

SM90 | 10.8.2022**Winter is Coming | Episode 6****Bill Perkins, Partner & Head Trader, Skylar Capital**

This week, we welcome Bill Perkins into the SmarterMarkets™ studio. Bill is the Founder, Managing Partner, and Head Trader for Skylar Capital. SmarterMarkets™ host David Greely sits down with Bill to discuss his trader's perspective on the natural gas, power, and carbon markets in Europe.

Bill Perkins (00s):

Bad things happen in the market. That's a guarantee. Like the trading guarantee is something is going to go wrong. You're gonna have this perfect thesis and boom, polar vortex in your face. It's bullish as all get out and the market's go into infinity and Freeport LNG blows up and there's a ton of gas on the market and boom, we vaporize \$2, \$3, right. These things are just going to happen. You don't know when they're gonna happen. That's the bargain of life. That's the bargain of trading, and what really matters is, how do you react to it?

Announcer (31s):

Welcome to SmarterMarkets, A weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions are we facing a crisis of information or a crisis of trust and will building Smarter Markets be the antidote?

David Greely (56s):

Welcome back to Winter is Coming on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Bill Perkins, Founder, Managing Partner and Head Trader for Skylar Capital. We'll be discussing his trader's perspective on the natural gas power and carbon markets in Europe. Hello Bill, welcome to SmarterMarkets.

Bill Perkins (01m17s):

Hi, thanks for having me. It's good to be here.

David Greely (01m 19s):

Great to have you here. I'm so glad you're able to come in today because you know there's so much happening in the European energy markets and I've been looking forward to hearing your perspective on it as both a trader and a hedge fund manager. Now, you not only saw this turbulent market situation developing, but you know, you took action, you opened a new office in London this year for Skylar Capital to be ready for what I've heard you describe as the best trading opportunities in natural gas in 20 years and I imagine if you're opening a new office, you see this as an opportunity with some legs to it, something that's gonna be around for more than just a year. So I was hoping you could start us off by talking a little bit about what do you see as the big trading opportunity in European energy right now?

Bill Perkins (02m 03s):

Wow. I mean, things are changing every day going on in Europe right now, but what I generally see is, is that we have a situation where the amount of storage is not enough based on the demanding amount of gas they use. So you have a lot of scenarios where you can either get to containment, right, and prices fall apart, but still not have enough gas to get you through the winter and we used to have that, I don't know, maybe 15, 20 years ago here domestically before storage grew. Then you have all these other factors with energy transition, the Russian War, we're gonna cut off gas, we're gonna ship LNG in policy makers getting involved with subsidizing demand, basically via price gaps, maybe not subsidizing demand, nuclear issues, weather issues. I mean there's just a lot of things that digest in the short term and long term and long term it's gonna take a while for this market to become less volatile. So I see lots of opportunities, long, short, you know, just being the insurance agent, quote unquote, I'm doing your quotes for the market, right. That's basically what traders are, right, like we ensure against prices going up, we ensure against prices going down based on the way we see the, the world.

David Greely (03m 16s):

Yeah. So lots of volatility and traders love lots of volatility and I'm like, I love the point you made about the inventory situation because if you just kind of read the press headlines, you know, a lot of it's, you know, European leader saying, Hey, we've gotten a, we've gotten storage filled up, even though for some of the storage, it looks like it's not much different than a normal five year average kind of level, but of course it's what you have left at the end of the winter, not what you necessarily, what you start with at the beginning and those flows. So I'm kind of curious, like how do you assess the inventory situation in Europe right now given what they're likely facing this winter?

Bill Perkins (03m 51s):

Yeah, I mean like any other winter, you know, they can fill to the brim and they still may run outta gas, right, this is a normal situations, but here we have you know, the Russians flowing, I don't know, one six of what they normally flow that's being met by LNG, you know, high prices cure high prices, but you know, will Russia cut off more gas flowing through Ukraine, has demand destruction been significant to get us to the winter, or will, you know, winter be very warm and then wear flooded with gas or will it be cold and we run outta gas. I mean, there's a lot of scenarios that keep playing out. Right now we're kind of in a situation where high prices cure high prices, the demand destruction is significant and the rest of the world is saying we don't want the LNG at this price.

Bill Perkins (04m 36s):

Right at least a significant portion of it, right. So we have a reckon amount of LNG flowing to Northwest Europe and Western Europe, which, looks crazy when you look at it on a map, but, you know, winter is coming and you know, the infrastructure isn't such that flowing LNG ships can necessarily place flowing gas in a cold weather scenario. So you have kind of this and or you know a shutoff through Ukraine and so you have this kind of, it's priced high, you kind of bearish, but maybe the expected value could be fair or high. You know, people are trying to figure this out and you know, when you start having policy makers get involved, you start to lose a free market, right and I'm very good at trading markets, right, but am I good at trading Putin, I don't know you know, I'm not a good trader trading Putin, you know, these various schemes that they have that basically induce demand, you know, these caps, they're like, oh, we're gonna, we're gonna cap the price.

Bill Perkins (05m 41s):

I'm like, you're gonna subsidize demand when you're running outta gas this just makes no sense you know, I often say had they made the price a complete pass through crisis was over in a day in a day and you know, a lot of people retort, well, what happens to the people who can't afford it. I say, here's what you do instead of just blindly paying the bill, give everybody the amount that would be an increase and call it a pass through and are they gonna spend the extra thousand dollars or an energy or are they gonna conserve and go spend it on the nightclub. I think a lot of people go into the nightclub than spending on high electricity bill right. They're gonna turn things down and so they're not putting forth schemes to conserve or produce demand destruction they're just absolutely subsidizing demand, which is crazy.

David Greely (06m 25s):

It is such a, you know, I don't know if it's commodity markets, people tend to focus on the volumes and making sure, you know, you got enough molecules in the right place, but policy makers that always seems to be about the dollars or the euros and you get these kind of counterproductive responses, which as you say, you know, you're subsidizing the thing you don't have enough of, and that's not a way to bring a market back into balance.

Bill Perkins (06m 46s):

Yeah.

David Greely (06m 47s):

I wanted to ask you, you saying that it's the best trading opportunity in 20 years you know, really means a lot because, you know, you spend much of your early trading career with John Arnold at Centaurus and you traded very profitably through a number of pretty turbulent periods in the US natural gas market and I'm curious, you know, when you look at what's happening in Europe, are there similarities or things that you're like, oh, this reminds me of, you know, this particular time in the US anything like that?

Bill Perkins (07m 13s):

Yeah, yeah, it does. You have, well, prior to what's happened recently, right.

David Greely (07m 20s):
No invasions.

Bill Perkins (07m 21s):

Yeah, no invasions, but you had growing demand, lack of infrastructure, this kind of like energy transition and what no matter what you thought about the energy transition, energy transitions aren't smooth, they're lumpy, right. Infrastructure doesn't come on perfectly and matched demand, right. You have this storage situation where they're not building new storage, so you have this scenario where you have contain, no matter how much you fill storage, you have, you always have a risk of running out and that was like the way it was in the early days, natural gas when we were putting down all these gas fired power plants and growing our demand sided equation and flows, but not increasing the storage, which storage is your shock absorber, right. That's your shock absorber for volatility and so, you know, I saw a landscape where we're gonna have a lot of volatility depending on what was going on, what was the weather, you know, what happened in global events.

Bill Perkins (08m 13s):

And so that's where if traders want to be, right. Nobody wants to trade the boring, you know, 3% vault, 6% vault, 10% vault product. We were trade the 80% vault product, you know, and when I was talking about this, I was like, oh, wow, 40 Vol is cheap or 60 Vol is cheap and I'm like, you know, it's double that now, right and we have scenarios where things will be moving around significantly and since there's not that many insurance agents in Europe, not that many people want to put their risk capital and be risk warehouse shops there, the premium or the edge we get paid is significant, right. When there's 30 insurance agents, right, the insurance margins are pretty thin, right. There's, not that many of us that want to put our capital at risk in that market.

David Greely (08m 57s):

Yeah. I mean, just the commodity markets broadly. You've had this huge contraction in the number of, you know, discretionary traders from say what it was in the 2000s. I mean, there's not a whole lot of you guys left right now, is there?

Bill Perkins (09m 09s):

No, I mean, the world went crazy with equities. It just, you know, you, you went to go raise money looking for your discretionary and long short commodity trading, and they were like, do you trade equities, are you long equities, are you long equities, can we buy the equities you know, that's all you heard and you know, you had this massive run up from the fed printing and I guess it was the right thing to do because they were printing money all the time, right, I mean literally printing money and so, you know, but that's, that's changed and people are starting to pay attention to commodities, but we're always an afterthought you know, they could lose 50% of their portfolio and still want to be in equities before they jump into a commodity long short, generally right.

David Greely (09m 49s):

But, but commodities are too risky.

Bill Perkins (09m 52s):

Yeah they are too risky exactly, exactly. It's kind of a strange world, but I guess that's what's marketed the most to these the risk allocators of the world, the pension funds, the family offices, et cetera.

David Greely (10m 07s):

Yeah and I think it's probably fair to say you've got a very strong orientation in your trading style to looking at market fundamentals and then using option strategies to trade and I think now with your London office, you're gonna be trading natural gas power in carbon, is that right?

Bill Perkins (10m 23s):

Yeah, we hired Nathan Rentz, he is over there. He is from the LNG days and he's opening up the office and, and I've already been trading small significant, you know, as a percentage of our portfolio, but we wanted somebody full-time with the time differential, you know, so I'm not up, I'm not up at 1:30 am trying to figure out what's going on and yeah, we'll be building out that risk book and the desk hopefully as time goes on. You know, when I was in high school playing football, I remember the coach used to say, run where they eat, Perkins run where they ate, You know what I mean and so like, you gotta go where they ate and so a lot of people are not in Europe, right. They're bailing out, they're blown up the, they're not allocating risk and that's where you want to be, right. That's where you

want to be in that market, right? You want to be putting all your fundamental analysis, your programs, your research and that data you're buying over there and I think you'll have, you know, a very positive expected value position in Europe. Yeah.

David Greely (11m 21s):

And I'm curious, like you've given us a little bit of the flavor of, you know, some of the fundamentals you're looking at for this winter and when you look at those, what's kind of like the range of outcomes that you think are reasonably in play in Europe in some of these markets?

Bill Perkins (11m 35s):

I mean, well, like, we clearly have the run out of gas scenario, right. That's kind of interesting because you know, the EU isn't the United States, right, they're kind of loosely together, right, like, do you have certain states go, well, we're not gonna ship the gas, you know, that type no transit fees or we're not shipping you power, right. Like, does the European Union become stressed itself, right and those are secondary effects of like, you know, scarcity, right not lack of proper panning years of policy of we don't drill, we don't put in infrastructure, we rely on Russia for our natural gas, right and that's coming home to roost and you have scenarios where, you know, there has been demand destruction. They have sent out a signal, the market is set here, take the LNG, China says, we'll burn all the coal in the world. We don't care, take you know, take your LNG, right and you could have a normal to a mild winner and you could just be flooded with gas in storage at the end of March. So I think both tails are on the table. You know, they're completely on the table right now and I would say that the no shutting off Ukrainian flows scenario is with a normal weather is actually bearish.

David Greely (12m 52s):

Right, why is that?

Bill Perkins (12m 52s):

You have a lot of demand destruction. You have a lot of flows. You've sent a price signal and high prices cure high prices. Right now the problem in Europe is the person using the gas and paying for the gas is often not the same person, right, but, in industry and commercial it is and those guys you know, they're shutting down aluminum plants, smelters, you know, all the way through and you just have enough demand destruction, and you've sent also a supply. I mean, there is 92 LNG ships on their way to Europe right now. I mean, there is 260 ships on the water. It's almost, you know what I mean like Yeah. If they're all going to Western Europe right and so and it doesn't look like they want to stop and so that's, you know, storage is 90%, 91% full in Northwest Europe is what we defined as Northwest Europe.

Bill Perkins (13m 42s):

And, and it's on its way. So, you know, once you get to 92%, you start to have injection issues, right, like you can't, you can't stuff it at the ground at the same rate, and it starts to drop off precipitously and so you're seeing that like cash was trading €30 back on futures right and you could see it in the front spread, which was a premium, right. Ok -v- Novi was a premium, and now it's €15 back, call it five bucks back, I mean, and cash, it is €30 back printing today and I see that scenario getting worse as long as weather is normal. So you just have everything on the table here, weather normal down the fairway, you know, slightly bearish, but the volatility is so high, like what does that mean, you know what I mean, like what does that mean, right, like what does it mean that it's bearish in, in this scenario, but as time evolves, you know, that that will start to get more solidified one way or the other.

David Greely (14m 35s):

I think it's like, it's, it's such a great analogy and such a great point of view that, you know, I think traders like you have that I don't often see more from the policymaker side is that like a lot of times the focus is on what's the center of the fairway, you know, like, hey, if we get the, you know, the big F of a normal winter, then we won't run out of storage and things should be fine and that becomes the headline of the story, you know, we should be fine, right, but, you know, if both ends of the fairway are in play and they're both pretty disastrous, because in the high gas price scenario that's bad in the low gas price scenario, part of that's also because you might have a very deeper recession in Europe, could be part of what brings a lower price scenario in play after the higher price scenario. I was curious, like, how do you get that type of scenario thinking and probabilistic thinking across to people?

Bill Perkins (15m 25s):

Yeah. I mean, how do you get it across that's a education question. It's, really hard. You know I guess people respond to visual cues. So I guess maybe kind of just show them the distribution of events, like what happens and some prices that which you estimate going on. I mean, that's the way we look at it, right. Like, we're like, okay, here's the world as we see it now, right. This is the S&D, this is the

demand destruction, et cetera. run me the last 30 winners through scenarios and show me how many come out we're running out of gas, et cetera, right. Like, I think every trading shop does that this is no, this is no fancy witchcraft here and then, you know, you could start saying, Well, what if Russian flows of this run the weather scenario. What if Russian flows of that. What if LNG flows of this and you know, you run that deck and you kind of say okay here is the distribution of what we see and what's possible, but like you don't want to see a 30% chance of running out of gas right, you never want to see that, right. You don't even want to see 10% or 5%, right and so that's what's pretty scary, right?

David Greely (16m 29s):

Is yeah, you don't want to go to the doctor and be told you have a 30% chance of a terminal illness. You know, it's a little bit like that. Yeah.

Bill Perkins (16m 35s):

Yeah. You're gonna, that's kind of what you, you can see in somebody's cards you pull up, right or these scenarios and so I think, you know, my, my view, and this is just my view, like policy makers just want to get elected and they want to look good and so they say they're, you know, they're the bears of good and sometimes false news or often times false news.

David Greely (16m 54s):

Yeah. Yeah and I want to get back to you about the, that policy maker conversation. But first you, you brought up an earlier point that I think's really important. I mean, you saw opportunities based on a lot of say the structural developments in the European market, but of course now this year, you know, the market's been dominated by this constantly shifting battlefield in Ukraine, Russia's use of energy as a weapon to kind of create a second front in that war. So how are you managing risks around the fact that, as you said, I think earlier you could be a great gas trader, but not a great Putin trader. Like, so how do you think about managing risk in this environment?

Bill Perkins (17m 32s):

Yeah I guess right now is, is that one we're much smaller than we normally would be and that's just a function of all margins. I guess everybody's smaller, but the other thing is, is that we're waiting for very extreme, high favorite scenarios, right and tighter, tighter spreads. You know, one, one of the things that recently we were looking at is that, hey, yeah, the winter might be crazy and there's always gonna be this like kind of war premium and Putin premium, but there's a significant chance that they can run outta storage. Right, to inject the gas, right, they can't inject as much as they'd like to carry to prepare for the winter, although they're gonna send that price signal out and so, you know, a month back, you know, ran the church out, I was like, we should be short the front and long the back, even though the market is backwardated, this market should be, can tango because there is a, there's this x probability of getting to a hundred percent full.

David Greely (18m 29s):

Yeah.

Bill Perkins (18m 32s):

Right you know, things happen and it changes to even 95%. So we, we started running numbers and saying, what's the odds that we get to 90% full by today, actually today. Right, what's the odds we get to 95% full, what's the odds we get to a 100%, you know, October the 15th you know, 95% is a really dire situation with the amount of flows you're flowing right now. You just, and then, you know, in a normal weather scenario, could, is there enough space, is there enough demand plus injection demand to handle that and there were just too many scenarios that were like, no right, like there's gonna have to be some discount and then there were all kinds of discussions like what could they do floating storage and then, you know, guys were debating, well, how do you store if all the slots are already taken to re-gas in the winter?

Bill Perkins (19m 16s):

You don't really have firm re-gas rights in the winter. So, you know, you can't just sit there with a \$100 million cargo hoping to, you know, get \$20 spread. So, you know, I don't know what the exact answer is, but I felt that enough of the distribution was that this thing backwardated or this thing flat or this even down a dollar is too tight, right and so we stay kind of tight within season. It's one of the ways you could, you can kind of trade right, you know, trade around containment and running out and then on a longer term basis, that's a tougher, it's, it's a lot tougher you know, the further you go out, your accuracy decreases with time right already and you know, when you go from, let's say to the summer, we call that three trade or lifetimes away because each season is a trade or lifetime that, because you can die in any season, right?

Bill Perkins (20m 09s):

You know, we kind of, kind of look okay in the range of the extremes what's gonna happen, what's gonna happen with demand destruction, are these distributions reasonable and can we put on a trade that expresses that, you know, we can survive being very, very wrong you know, because the name of the game is the stay in the game, right. The market will provide you outsized returns. You just need to stay alive. Even if you get cut in half, you'll have a chance to really come back and thrive as long as you stay in the game.

David Greely (20m 40s):

That's great.

Bill Perkins (20m 40s):

It, yeah, don't get, just don't get knocked out. You could get knocked down bloody, you can do a nine count, they can cut your eye, but make sure you're able to go back in a ring, you'll eventually win.

David Greely (20m 54s):

That's great advice and I wanted to turn, you know, because the other big risk I think is what are European policy makers going to do and it seems like now that finally those prices are flowing through, they're hitting the residential consumers, they're hitting the, the small shops, the bakeries are shutting down. You've got a situation where policy makers feel a need to react and do something, doesn't mean they'll do something productive, but, you know, you got to at least be seen to be doing something and I was curious, like how do you manage risk in that environment, especially when they're kind of likely gonna change the rules of the game. You know, cap prices, there has been talk of changing benchmarks and saying, oh, we need something LNG related, not TTF related, even though, you know, it still might be for pipeline consumers. So like when the rules of the game are potentially in play, how do you think about that?

Bill Perkins (21m 48s):

I'm gonna go on a little rant at the end of this one, but to try and suggest what they should be doing, and then, and it's kind of a little bit what I was talking about before, but I generally view them to be who they are and their primary concern as not actually solving the problem as you and I see the problem, it's solving the problem of how do I stay in office, how do I look good, how do I get reelected, right and so simple energy is a passer, right. It is over it is over. You will get 30% conservation out of the RC sector that you're worried about happily, right. They're just not paying that much and then, you know, they're concern is like, well we can't, people's high bills, they're angry, I'm not gonna get reelected.

Bill Perkins (22m 34s):

Right, that type of thing and so that's kind of how they're always gonna behave. So whether it's like we're gonna move the index over here or et cetera, it's never solving the demand problem. It's not solving the LNG problem, is just hiding it. It may push it further down the road and make it worse further down a road, but it's never really actually solving the problem and so if you wanted to protect the consumer, I mean you can get, you know, your chances for reelection, here's something where you can actually solve the problem and get reelected. Just say, let's say your bill was a \$100 and now it's gonna be a \$1,000 right and you don't want them to see the increase, so usually what they do is they just cap it and they pay the bill for them, right, so you have no demand destruction.

Bill Perkins (23m 09s):

I'm like, give them \$900, but just tell them the price is the price. So the consumer, they're not paying anything extra, right but they have \$900 to make a choice, spend it on energy or conserve energy and go out and party right. So, wait, I got to check for my government, right. The price is a pass through so there's no harm to the consumer, right, but then you know, what's gonna really happen is that these guys are not gonna like take the \$900 and ship it back to Juniper, right which is now a government controlled entity. They're gonna take that, they're gonna turn down their thermostats, they're gonna winterize their houses, they're gonna do everything and you're gonna see conservation that you've never ever seen before on a scale you've never seen before in the RC amount and you're gonna solve the problem crisis over immediately.

David Greely (23m 59s):

Yeah. I mean it's a little bit like when commercials hedge their demand, you know, using the markets, right, you've got the hedge, You can either take the money you collect on the hedge and pay for your bill or you can, you know, just use it for something else, use it for something else. It's your money. You can make your choice, right. That's interesting.

Bill Perkins (24m 17s):

Yeah. So it'd be empowering the consumer so that that would be like a policy shift where it's like, okay, we're doing kind of the socialist thing, but we're doing it the smart way. We're distributing it to the end user and letting them decide whether you're not, you're not subsidizing demand in that way. You're actually destroying demand in that way yeah, right, but I haven't heard that once out of anybody, out of any policymaker. They're politicians, they're not economists, they're not commodity traders. They don't, they don't necessarily do that and their focus is on getting reelected and staying in power.

David Greely (24m 46s):

Yeah. It sounds like it's the stay in the game it's a different game.

Bill Perkins (24 m 50s):

Exactly. It's a different game. Their game is different, right. You know.

David Greely (24m 54s):

Instead of an annual net gas cycle, it's an election cycle, I guess.

Bill Perkins (24m 55s):

Yeah and I'm just proposing a way that they can actually be superhero. It's just like, wait, I got \$900 and, and I got to keep, you know, really net to me \$200 more to go spend, right. Not only that, you know, it's a economic boost. It's a direct ejection.

David Greely (25m 13s):

That's great. I wanted to switch gears a bit with you because, you know, in addition to being a highly successful energy trader, you're also a highly successful poker player and I was curious I mean, which were, which were you first, were you a poker player first, the stakes might have been lower, or were you a trader first?

Bill Perkins (25m 30s):

Definitely a trader first. I wouldn't call myself highly successful. I've been successful in tournaments, but cash games I've gotten beaten up early enough that where, you know, it's, that negative, you know and, I've gone through the school of hard arts learning poker, but when I was like a clerk, I got introduced to playing no limit at hold them and, you know, all the traders kind of, I think they're traders have this natural, we like risk, you know and they like to gamble as entertainment, right. When you're always, when you're always a house, sometimes you just want to get lucky, I guess, you know, and socialize and that's kind of the, the, the mentality of the floor, at least when I was, when I was coming up.

David Greely (26m 10s):

That's interesting because some people might think my day job trading is stressful enough. I don't need it at the poker table but it seems like if that's what you love, it's what you love.

Bill Perkins (26m 18s):

You know, there, there's certain people focus on the downside, right. They're just risk averse and there's people who are just like always at missing the opportunity costs and I think that's more traders, right. They're always like, what could have been, what could I make, they're not thinking about the downside, whatever you know, like if I die, I die you know, and I think, I think that's kind of the bent of traders and so, you know, they like action.

David Greely (26m 45s):

That's fascinating and, you know, I was curious, what do you take from each, like what do you take from, you know, poker playing that you apply to the trading or trading that you apply to how you think about playing poker, like what do you take from each that makes you better at the other?

Bill Perkins (26m 58s):

I think what they both do in different ways is trading and poker let you know about yourself. You go in and the market, it doesn't care. It doesn't have a vendetta against you. It's this kind of thing, right. The cards don't, you play poker, they, they don't, they don't have any vendetta, they're gonna come away. It's really how you react to every scenario, right, so like, there's winning traders and, and losing traders and it's really how much did they study, how did they react to each scenario, right and then, so you really, really learn about

yourself when trading and you, and the same is true with poker, right and when you find your leaks in your game, you know, like your leaks in your poker game, like, oh, you over bluff or you under bluff or you call too much or you, you know, those things you, you find like there's some, there's something personal to you and your personality in your, the way you are maybe, you know, in your childhood that wired you to, to be this way and you need to unwire and fix this thing in order to get better at poker.

Bill Perkins (27m 57s):

And I think the same is with trading. Like if you're the type of guy that gets upset when you lose and get irrational or you hold onto a trade too long, right, when you should be getting out because whatever you become attached or, or whatever, you know, there's all kinds of trading leaks that are out there. I'm not a trading psychologist, but you know, I am very well aware of when things go right and I've done things wrong, it's me, it's not the market, right, bad things happen in the market. That's a guarantee. Like the trading guarantee is something is going to go wrong. You're gonna have this perfect thesis and boom, polar of vortex in your face, right? Or yes, it's bullish as all get out and the market's go into infinity and Freeport LNG blows up and there's a ton of gas on the market and boom, we vaporize \$2, \$3, right.

David Greely (28m 44s):

Right.

Bill Perkins (28m 46s):

Right, these things are just going to happen. You don't know when they're gonna happen. They're just, that's the bargain of life. That's the bargain of trading and what really matters is how do you react to it.

David Greely (28m 55s):

Yeah, that's great career advice for someone to carry with them throughout a trading career and it might not be fair to ask you this question, but I also wanted to ask you, you know, for other less experienced energy traders in the European market this year, like what advice would you offer them for how to navigate, you know, what's gonna be coming at them over the next 3, 6, 12 months?

Bill Perkins (29m 15s):

I guess one of the things I would say is that even the bad things that are happened when you're, you're making your thesis, et cetera, that volatility that got you is also what's gonna pay you, right. So this is, this is part of the game. Do not get too upset. Like, oh my God, this thing happened and it dropped €70 and you know what I mean, I got hurt. You know, if you're in that game, like that is what's going to pay you this volatility, this structure has set up, right. So, you know, we're all complaining like, margins are crazy and I can't trade that much or whatever. I'm just like, this is because it's, it don't worry. It is a lot of juice and, and, and you're needed. I mean, a lot of people, they look at trading of like kind of useless. I'm like, we're needed, we're risk warehouse, guys don't want to be long. We want go to be long. You, they induce us to be long. Guys don't want to be short. They induce us to be short, right. Like, so you're needed, hang in there, keep your wits about you, be rational.

David Greely (30m 09s):

And that's great because so much of the policy discussion ends up being around, you know, first thing we do, we'll go after the traders and the quote unquote I will borrow air quote speculators, but to understand that, you know, the, the trading community is needed to make the market function and to transfer the risk, I think it's so important and that often gets lost in the conversation.

Bill Perkins (30m 30s):

Yeah. They should use the word we're risk warehouse. We take the risk that you don't want.

David Greely (30m 32s):

Yeah. It's like the insurance company for our homes, but it's for all things come out. We need.

Bill Perkins (30m 38s):

Same thing, same thing. We're really glorified insurance agents. If you're a fundamental trader, that's why I call us. I was like, we're, we're glorified insurance agents, you know, producers come out and they're like, we want to sell a gajillion contract so we can, you know, make the widget and the thing oh shit, where do we buy this thing you know what I mean oh, it looks bullish here. I guess I'll,

David Greely (30m 58s):

I got under.

Bill Perkins (31m 00s):

Yeah, I'm gonna buy it and then it's like, oh my gosh, we're worried about running outta gas, you know, we go to buy it and we're like, Oh my God, you actually could run outta gas. Where would I sell this thing, you know right. Like, so that's, that's what we do. We're just glorified insurance agents.

David Greely (31m 12s):

Well, I wanted to ask you, because beyond being a glorified insurance agent, you also, you know, you're an author and so I wanted to get, you know, and you're also, you seem like you have great equanimity for a, for an energy trader as well and I'm wondering if part of that came from the philosophy in the book you wrote, which I might not get the time wrong, but it's like, basically die with nothing or die with zero and die with zero collecting experiences as opposed to dollars in the bank account. So I like to share a little bit of that, just outlook on life.

Bill Perkins (31m 42s):

Yeah. I mean, I, when I was younger and seeing, you know, in New York City and you can't swing a dead cat without hitting a millionaire in New York City back on the trading floor, I was kind of like, well, what is, what is it all about you know, I wanted to get rich before I was like 30 and I was like but why 30 you know, I used to think people were my age were like ancient and useless. Like, what are you gonna do, like the money was of no use. Now I got that wrong, but nobody says, Hey, I want to be rich before I'm 90, right and so, you know, what I quickly came to realize is the money is for the experiences you want to have and depending on what those experiences are, they belong in a certain time bucket of your life, right?

Bill Perkins (32m 19s):

And it makes no sense to take all this risk, risk dying, risk being poor, the scorn of your friends and family. Go and see, I told you, your peers mocking you, you know, it's a, there's no sense in this and then getting these chips called dollars and then dying with them sitting there, right, like, you want to use all the Chucky cheese tokens before you leave Chucky cheese, right. They have no cash value, right and they have no cash value in the grave right and so, and so with the, the easy axis of that, you want to spend all your money before you die in order to get the most outta life, right and that could be charitable, that could be hedonistic, it doesn't matter what it is. I'm using experiences very broadly. It's what does that curve look like, right?

Bill Perkins (33m 05s):

What is the distribution of those funds over your life in order to get the max out of it, because I really don't care about net worth. What I care about is net fulfillment, right and I think most people are driving for net fulfillment. I think a lot of traders and people who are successful kind of lose sight of why they wanted to get successful, right. It's kind of this abstract process or this kind of like roundabout process like you get the money to get the thing or the experience, right, but then you get good at getting the money and you forget the money is for the things and the experience, right and so then we kind of just go on and like a hamster on a wheel, keep getting money, money, money you know, kind of like the, those rat experiments where, you know, you go to give the rat to cheese to run in a wheel and then, and then eventually you don't even have to give them the cheese he just runs, right, that's kind of like the human race of the successful people and so I wrote a book to try and save my own life to make sure I did not waste my time here on earth.

David Greely (34m 02s):

Thanks again to Bill Perkins, Founder, Managing Partner and Head Trader for Skylar Capital. We hope you enjoyed the episode. Join us next week with friend and former SmarterMarkets host Susan Sakmar. Susan will be back to discuss how the European energy crisis is transforming the LNG industry.

Announcer (34m 20s):

This episode was brought to you in part by Abaxx Exchange Market participants need the confidence and ability to secure funding for resource development, production, processing, refining and transportation of commodities across the globe with markets for LNG, battery, metals, and emissions offsets at the core of the transition to sustainability, Abaxx Exchange is building solutions to manage risk in these rapidly changing global markets, facilitating futures and adoptions contracts designed to offer market participants clear price signals and hedging capabilities in those markets, essential to our sustainable energy transition. Abaxx Exchange, bringing you better benchmarks, better technology, and better tools for risk management. That concludes this week's episode of SmarterMarkets by

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