like that. People probably listen more to music on their phones than they do talk with people on their phones. So it's a large end market.

And this is the global streaming leader. Based on survey work we've done, they have far surpassed Apple Music, Pandora, Amazon Music, Google, YouTube Music, like this is the global leader both on the subscription basis, the number of subscribers, they got 200 million paid subscribers worldwide. And I think that number can double or triple in the next five to 10 years. I just think there it could.

And then they also have 2 million other people who are ad-supported now, so I also think that number can double or triple in the next five to 10 years. I just think there's a lot of growth ahead of them. It's a large market, they're the leader in the market. The pushback on it is the business model and the business risk is this isn't Netflix where there's just a whole bunch of different video operators or film producers, TV series producers, et cetera.

This is music where there are four major labels, and they have a choke hold on industry economics. And that's why gross margin at Spotify is 25%, that's an issue. But the advantage that Spotify has is as they get bigger and bigger, their leverage versus the labels is going to expand. And then as they become bigger and bigger, they get to layer in more products and services, and they'll get better economics on them.

And the great example of that is podcasting. This company invested aggressively in podcasting two years ago before the market really understood just how big podcasting could be. And now when they get ad revenue on podcasting, they don't have to share that ad revenue with the labels.

So, you're going to see gross margins start to rise here. This is a little bit akin to Amazon. I think that there's just a lot of room. Every new product and service that Spotify is rolling out is accretive to gross margins, that's going to directly upset the bear argument that this is a structurally low margin business.

And by the way, you can make money with structurally low margin businesses as long as the trend is going the right way on those gross margins. I think you're going to see Spotify gross margins go up. And then are three things going on with Spotify this year.

Again, they're rolling out a price increase globally. I think it's going to be successful. I don't think churn is going to rise. I think the value proposition is strong enough for Spotify.

Secondly, they've launched into 86 new country markets, some of them which are very small countries, but there are some big ones in there like Nigeria, and music is really a global market.

And then a third is they've launched some really nice product innovation, even on the advertising side, what they call streaming ad insertions in the podcasting to make the ads more personalized, better targeted. And anyway, I just like the level of product innovation at this company.

I like Spotify just like Uber. I think this multiple; I think there's a real rerating opportunity. It trades a 3x enterprise value to sales, I think that multiple can go to four, to five. And so I'm saying the stocks go up because the earnings go up over time as earnings grow. But then if you also tell me that the stock can rerate, that the multiple on said earnings can go up, that's a two barreled approach to stock price appreciation, which is what we're all trying to get.

So, when I get those opportunities, like I like to find stocks that can double in the course of three years. That means if you keep your PE, or your valuation multiple, you need kind of compound at 25% growth. But if I can show you compound at 25% growth and a multiple that can go up higher, then you can get a double in two years, and that's where I get super excited about stocks.

And I think Spotify is exactly at that position now. And again, this is a contrarian call, that's what allows the stock to double in two years if I'm right on the fundamentals. So Spotify is one of our

top picks, and it's probably amongst the largest cap stocks, it's probably our most contrarian long.

Larry Bernstein:

Thank you so much, Mark I appreciate it.

Our next speaker is Scott Turow. Scott and his wife, Adriane are very good friends of Julie and mine. Scott is one of the leading legal fiction writers. He has a new book out called *The Last Trial*, which is set in Kindle county and his 11th book in a series that started with his book *Presumed Innocent*.

The Last Trial is a story about a trial of a pharmaceutical CEO charged with murder, fraud, and insider trading. Scott will tell us about the conflict of interest that the pharmaceutical industry has in testing new drugs. Scott, take it away.

Scott Turow:

Thanks, Larry. You know, I decided that, although I expect to get beyond this in my discussion with Larry, that it's hard to deliver a soliloquy about the creative process, and that generally, when you're talking about a novel, it's easier to focus on issues, and because I am a lawyer by training, I tend to gravitate toward social policy issues.

I wanted to talk a little bit about what has been on my mind and these pandemic days. *The Last Trial* came out in May. It was first published in hardcover in May 2020. And that, of course, was right at the height of the pandemic, which for authors, it was a good and bad time. For well-established authors, it was fine. For the less well-known authors, it was not, but it turned out that there was something topical about the novel and that the pandemic itself had focused immense attention on the clinical testing process, in the hope that there would soon be a quick approval of various vaccines that would be effective against the disease, something, that in point of fact, came to pass.

And so people often said to me, "Gosh, how were you so prophetic? Everybody wants to know about the clinical testing process, and because of the COVID vaccines and here's your novel that focuses on the clinical testing of another medication, this extremely successful anticancer agent." And not only does the novel talk about the testing process, which is not usually the fodder for popular fiction, but it also demonstrates some of the hazards of rushing a product like that to the market, which of course, the vaccine, which was in the way people were thinking about it, a proxy for the vaccines.

And much of, I think, the vaccine hesitancy that we're seeing in many populations now has to do with that sense that the hazards of the vaccine may not be known for decades, which frankly is true. You balance it against the known risks of COVID, which all I can tell you is I've rushed to get vaccinated myself, but certainly I'm no prophet, and I'm no expert on pharmaceutical testing either. Everything in *The Last Trial* I learned from research and as my friend, the late Robert Parker once said when we were doing a panel together during the Scargo Amenities festival, I'm just a good typist. And what Parker meant in the case of his own research was that, and I would say the same for mine is all I did was to write down what I've read. So, I don't offer

the following remarks as somebody who professes to be expert in the subject. I'm just basically another lay person, who's thought about it a little bit.

But the pharmaceutical testing process has been criticized from many angles. Health advocacy groups often contain bitterly about the way the FDA belabors the approval process. Some of that, the outside pressure from agitated voters who contact their congressional representatives can, perhaps, contributed to the recent approval of an extraordinarily expensive Alzheimer's medication which the FDA had originally turned down because it found the research unconvincing, and by the way, when I say the FDA, that usually involves an outside panel of experts who are assisting the agency. Then, the same data was reanalyzed, both by the drug maker and the pressure of these advocacy groups who said Alzheimer's is a horrible disease. We have to be able to do something about it. This is the only hope we've got.

And now, the drug is on the market. There are often complaints about... and well-founded ones about the incredible increase in drug costs that the testing process precipitates, both because it's so elaborate and because as a result of it, many, many more products can come to market sooner, and the huge costs that have been spent on testing and research end up getting rolled into the margins on the drugs that do make it to market. And then there, just the famous episodes where the drug testing process has fallen on, it's behind, the one that's always nearest and dearest to my heart is Vioxx, where it turned out that researchers within Merck were well-aware that the medication seemed to be causing heart problems for a select group of patients. And they basically threw with sort of a typical corporate communication through multiple levels eventually made a collective decision, which went along inch by inch, to suppress that information.

And it's always bothered me because I have bad back. I took Vioxx. I loved it. It was really successful for me, and my internist has always said, based on what he saw, had the debilitating heart effects been published, he still would have recommended Vioxx for me, at least 20 years ago when I was younger and certainly as now, without a history of heart problems, or you have Elizabeth Holmes and Theranos, which was just fraud.

So, the question is, is there a better way to do this? And what gets thrown out in the middle of the novel is a supposed to be an article that was written by the government's FDA expert, who was testifying in this prosecution of Kiril Pafko. And what she's written is as follows, "If Massachusetts announced tomorrow that it was going to license persons to operate something as potentially dangerous as a motor vehicle, on the basis of a test that drivers had given themselves, the response would almost certainly be national outrage and yet, with billions of dollars at stake and more important, hundreds of millions of lives, we allow America's pharmaceutical industry to test the safety and efficacy of their products for the public marketplace on their own. With limited government oversight. We can hardly profess surprise when that process produces unreliable, even fatal results."

And I have to say that... I'm sort of spit-balling here, but having thought about it for months and recognizing that there may be powerful counterarguments, I still think that's a better way to run the railroad for several reasons. Presumably, the government would bill the pharmaceutical company for the cost of the drug testing. We would presume then that the entire operation takes place inside the government, inside the FDA, or perhaps a separate agency that were

necessary. And then basically, the drug manufacturer would pass the costs of testing back to consumers the cost of the successful tests and the unsuccessful products.

And I can't see that at the end of the day, that would increase costs very much because that's exactly what the pharmaceutical manufacturers are doing now, they're passing along their drug testing costs in the cost of medications. And I became far more sympathetic to the pharmaceutical manufacturers in the process of writing the book when I realized how many medications fail in the testing process and that they are far, far, far more numerous than the number of drugs that come to market, but the unsuccessful drugs are still being paid for by the successful drugs. And I would imagine that the cost recovery scenario, if we suddenly had a government agency in charge of drug testing, would be exactly the same.

What it comes down to is the usual liberal versus conservative arguments about whether the government can do anything well. But I do think that the current hybrid system where private industry first tests the product, and then he has to go through an elaborate approval process within the FDA, and that may be giving us the worst of both worlds.

It's got to be more efficient to have a single set of governmental actors involved, rather than letting industry do it. Usually, they hire a clinical research organization. They pay the CRO to do research all over the world. They recruit patients and doctors and so-called investigators. And then, the government comes along and looks at everything that they've done. And as I said, I think a unitary system might be more efficient and probably could lead to a faster approval of medications, and certainly one with less uncertainty about the potential corruption of results that comes when drug companies are testing their own medication.

The other thing about this that amuses me is that... a drug testing regimen exists side-by-side with the ultimate free market model, which is imposed by the law. We have, in the current tort regime, a system where instead of buyer be aware, its manufacturer beware. And the pharmaceutical products are one of the few products that come out to the marketplace with strict liability attached to them. Meaning, something goes wrong with the drug that somebody gets sick from taking it, the drug manufacturer is liable without any proof of negligence or any other kind of misconduct.

And yet, certainly, that system hasn't made anybody feel safer or more secure on its own. We still have all of this misfiring and all of these additional costs. So, as I said, I just float that out there at the start of our discussion, Larry, as one possibility, which is when it comes to drug testing, would we be better off if the government just took that over and pass the costs back to the drug companies with the understanding, of course, that consumers would pay for it eventually.

Larry Bernstein:

Let's focus in on this conflict of interest.

So, the pharmaceutical industry is not alone in its self-regulatory procedures. I was thinking of... the finance industry, which does it and others, I was thinking of more recently, like the rating agencies. The rating agencies are these private companies evaluating other firms' creditworthiness. Yeah, they get paid by those same companies to do that analysis, creating the conflict, yet they also want to maintain their reputation as someone who can do the job.

The government doesn't do any credit analysis, but regulates the rating agencies who do it. That seems to work pretty well, except when it doesn't. I mean, there's subprime debacle.

Scott Turow:

In 2008, yeah.

Larry Bernstein:

Yeah. It was a complete catastrophe and it highlighted that problem. I can think of another one, which my wife was involved in which is equity research. Our first speaker is an equity research analyst and my wife noticed that, in order to get the IPO business, she had to recommend a stock as an equity analyst. And she lost her ability to give her free opinion because of that conflict of interest.

So, it exists in our society. Yep. It's not clear to me that the government would necessarily be a better job. How do you think about the fact that we have this conflict all the time and we deal with it in these sorts of ways?

Scott Turow:

I don't know that the rating agencies, because they're independent entities, are really good example. It would be fully comparable if a bond issuer were also giving itself a seal of approval as to its credit worthiness. And then, they might say, "Well, we've asked our accountants about it. They say we look good." And then, with the bond issuer having said, "This is all very wholesome. We're in great shape, financially. And government, you can come in for five minutes and see if we did something wrong in our analysis." You know exactly what the hazards would be.

The bond issuer needs the money, they want the money. And so, the conflict is great. The pharmaceutical companies have immense amount of money invested in the research for all of these medications. And indeed, as I said before, it's one of the things that made me more sympathetic to them than I expected to become in the process of doing this research. But the conflict is obvious when they say, "Go out and test your own medication." And we have a little bit of a buffer now in the way that the drug companies do it. The whole testing operation and regime proved to be so expensive and probably antagonistic to the rest of the corporate function, that it's typical now for a pharma company to hire an outside entity called a clinical research organization. And they do the actual testing usually with subjects around the world. And people like John le Carré have made novels about the potential exploitation of third world populations by these ... by the CROs. But that's a complete aside.

The problem is that the CRO is really not totally independent. They have to maintain their reputation with the FDA. Otherwise the FDA presumably will stop respecting their results. But there's a lot of pressure on the companies that hire them. And in some ways the existence of the CROs allow people within the company to be much more unhindered advocates for getting the drug on the market, because they've got the CRO there as a kind of buffer.

I admit it would be a strange world where the government did something more efficiently than industry, but it just seems that we've got layer on layer in the current way of doing things. If I

were the pharma manufacturers, I'd be ecstatic about this because presumably the liability problems would go away with it. If the government did all the testing, then it's like, "Look to them if there's something wrong with this drug. All we did was make it and give it to them." So there are advantages for industry in this kind of new regime as well.

Larry Bernstein:

Let me try to take a different direction for a second. I want to go to the creative process. So my daughter, Hannah, and I have been reading your novel and finished it this week. And my daughter said to me, "I don't understand how Scott Turow got me so engrossed in a fictional insider trading case when normally I would be completely indifferent to it in real life." Scott, how do you engross us in the detail of these sort of nuanced conflicts?

Scott Turow:

Well, obviously that's the goal. Some of it has to do with transmitting the necessary information in bite size digestible bits. But I hope what works well in my books and what takes people through them is some of the values of the old-fashioned realist novel, in the sense of involvement with the characters and a sense that the characters are complete and human and like you and ergo you care about their problems, which in this case happens to be the trial of an insider trading case.

Larry Bernstein:

My favorite playwright is Alan Ayckbourn. And he has a book called Writing and Directing Plays. And in the book, he says that what he tries to do before he starts to write the play is he imagines an industrial spring. And in act one, scene one of a play, he pushes as hard as he can on an industrial spring in that first scene and then he releases the spring in the second scene, and then he feels like the play writes itself. And as I read your book, *The Last Trial*, it's exactly the same sort of thing. You kind of pushed against the spring and then boom. The dialogue ... you created a situation where the dialogue writes itself. You can just ... I imagine it's very easy for you to say, oh, here's the scene, here's the witness, here's the trial lawyer. I can just see it exploding. In the preparation of your novel, do you set the industrial spring?

Scott Turow:

Well first of all, I think Ayckbourn's description is completely accurate. And if you're talking about the quote unquote formula behind most popular narrative, whether we're talking about TV or movies or literature in its various forms, novels and plays, it's all the same way. It's conflict first, that what you're calling the spring. Faulkner said it was about the human heart in conflict with itself, which to me means the conflict has always got to involve values that are central to the characters. But you put the characters in a state of moral, if not physical, peril and then let it, in Ayckbourn's terminology, unwind and spring it open.

In terms of being somebody who practiced law for a long time and still does a little bit, I always caution my friends who are ... my fellow trial lawyers who are nice about the courtroom scenes. And I do say it's a lot easier to write cross examination where you not only make up the

questions, but also the answers. And there's a certain way of letting it unfold by having the witness blunder in a way that fits into the overarching plan of the story. But generally, that's what we're all doing, which is getting things set up so that they unfold, they spring open, and the people who come along with that internal momentum that's created by first pushing on the spring and then releasing it, are God-willing the audience, the readers, the theater goer, if you were, they're all along for the ride.

Larry Bernstein:

You know, we did a book club years ago, Scott, where we invited Judge Richard Posner to chat with us about his book *Law and Literature*. And what Posner was trying to tell us was that we could learn a great deal about the law through a fictional setting. And one of the aspects about your series of books on *Kindle County* is it really highlights the battle between the prosecutor and the defense. And when you watch TV programs like *Law and Order*, there seems to be a greater element of seeking the truth and fact finding as part of the show. But in your books, it's more about this battle with almost an indifference to the truth. How do you think about why you focus so much more on the battle and deemphasizing truth seeking, which is supposedly at the core of how the legal system is meant operate?

Scott Turow:

Well, my answer would be because for the actual courtroom participants, if we're talking about the lawyers ... and in a lawsuit, a judge is supposed to be almost, a neutral umpire. If that's what we're talking about, from an advocate's point of view, that's exactly what's happening, which is it's a contest. And the theory of our adversary system is that the truth will emerge when each side fiercely contests the facts and presents them in a way that is most ... that sheds the best light on the side that the lawyer represents. I've never, by the way, been completely sold on this as a truth finding model.

And very often ... for example as a prosecutor, I learned once I left the US Attorney's Office, that I was a little less persuasive than I thought I was when I was a prosecutor. And it turns out that the inherent prejudice that a jury brings into the courtroom where they think, "Oh, this guy works for the government. He's got nothing to gain. And I don't like criminals anyway," makes it a less than even fight between prosecution and defense. And I, as a prosecutor, never prosecuted anybody I didn't believe in every fiber to be guilty. And that's an important limitation when you're talking about the prosecution of criminal cases, which is frankly, a luxury that prosecutors in the federal courts who pick and choose their cases have over many of their state court colleagues who are very often presented with a case that's going forward because the police have filed a complaint and the case is going to be tried, period.

But on the level of the trenches, it's simply about putting your best foot forward. And the one limitation that exists of course, is in the system of legal ethics, which say that you can't lie to the court, you can't present evidence that you know to be false, you can't coach your witnesses to say things that you know to be untrue just because it's convenient for your side. And even that gets observed in the breach. I remember one of my favorite federal judges who's now a blessed memory, but Prentice Marshall was just a wonderful trial lawyer, became a federal

district court judge. And I remember Judge Marshall giving us a sort of continuing legal education class. And he was talking about watching Phil Corboy, now also a blessed memory, prepare witnesses. And the way Corboy would yell and scream at his witnesses to get them to come out with the right answer. And I'm thinking, holy smokes, Judge, I'm not supposed to do that. I'm not supposed to yell and scream at the witness down in my office in the US Attorney's Office until he says what I want him to say. But as far as Marshall was concerned, that was part of the adversary system.

Well, let me give you another example of a lack of truth seeking and how the battle is more important. And I'll go back to your novel *Presumed Innocent*. In *Presumed Innocent*, you had the following scene. the prosecution is trying to make the decision of whether or not they should do a search of Rusty's house. And they say, "Oh, well, if we do the search, we're probably not going to find anything. And if we don't find anything that will hurt us in the trial, in the battle." It turned out to be a critical piece of the plot. But shouldn't the basis for the prosecution to need to do the search, whether it hurts them in the trial or not in the benefit of public policy to be truth seeking?

Scott Turow:

Yeah, the answer is sure. Yeah, they should do the search. But here's the other side of it, which is if I believe that Rusty is guilty, which those prosecutors certainly did. I know that Rusty's a canny veteran of the criminal justice system and he's not going to have hidden the murder weapon at home, for example, then all I am doing is letting him take advantage of his skill at subterfuge and subverting the system by doing the search. And so ergo, sitting in my prosecutor's office, I say, I'm really assisting the truth finding system by not doing the search because how stupid could he be that he'd still have the murder weapon at home? And I offer that response because, as you know, the murder weapon was still at home. So sometimes you don't know everything when you're sitting in the prosecutor's seat.

Larry Bernstein:

We had Julie Salamon, who was the former Wall Street Journal and New York Times film critic. She wrote a book about the making of *Bonfire of the Vanities*. And in the book, she interviews Tom Wolfe to discuss adapting a novel for film and Wolfe says something like, "Look, they're completely different art forms. It's not even clear to me that I will even enjoy the *Bonfire of the Vanities* in the film." But I recognize the challenge and how hard it is to turn what is a multi-hundred-page book into dialogue and visual image to express a similar sort of art form. A number of your books have been turned into films. How do you think about adapting novels to film and the challenges?

Scott Turow:

Well, I do agree with Tom, also now a blessed memory. It's very, very hard and it's hard for a number of reasons. To engage in a real heavyweight name-dropping, George Lucas once said to me, talking about this very issue, that movies as they're currently structured, which is to say running an hour and a half to two hours. So we're not talking about streaming series, but what

George was talking about was the movie as we used to know it, that theatrical release, said, it's basically a short story medium. And you're better off adapting a short story than a novel, where the art of adapting a novel for a screenplay is figuring out what to leave out, and if you are leaving it out, how to make sure there's still integrity in the story. And when I've been asked how to do this, as I have frequently, I sometimes scratch my head and it's like, well, I don't know, take your Cartier off your wrist and open the thing up and figure out how many parts you can take out of it. And it'll still tell time, everything, it's like that watch where all the gears fit inside one another and it is hard to do it well. And it's one reason that although I have done some screenwriting in my late age, I have never been tempted to adapt one of my own books, because as I said, it's like performing surgery on yourself.

I didn't put it in the novel because I thought particular scene or character was dispensable. I put it there because I thought it was part of that coherent imagined world that I was trying to create. And so the leaving out is the first skill of the really good adaptor for the screen.

Larry Bernstein:

We had Aljean Harmetz speak about the movie Casablanca, last week. And her focus on why she thought it was so successful related to ambiguity, that the screenwriters didn't have to answer every question and left a lot of things unknown. To what extent do you use ambiguity in your art form? Not answering every question, but letting the reader be confused, not knowing what was truth as part of the experience?

Scott Turow:

Well, not everybody will agree with this, but I think the novel and narrative in general is always about ambiguity. If you could state the problem and the answer simply, then you would not need to read 350 pages about it. But it's that interaction of complex moral problems and human beings that produce something that's both involving, and one of the reasons it's involving is because in many ways it's unclear. Not only did Rusty do it, but if he knows who the murderer is, should he turn that person in? And if the lifelong prosecutor says I'm not going to turn the true murderer in, what the hell does that say about the justice system to which he's supposedly devoted fealty for his entire adult life, that's obviously ambiguous and that's how I like it.

When Sydney Pollack said to me, when he directed the movie Presumed Innocent, what's the one thing you want me to leave in? I looked at him. I said, the shades of gray. But that to me is really the essence of a really worthy narrative art, is the ambiguity.

Larry Bernstein:

Perfect. Scott, our next speaker is Paul Podolsky. He has written a book Raising a Thief, A Memoir. Paul, what happens if your child is a criminal?

Paul Podolsky:

Thanks.

Paul Podolsky:

In 2001, my wife and I adopted a 16 month old child from Russia. She had been treated badly before we took her in, starved. Our belief was that because she was so young, our warm home would allow her to bounce back and our family to blossom. I was wrong. I wrote the story about the lessons learned and three stand out. First, the roots of conscience, curiosity, and resilience begin with the relationship of child to primary caregiver. This is called attachment. This process was first documented by English psychiatrist, John Bowlby in the 1930s. When this bond is ruptured, a child's brain changes, which can lead to lying, stealing, even homicide. Number two, a family with a difficult member often requires structural shifts. While the specific type of challenge varies in each family, be it mental illness, alcohol dependency, et cetera, a difficult family member forces a reckoning.

In our case, I had to up my game as a father. And lesson number three, an ounce of prevention is worth pounds of attempted cure. Once the child has been damaged, it can be surprisingly difficult to treat. In our case, multiple approaches failed. The US spends about 0.5% of GDP on early childhood intervention below the OECD average. I think the risk reward of very high investment in early spending is probably enormous.

So a little bit more on each lesson below. The first lesson about the relationship of the child to a caregiver. The next time you watch a parent with a very young child, pay close attention. I witnessed this scene with friends last week. An infant, getting a bath, utterly defenseless. The infant slipped in the tub, got scared at the sudden movement, and squawked. Mom instantly picked her up, wrapped her daughter in a dry towel and said, "You're okay."

Neurologically something fundamental just occurred. The child was distressed, heard, and soothed. This micro interaction built trust in mom and the world. Dr. Bowlby was initially trying to figure out why children steal. At the time, psychiatrists were in the thrall of Freud, and believed childhood theft was due to repress sexual fantasy. Bowlby disagreed and found that in many cases, the tie to the thieves primary caregiver had recently been severed, due to death, illness or war. Bowlby said theft was quote a childhood disease, end of quote, like mumps. Both the timing and the severity of the disruption are predictive. The earlier it occurs, the worse the effects. Lying on a cot in a Russian communal apartment, her screams for food unanswered, our daughter's brain was being rewired. She developed an attachment disorder. Attachment disorder leaves the child emotionally disjointed even if they are physically and intellectually robust. Like many mental health issues, the severity exists on a spectrum.

My wife was kidnapped as a child in Pakistan, yet she is not only intact, but flourishing. The difference, according to Bowlby's theory, is the timing of the disruption. My wife was eight.

Lesson number two, the need for family structural shifts. It's easier to see how things are put together when they fall apart. That's true in financial markets and it is true in families. When we adopted our daughter, we were ecstatic. My wife and I had been married for six years. We had an adorable biological son, so we were broken in as parents. I worked as a banker, my wife as a teacher, we also knew Russia well. My wife is Russian. We met when I worked as a reporter there in the early 1990s. However, as soon as our daughter could walk, she tried to run away. As soon as she could talk, she began to lie.

When she was old enough to be out of an adult's field of vision, she began to steal. These behaviors continued right through to adulthood when she was convicted of fraud. She's now 21. Many of her childhood transgressions were in isolation, insignificant. She lied about toothbrushing or homework or washing her hands after the toilet, or cleaning her room or logging into another family member's computer, petty theft bullying, etcetera. All kids lie. Her inability to interact in any other mode was what made her behavior notable. She forced us all to shift. I had to up my game. Too often, I had subtly dismissed my wife who was faster than I was at seeing what was going on. I have also had to set firm boundaries with our now adult daughter. There are conditions to unconditional love, both in terms of what I had to expect from myself and others.

And the last lesson about early childhood spending. My wife and I tried every intervention modern medicine has to offer. Psychotherapy, behavior modification, pharmacology, residential treatment, wilderness therapy, parenting coaching, diet, neurofeedback, nothing fundamentally changed her underlying antisocial behavior. Dr. Bowlby believed early intervention was key. While we took our daughter to a leading hospital in Boston and had a team of specialists evaluate her, no one either warned us about the risk, or once symptoms were present, accurately diagnosed her until she was nine. Too late. My conclusion is that you want to do everything possible to prevent this from happening in the first place. Of all the models that seem closest to preventing this, what Jeffrey Canada has done with Harlem children's zone, makes the most intuitive sense to me. They begin working with families the moment the child is born, in the belief that, quote today's newborns are tomorrow's college graduates, as they say. My motto, based on our experience would be socialism for infants, personal responsibility for adults.

Larry Bernstein:

Thanks, Paul. I want to comment on something you mentioned in the pregame, which related to how your publishers were worried about publishing your work because of its anti-adoption message. So I wanted drill into that a little bit. What lessons have you learned about adoption? In the book you talk about how you got a video of the child before you met her, you showed the video to some experts locally. They said she looked fine. You did some investigative work when you got to the Russian orphanage, but it was not a problem. What lessons have you learned about who to adopt and that entire process to minimize your risk?

Paul Podolsky:

There's a lot there. So first of all, I've come out of this whole process, even though it was wrenching for us, pro adoption, there's something like 140 million orphans in the world according to the last measure by the UN. And I think, I support the process of bringing them in. I think that the key element is that you want to get as much information about the child as possible. And the adoption process, understandably, is very focused on making sure the adoptive families are safe for the child, given the enormous power differential. I get that, but I also believe that there should be much more work to try to get the adoptive families a lot of information about the kid, and given where we were adopting the kid, not surprisingly, the local

medical professionals there, were not used to the type of extreme distress that our child had suffered, starvation.

That wasn't a common problem in Brookline, Massachusetts, which is where we're living. But historically, it's a very common problem. When are there a lot of orphans created? Well, during wars and famine and these massive disruptions. COVID by the way, is for sure orphaning many kids.

And the thing that I think that would be much better in adoption and why I thought this book was worth writing, was to highlight, This is the range of outcomes you can have, and you want to be hypersensitive to the early childhood care that the child you're adopting received. And I think we, my wife and I, and I wrote about this in the book, we would have done many things differently if at the outset we had understood how attachment worked, but a little bit like a disease that happened long ago, it had been forgotten.

Larry Bernstein:

Can you give an example of how you would have behaved differently if you'd known she was under so much stress and had attachment issues?

Paul Podolsky:

Yeah. So we have, as I described the opening remarks, we had one biological son and then her. So my key idea for her coming into the home was, you want to treat the two children the same. And it's an interesting thing. People have asked me this, do you distinguish at all between the kids? I can say, as a father, the minute we adopted her, we didn't. It may sound incredible to anybody who hasn't adopted a kid, but the minute that she was by responsibility, I did not differentiate between her at all, between my son and her.

And we very much focused on doing the types of things we had done for our son. We had a very active social life. So we had people coming in and out of our house all the time, many of them are curious to meet her. She was incredibly independent at a very young age, which is by the way, typical for kids with this disorder, they can have a pathological independence, and what we should have done, as opposed to just sort of going with the flow is, when we brought her home, we probably should have not had as many guests coming to our home, just focus on mom, dad and her brother.

I should have asked for a leave of absence from work. My wife was teaching, she should have done the same thing. It was just really hammering home that this is family, we're safe, we're present. In terms of feeding her, she was very independent, as I said, feeding herself, we should have put her on our knee and gone through the same steps you would have with a much younger child, fed her and done as much as we could have to reinforce, hey, we're here. Trust us.

Larry Bernstein:

Paul, what I thought was interesting was, she kept eating until she threw up. She was so used to starving and having limited food supply that she overdid it. Can you comment a little about that?

Paul Podolsky:

When we initially had her, it was so many things we were observing that was just, we could not make sense of it. And one of the things is exactly what you cite, which is that certain types of foods, she did not have an off switch, a sense of being satiated. And so one time my wife and I were trying to figure out what to do. We said, let's just see what happens if we let her eat until she says she can't eat anymore. And there was no off switch.

She began to eat and eat and eat until she literally vomited. So the point is, is when you get kids like this, a lot of education to parents who are dealing with a kid who has been shaken up, and again, not only from adoption, my wife is now a licensed therapist and she deals with many different families. One of the amazing cases I found was actually military deployment, a parent who was suddenly deployed overseas for protracted period of time, came back home to a kid, not exhibiting symptoms as serious as what we faced, but still exhibiting these symptoms. So I think being aware of the phenomena you're looking at is critical. Just like with a medical issue, the first step is getting an accurate diagnosis, and this phenomena, at least to me, from everything I could find, was well buried when we adopted our daughter.

Larry Bernstein:

How is the reader supposed to think about individual cases? I mean, obviously, in your book, you go into tremendous detail about a single child. But if we were doing some sort of social policy analysis, what I would say is we probably should look at all the children from that Russian orphanage and see the full spectrum of results as compared to an orphanage somewhere else, for example, and so we can make better decision-making. Is there something unique about your child, or is there something unique about that orphanage, or is there something unique about attachment? How can we, as an independent viewer of your life experience, think about it?

Paul Podolsky:

I think that the key thing is to say A, does this phenomenon exist? And then B, to think about the evidence for it and see what are the social implications. So the evidence for it is probably some of the best is from the Bucharest Early Intervention Project which the issue is have a good longitudinal data on kids. What happened to the other kids? And my daughter's orphanage? I don't know. But with the Bucharest Early Intervention Project, which you can google and get the information, they're literally doing CAT scans of kids' heads, brains. And there was clear evidence that literally the longer they stayed in the orphanage, the more parts of their brain literally went dark. So Bowlby's initial theory that this tight connection, which was a hypothesis when he came up with it, has now been proven in terms of neuro research and what happens with this.

Knowing that when it happens, my big takeaway is, if you want to level the playing field in terms of having a meritocracy, you need to recognize the children who have this amount of adversity early in their lives are at a massive disadvantage for succeeding later in life. So I think if you look at prison population or poverty or high school dropout rates, my sense is, and there is evidence to suggest this, that the rates of these attachment disruptions are much higher,

which is why, while I don't profess to be an expert, what Geoffrey Canada is doing with the Harlem Children's Zone, I think, is such an interesting model because he's saying here are high-risk kids. If you want kids to be successful in fifth or sixth grade, don't get them tutoring in first grade. Begin speaking with the parents the moment they're pregnant. And that, to me, I think, in this type of situation could have been a massive game changer.

Larry Bernstein:

I want to talk more about Russian orphanages specifically. There's been some political issues. The Russians tried to reduce the number of orphans who were coming to the United States, making it much more challenging in response to some of US attacks against Russian oligarchs. And I'm just wondering if you were going to advise an adoptive parent, would you say, "You know what, I know there's appeal of these cute Russian kids, but maybe you should reconsider and pick up an American one, even if they're not of the same race. I'm telling you these Russians orphanages are a catastrophe. Stay local."

Paul Podolsky:

Well, the first thing, the first part of your question, you're right that what happened was as a result of the Magnitsky Act, which is the Bill Browder led effort to penalize Putin for murdering his CFO. In response, Putin forbade all American adoption of Russian children, which is so mind-bogglingly self-destructive for those children. It's tragic.

I think that the key thing is that if you are adopting a child, A, getting them early, or B, getting them from cultures where there is a tradition of holding children early on can make a huge difference. And while, listen, I'm an investor, and I'm a dad writing this. I'm not an expert in global adoption. My understanding, though, is particularly in certain cultures, for instance, Africa, if the parents die, somebody else is literally holding the child, carrying the child. That alone, according to the research, can make a huge difference neurologically in how they're treated.

And Russian orphanages, and I've described this in the book, when we walked into the orphanage the first day, there's 15 kids out there, and nobody, nobody is holding them. And that has devastating neurological impact on the child's brain development because it is so much related in the very tiny child to trust. And anybody who's raised a small child, that example I gave in the opening is related to that. I think you could have biological kids with a huge range of impact, but I think that trying to focus on a childhood experience where the gap between the child's being left alone and getting the child to your home as soon as possible is going to improve your odds. But again, I wrote this book not only to be about adoption, but to be about families in general, because there are lots of other things that can disrupt a parent's tie to their child beyond the adoption.

Larry Bernstein:

I was thinking about your other public policy idea about more government intervention in the first year or so of a child. And I think there's this tension. If we remove the child from the home and put them into some other social setting, it's not obvious to me that that a care worker will

be as loving and as thoughtful or as attached to the child as the mother. There's a cost-benefit analysis associated with, in the case of where you have a very poor mother and a fantastic caregiver, but there's also consequences where the central case, which is a normal mother and a normal caregiver. Are we better off just in that first year specifically letting the mother drive the interaction and make it a rare caregiver?

Paul Podolsky:

I would say so, but absolutely leave it as close to the parents. But I would also say try to give them as much support as you can. So for instance, if you have lower-income families that have food insecurity or the mom needs to commute crazy hours to the job, I think that investing in a very redistributive way to make those early years have as much consistent contact with Mom and Dad and make them available, to me, it's going to pay off massively in the country in terms of productivity. Because the difference between these kids who later on have all these truancy problems, and in our case, obviously had legal problems, which is not uncommon, is enormous. So I wouldn't say separate the kids from the parents at all. I would say, particularly with poor families or with families that have some life-changing disruption, that you make very generous social support available to them.

And of course, that could be abused some. I understand that there'd be ways to that, but I'm saying, if you look at the long-term payoff, just structurally, what happens with the neurological makeup, that each year that goes by, the kids become much more resilient. And I gave that example in the book of my wife being kidnapped in Pakistan. It's an unbelievable story. She's kidnapped, which did cause big impacts in her life. It's obviously a very fundamental disruption, but nothing near like what happened to our daughter. And of course, it's not, you can't do a scientific experiment because each of them has different makeup and IQ and resilience, et cetera, et cetera. I get that. But the big thing that my experience was, "Oh my goodness. If a child is disruptive in those first couple of years, no amount of intervention, summer camps, help, blah, blah, blah. It's not going to help. It's already done." And that I think is the insight the Geoffrey Canada had to the poverty that he was seeing in Harlem.

Larry Bernstein:

On our show. I always like to end on a note of optimism. So, Paul, what are you optimistic about?

Paul Podolsky:

The writing down and learning from experiences, I think has been huge. So what I've seen from this experience was, was it very hard for us? Absolutely. But it also changed us markedly for the better, made our marriage better. My wife changed her career, became a licensed therapist, and has now helped hundreds of families through situations like this. And it forced me to write this book, which both got me in the field of something I've wanted to do for a long time, which is write books, but also the reader feedback I've gotten from people all over the world that's read this has been unlike anything I ever experienced in my career as an investor. So all in all, it's been a difficult ride, but boy has it changed our approach to living, and I think for the better.

Larry Bernstein:

What did your daughter think when she read your book?

Paul Podolsky:

She liked it, which people find stunning. And I came up with the title for it before she had the run-in with the law. And actually got asked this question on book talks so much, I recorded a podcast of her that you can hear on Apple and Spotify. It's called Things I Didn't Learn in School. It's the conversation with her? I hadn't heard from her for a couple of years, but I had posted on social media which she tracked, this was coming out. And she reached out to me. And I said, "Listen, I would love you to read this. Everybody else who's in it has read it and I want your thoughts on it. It's very close to publication." She read it. And she said she wept after each chapter, and that reading it really to Scott Turow's point, I thought his thing about, "Listen, if it was a simple story, it wouldn't take 350 pages to tell it. You need to get into the grays."

She said it was the first time she actually understood our perspective as a parent, and it brought us more closely together. So I think even in terms of our relationship with her, it was positive, though it was obviously hard.

Larry Bernstein:

Scott, what note of optimism would you like to end on?

Scott Turow:

Well, this is just an amazing story. And I don't hear Paul saying that this is not something that can, and does in fact, occur with birth families where somehow this fundamental disconnect early in development. And I do have that correct, don't I, Paul?

Paul Podolsky:

It can occur in birth families. And that's what actually what Bowlby was studying, initially. So imagine a family, you have an infant, and the mom is a primary caregiver, and God forbid she gets cancer. And all of a sudden is in the hospital for a protracted period of time. Well, the infant doesn't understand anything. And while the severity of it might not be as intense with our daughter, it can and does occur in biological children, as well.

Scott Turow:

I'm writing a novel now where the mother of the main character was supposed to have been so engrossed with the mourning over her own mother's death that she just never bonded with this child. And that seems psychologically realistic to me. So I guess the optimistic question is, and I will base this on my own experience doing criminal defense work, but how much hope do you have that as your daughter emerges into a mature adulthood, that she may be able to change for the better?

Paul Podolsky:

Very modest. What I've learned to see with her is just trust in the evidence. And it needs to be objective, third-party evidence. In psychological terms, to this day, she's what's called not an accurate reporter. So you can ask her something, and the answer may not be connected to reality. And this is something, Scott, if you're looking for more writing on this, just you do your character development. Bowlby, he passed away, but he's a great writer. And he wrote a three-part series about his life finders, his life's work. And he talks about this with kids. And so it's hard for me to know what's truly going on with my daughter because of the inaccuracy in reporting. But I haven't seen a major shift. It's been very, very moderate, a major shift in the time I've known her, so I don't think that it would be right to be hoping for a significant turn.

The run-in she had with the criminal justice system does seem to have helped straighten her out a little bit, because we had said to her when she was stealing all the time, "Hey, listen. At some point when you're an adult, this is going to have real consequences." And I think she was skeptical. And in her case, it did have real consequences. And that cause-effect linkage, like this is real, seemed to help some, but obviously I would be elated if she could turn the corner. Elated. But I don't hold out much hope.

Scott Turow:

I'll tell you from experience, it does happen sometimes. So that's the optimistic note that I would offer, Larry.

Paul Podolsky:

I'll take it.

Larry Bernstein:

That ends today's session. I want to make a plug for next week's program.

Next Sunday on June 27th.

We will have two panels. The first is on China's growing military and political power. The first speaker is Luke Patey who is the author of *How China Loses: The Pushback Against Chinese Global Ambitions*. One of the interesting aspects about the postwar US hegemony has been the idea that the US is working to create a liberal open global system with free trade and democratic elections that will allow each nation to be the best it can be. Chinese expanding political and economic plans are seen as nefarious by foreigners. I've asked Luke to use two case studies in Argentina and Kenya as to why locals are suspicious of Chinese investment and why this may not end well for Chinese foreign policy objectives.

Our second speaker on the China panel is Hal Brands who is the Henry Kissinger Distinguished Professor at the Johns Hopkins School of Advanced International Studies will discuss his recent article in *Foreign Affairs* entitled *US-Chinese Rivalry is a Battle over Values*. Brands is referring here to such values as democracy, freedom of speech, and an opposition to authoritarianism.

Our second panel will be on Internet Dating.

Our first speaker on this panel is Tariq Shaukat who is the President of Bumble which is a leading internet dating site where women drive the dating process. In the other dating sites, men generally aggressively pursue multiple women at once inundating female's inboxes. With Bumble, the females must initiate the original contact.

Our second speaker is Susan Patton who is the author of Marry Smart: Advice for Finding the One. Susan's book caused a stir because she encourages women to marry young and select their mate in college when women's value in the dating market is at their peak. She is reticent for women to play the dating game with frequent hook-ups that plays to men's preferences. Our final speaker on the panel is Brad Schneider who is the CEO of Nomad Data which specializes in helping clients use new types of data to make investment and corporate decisions. Brad was an active internet dater and will provide the male perspective to the current internet dating marketplace.

If you are interested in listening to a replay of today's What Happens Next program or any of our previous episodes or wish to read a transcript, you can find them on our website Whathappensnextin6minutes.com. Replays are also available on Apple Podcasts, Podbean and Spotify.

Please check out our new social media outlet on Twitter at [Whathappensin6](https://twitter.com/Whathappensin6). We want to engage our audience and hear your views and ask questions for the show. I want to create a community that learns together.

I would like to thank today's speakers for their insights. I would also like to thank our listeners for their time and for engaging with these complex issues. Please stay tuned for next Sunday to find out What Happens Next.