

# The Changing World Order

An Interview with Raymond T. Dalio, Founder, Co-CIO and Member of the Board, Bridgewater Associates, LP

**EDITORS' NOTE** A global macro investor for more than 50 years, Ray Dalio founded Bridgewater Associates out of his two-bedroom apartment in New York City and ran it for most of its 47 years, building it into the largest and most successful hedge fund in the world. Dalio remains an investor and mentor at Bridgewater and serves on its board. He is also the long-running New York Times best-selling author of *Principles: Life and Work*, *Principles for Dealing with the Changing World Order*, and *Principles for Navigating Big Debt Crises*. He graduated with a BS in finance from C.W. Post College in 1971 and received an MBA degree from Harvard Business School in 1973. He has been married to his wife, Barbara, for more than 40 years and has three grown sons and five grandchildren. He is an active philanthropist with special interests in ocean exploration and helping to rectify the absence of equal opportunity in education, healthcare, and finance.



Raymond T. Dalio

## What are your views on the state of the U.S. economy?

There are three big forces which are inter-related that are driving what's happening in a way that has never happened before in our lifetimes, but has happened many times in history. The first is the creation of enormous amounts of debt and money that is devaluing debt and money and shows up as higher inflation. Since our fiat monetary system does not have a limit on the amount of money that is produced and spent, politicians do not ask the question of how much do they have to spend – they just spend it. Those consequences mean that those who are holding bonds and debt assets receive returns that are inadequate to compensate them for inflation. No country can maintain a process in which they are constantly spending more than they are earning because that creates debt that has to be paid back. There must be buyers who want that debt or it won't be bought. That debt will either be paid back in hard money that retains its value, or it will be paid back by printing money and devaluing money. While the Fed is now tightening, I doubt that they will tighten enough to change that because it would be too painful and history has shown that central banks almost always print and devalue.

The second is the intense level of internal conflict. We have a situation in which gaps in wealth and values are the greatest since the early part of the 20th century which is, as it always has been, leading to greater degrees of populism. A populist is a person who will fight for a group of people to win at all costs. When there are irreconcilable differences, as there are now, there is a lot of dysfunctional conflict that is not handled well by people compromising and following the rule of law. That's when democracies are in jeopardy. That's what's now happening. We need strong leadership and people pulling together in smart ways to deal with our challenges, but the opposite is happening. We are losing the political and policymaking middle. We saw this on January 6 which is not a surprise to me having read the history of this kind of internal conflict. The last time the internal conflict was this bad was in Europe in the 1930s when the populists of the left and right fought and autocrats gained power.

The third force is the relative decline of the U.S. and rise of other countries, especially China, that will likely lead to greater international instability and conflict. As a result of these forces, as well as climate change and technological changes, the world order is changing in profound ways that I tried to convey in my book and my free animated YouTube video both titled *The Changing World Order*.

## As you look at the challenges facing the world, are you optimistic about the future and the ability to effectively address these issues?

I make my living by being realistic. Of course there will be lots of changes, many good and many bad, but overall I am deeply concerned about our conditions and how we are behaving with each other. History has shown us that such conditions typically lead to more conflict, in fact internal and external wars, along with financial and economic challenges. That doesn't mean that good outcomes are impossible. Though improbable, it is still possible that smart people will cooperate rather than fight in order to deal well with our challenges. What worries me most is that people are not worrying about the bad outcomes that are likely if the typical sequence of events

continues as it's going. I have a principle which is, "If you worry, you don't have to worry. If you don't worry, you need to worry." The fact is that if you worry about these things, you can deal with them, either collectively or individually, but they are realities and we need to recognize them as such. For example, if we look at the political landscape, I believe we need a strong and capable political middle. We need to bring people together. I pray for a strong middle with those in the middle fighting against those at the extremes. There are still more people in the middle than there are those of the extremes, but they don't have a party or a cohesiveness. We have those at the extremes being able to be in greater control which has happened many times in history and is ugly. If you look at the French Revolution, Russian Revolution, Chinese Revolution, Spanish Revolution – you will see that when the polarity grows, those in the middle are increasingly considered weak and face a choice to pick a side and fight. We don't need to be pessimistic if people can behave well with each other. The world has more resources than it has ever had, and it has more inventiveness to produce solutions – just look at how quickly we came up with vaccines – and there are many reasons to be optimistic if we are able to work well together to deal with our challenges. It comes down to people working together to take care of the fundamentals that make countries strong such as education, health, fiscal responsibility, and infrastructure.

## Where did your interest and involvement in China develop?

Thirty-eight years ago, in 1984, I went to China because they invited me to teach them about the world financial system and I was curious. Their world had changed and their economy was being opened to the world. I found it fascinating. I went there for almost 15 years without ever being paid, and I developed friendships with people that I liked who were trying to make their country better and I was able to help them develop their stock market. During this time, I formed relationships with common people as well as with people in the highest levels of authority and we would discuss their problems and challenges and how to address them.

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there are struggles for power between the two most important and powerful countries. I feel a sense of responsibility to try to help create a better understanding based on the experiences and knowledge I have gained over these many years.

**You mention misunderstanding of America and China. What can be done to build a better understanding to improve the relationship?**

It takes both a curiosity and a desire to learn and a visualization of what happens with and without mutual understanding and cooperation. It also takes an awareness that a lack of mutual understanding can be devastating.

**What was your experience writing the book, *Principles for Dealing with the Changing World Order*, and did you enjoy the process?**

I have been a global macro investor for about 50 years which taught me a lot, but when I saw the three big forces that I mentioned earlier, I knew that I needed to understand the lessons of history much better. I approached the learning exercise with an excited curiosity and I learned a tremendous amount. My job was to research and synthesize what I learned over my 50 years of global macro investing. I am fortunate to be able to speak with smart people who are in the midst of the conflicts and I have a fabulous research team so they, along with reading a lot, helped me gain a lot of understanding. What I learned is invaluable for me dealing with what is happening now.

**Do you have plans to write another book?**

My next book, which will be my last book, will focus on economic and investment principles. At the age of 73 years old, I know where I am in my life cycle. My aspiration is to pass along information and knowledge that may help others. After I write the economic and investment principles book, I will have passed along everything I have to share, and then I will go quiet.

**What has been the secret to Bridgewater's success over all these years?**

The secret to anybody's success is in how they make decisions which then gets manifest in a culture. I did take a different kind of approach which produced successful results. Every time I made an important decision, I wrote the criteria

down that I used to make that decision. That provided greater clarity. I did that in making investments and in running the business, along with a great team of people who did that with me. There were investment principles and company culture principles. The investment principles were put into algorithms that were back tested and used to make deducing. The company culture principles were incorporated into management tools. Probably most important are the company culture principles. In one sentence I wanted “an idea meritocracy in which the goals are meaningful work and meaningful relationships through radical truth and radical

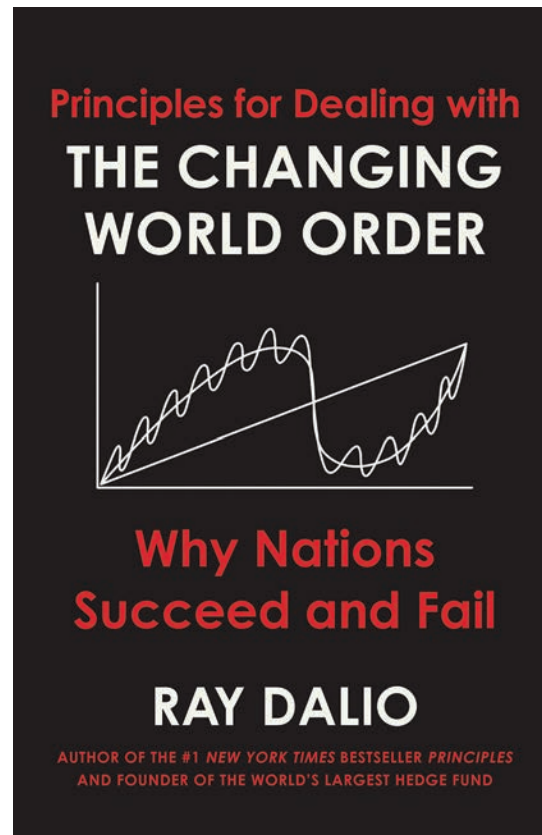
This culture has been the most important key to Bridgewater's success, but Bridgewater's investment principles that are systemized and computerized were also critical.

**Will you discuss how you approach your philanthropic work?**

My approach has evolved over time. I started by focusing on getting the highest value and return on the money donated, which is an impossible calculation to make since how can you put a value on saving a life or changing a person's life? For me, it has become more passion-driven. We have a family philanthropy program and each one of the family members has a passion which they focus on. I believe that to be effective in philanthropy, it comes down to focus and passion.

**You have achieved so much during your career. Did you enjoy the process and take moments to celebrate the wins?**

While I enjoyed the wins, I found the failures more helpful for my learning. I remember when I made a big mistake and learned about risk in 1982. I had started Bridgewater in 1975 out of my two-bedroom apartment. I traded the markets and a few years later, in 1980, we had a small group of people at the company. I calculated at that time that American banks had lent much more money to foreign countries than those countries were going to be able to pay back. I said publicly that I thought we were going to have a debt default crisis and got a lot of attention for saying it. In August 1982, Mexico defaulted on its loan payment and other countries did as well and I thought we were going to have an economic crisis. I was bearish on the stock market, but as it happened that August 1982 was the exact bottom of the stock market. I could not have been more wrong. I lost money for myself and I lost money for my clients. I was so broke that I had to borrow \$4,000 from my father to pay for family bills. This was a life-changing experience. It gave me the humility I needed to balance with my audacity, and it made me want to find the smartest people I could to question me and stress test me. It also made me think about how to have the great upside without as much risk which taught me how to diversify portfolios. This was the moment when everything changed for me and at this stage in my life, more than anything, I want to pass along this approach to others which I did in my first book, *Principles: Life and Work*. ●



transparency.” An idea meritocracy relates to how the best idea wins regardless of hierarchy. Meaningful work means having a passion to do things excellently with others who also share your goal and passion, and meaningful relationships means you are on a mission together and you work together to support the mission. Radical truth refers to the need for openness and honesty when talking about the hard realities, and radical transparency is about people being able to see everything within the company.