

- Speaker 1: Welcome to The Bill Walton Show featuring conversations with leaders, entrepreneurs, artists and thinkers, fresh perspectives on money, culture, politics and human flourishing. Interesting people, interesting things.
- Bill Walton: Welcome to the Bill Walton show. What do you do with a good friend who's had a successful career in many [00:00:30] fields, seems to be good at everything, and is interesting on a wide range of topics? Well, in my case, I bring him on my show. Richard S. Bodman, my polymath friend, founder of AT&T Ventures, now the VMS group, has a vast range of experience in leadership and management roles, business strategy, capital markets, government, and technology, all topics for today's show.
- Bill Walton: Dick Bodman is also [00:01:00] chairman of the Telecom Development Fund, PurThread technologies and Bodman Oil & Gas. He is also an executive community member of the La Jolla Institute for Immunology and the Buck Institute for Research on Aging. Earlier in his career, he served as assistant secretary in the Department of Interior and as managing director, assistant director of the office of management and budget.
- Bill Walton: Dick graduated with a BS in Engineering from Princeton university and holds master of science from MIT. [00:01:30] He is also a certified public accountant. Joining me to talk with Dick today is my frequent guest, author and economist, John Tamny. John is the director of The Center for Economic Freedom at FreedomWorks and is the editor of RealClearMarkets and political economy editor for Forbes magazine. His books include the End of Work, Who Needs The Fed?, and the soon to be published, They're Both Wrong. John, Dick, Welcome.
- Richard Bodman: Thank you Bill.
- Bill Walton: Great to have you [00:02:00] both here. Dick, we got on the show... we started talking before the show that you say you've had 11 different careers. That's unusual.
- Richard Bodman: Well, it was in my day. But today, it's not. But when I started out many, many years ago, you usually started, and if you were okay, you stayed with the same company. Now, a lot of those companies haven't stayed and people starting out today, particularly in the entrepreneurial [00:02:30] world, until they've failed once, the next investor doesn't think the person's learned anything. So it's a different world now.
- Bill Walton: Well, John, talked about that in the End of Work, and we talked about that before, about in the venture capital field, failure is often a sign of you're ready for your next big opportunity.
- Richard Bodman: Exactly.

John Tamny: Yeah, you're learning something. And you're learning quickly. But for you to have started so early, was this just curiosity that had you moving around, wanderlust? What [00:03:00] do you think explains why you have had such a varied career?

Richard Bodman: Well, I know how it started anyway. I... When I was in high school, I drove to California from the East Coast with a friend of mine from California. He said, "If you come out and visit with me, you'll see why this is a great place." And so, I did for six weeks. And I drove back alone. And when I got halfway across Wyoming, I said to myself, "Whatever I do, it's going to start in California." So that required the first [00:03:30] move. I was at MIT at that time. And the only job offer I got in California was with what is now Deloitte and Touche. It was Touche Ross then. And I didn't... hadn't studied accounting particularly. And I just took it. So when I got there-

Bill Walton: So you got a job, you hadn't studied accounting, and you became an accountant.

John Tamny: Well, certified.

Richard Bodman: So I was a... you start [00:04:00] out in my day in that business, you sat in a big room with the other new people with a telephone book and a 10-key speed machine. I don't even know if you know what that is. But it's a 10-key speed machine. And you learned to type all the numbers without looking at the numbers when you type them. And I sat there, and I said, "I think the names on the door on this firm are probably the people who bring in the clients, not the people that can run the 10-key speed machine the fastest."

Richard Bodman: [00:04:30] So I found out that there was a collusive practice among the big accounting firms, maybe all of them. But you could not try to recruit as a client, somebody who was somebody else's client. And that was my first lesson that the companies that most enjoy being regulated are the ones that protest much but have all the money. So they can hire the best lawyers to get the best [00:05:00] positions under the regulations. Anyway, I figured out that the big banks, five of the 10 largest in the country, which were in San Francisco, didn't have audits. And so, you could go talk to them. And nobody was, so when I was 23, I'd sneak out of the office couple of days a week and go call on the CEO's.

Bill Walton: The big banks did not have auditors?

Richard Bodman: No, they had lots [00:05:30] of auditors but not public accountants.

Bill Walton: Really?

Richard Bodman: Big banks were audited by the FDIC, by the controller of the currency, and the federal reserve, but they didn't have audits until they started entering into the race to build branches. They didn't have nationwide branching or even... many

states didn't allow any branches, like Illinois. But when they started to build branches, because California was one of the first to go state wide, and [00:06:00] all the banks were trying to keep up with Bank of America. And they had to borrow money. And when you borrow money, the SEC need an audit. So that's how that all started.

Bill Walton: So you brought in the big banks as a client.

Richard Bodman: No, I went around and talked to the chairmen of the banks. They were willing to see me.

John Tamny: Wow.

Richard Bodman: And I said, "I'm an engineer. I know a little about computers. I am a CPA. And I work for a firm that's a very good one. And if you ever need an audit, please think of us."

Bill Walton: Well, your family was in the banking business.

Richard Bodman: [00:06:30] Yes, but I never was.

Bill Walton: How did you get into the door to these chairmen? Who did you speak to or-

Richard Bodman: Actually, I think a couple of those chairmen... Most of them knew my dad because he was an important banker at the time. But he was in Michigan, not out there. And bankers are quite polite. So young kid says, "I want to see the chairman about something," I think they're more inclined to say yes than no.

Richard Bodman: Anyway, [00:07:00] I had five of those meetings, and then one day, one of the chairmen called, and he said, "I don't get along with the guy that runs our computers. And I told the board that, and they said, 'What happens if he pulls the plug on the way out?'" And I said, "Can I meet this fellow?" And they let me meet him. He was brilliant. But basically, [00:07:30] 50% of his vocabulary was speeds, feeds, and money. And I went back to the chairman, and I said, "I think I can fix this. This guy is very, very smart." And he said, "Okay, give it a shot."

Richard Bodman: So I went back and I said to the guy, "Never say speeds, feeds, or money again." And he said, "I can stop the speeds and feeds, but I need money." And I said, "Spend it, [00:08:00] don't say anything about it. The bank can't operate without money." And one of the reasons the banks couldn't operate without computers was that Bank of America had come out with a thing called BankAmericard, now Visa. And it allowed worldwide banking without building a branch. I don't even think Bank America had figured that out at that time. So I told all these CEO's that that was a very important problem for them, that Bank America was doing this.

Richard Bodman: Anyway, [00:08:30] I got a huge fee for that job that I did for that chairman. It was \$1 000 000. I was making about \$7500 a year maybe 10 000. So then, I went back to the office and started a... I was an auditor but I decided that I wanted to work in consulting for the firm. And then the banks, the five chairmen called [00:09:00] me up and said, "Can we go to lunch?" So I went to lunch, and they said, "You've been talking about this BankAmericard." And I said, "Yeah, I have." And they said, "Well, you've convinced us. We're going to start something called Mastercard." And you got the business.

Bill Walton: So how old were you when you did this?

Richard Bodman: Well, I started it at about 23, my first call, and I called for... I don't know... for about a year. So then, I was 24 when I got that first job. Somewhere in my [00:09:30] 24th year, I-

Bill Walton: So you're convening the chairmen of the five large banks when you're-

Richard Bodman: Five of them. Well, the biggest one, Bank America was not-

Bill Walton: Well, when you're 25 years old.

Richard Bodman: Yeah, talked with them when I was 23, yeah.

John Tamny: Were you already really confident, or did these circumstances make you realize how well you were going to do?

Richard Bodman: I've never been confident. I just do things. And I mean that. I didn't go around saying, "I know I can [00:10:00] do this. I know I can do this." But one thing I did know, I had a lot of curiosity. And I knew that you couldn't ever get anything done if you didn't sell it. So that was what got me started. I never told the firm when I was out calling on the banks.

John Tamny: What was the ultimate reaction from Touche Ross? Was there pushback, "Hey, you're too young"?

Richard Bodman: Not really because I went from having two people working [00:10:30] for me when I went over to consulting... or working with me, to 44 people. And the biggest partner in the firm didn't have more than six or seven people working for him. So I became a problem both ways. If I lost a lot of money, it was really going to be expensive, and if I made a lot of money, it wouldn't be profitable. So they made me a partner very early.

John Tamny: Wow.

Richard Bodman: I never asked them for anything. They just did it.

Bill Walton: Never having confidence... [00:11:00] Looking at some... Bob Dylan, he was... You were contemporaries with Bob Dylan when he was coming up. So when you were recruiting the big banks, I guess he was starting out in Greenwich Village. He said something interesting. He said, "You don't live your life by finding yourself. You live your life by creating yourself, by creating things." And it seems to me like your curiosity has always driven you to be in the business of creating something.

Richard Bodman: Perhaps. [00:11:30] No, I'm serious about that. I don't know what... I do listen to other people's ideas. And if they come back to me, either in my head or somebody else brings them up two or three times, in a sense, it's like a sign to me that I should go get interested in it. So that's one of the features of my life.

Bill Walton: Well, John, you've written your book on The End of Work. What was the theory there, and how does it apply [00:12:00] to what Dick is talking about?

John Tamny: The theory there is that with automation and with economic growth, it doesn't kill jobs, the automation just allows us to specialize. Because let's say three of us are on a desert island all working all the time, the addition of three people wouldn't put us out of work. It would just allow us to specialize a little bit more. And so, with automation, that's trillions of hands, theoretically, doing things that we used to have to do. So now, we can focus even more on what we love and are interested in. [00:12:30] And so, my take is that robots and automation are the greatest friend the worker has ever had. Because it's going to create geniuses who did not exist before.

Bill Walton: Otherwise we'd all be on the 10-key machine.

John Tamny: Exactly.

Richard Bodman: That's a good analogy.

John Tamny: Exactly as Dick points out that the things that we used to have to do... that big minds had to do, and Dick obviously thought at the time, "Wait, that's not a good use of our time-"

Richard Bodman: No, but it was fun.

John Tamny: But think about what this automation can do [00:13:00] now.

Bill Walton: You're watching the Bill Walton Show. I'm here with Dick Bodman and John Tamny and we're talking about how Dick's splendid career got off to a fast start. Dick, you followed three rules you said. Or you've evolved into thinking about three rules or three procedures you go through to make decisions. And you made some good ones. So what are those rules?

Richard Bodman: I've made some bad ones too.

Bill Walton: Well, that's true too. We all have.

Richard Bodman: First one I mentioned [00:13:30] was this, following signs. It's probably not quite the right term for that because I don't see signs. But if something... if I start thinking about it and it comes back to me in real life... so if somebody mentions your name, and that happens three or four times, I start to say, "I think I should get to know this guy or that subject or whatever this is." The second thing is, I think orthogonally. By that, if the three of us are sitting around [00:14:00] this table or even five or six us and we're trying to solve a problem, I have a tendency to come in from an acute angle down onto the table with an idea.

Bill Walton: Now, you're an engineer. Define orthogonal.

Richard Bodman: If this is the plane, orthogonal is coming in from an angle like this, not across the table like that. And I tend to think that way. And sometimes they're pretty good ideas. Sometimes they're good ideas, and the others [00:14:30] think it's crazy. And sometimes it works out and everybody likes it. So that's... but it's just a characteristic of me.

Bill Walton: What's an example of... you can think of that...

Richard Bodman: Well, I'll give you two-

Bill Walton: Okay.

Richard Bodman: ... relating to AT&T, one that worked out immediately, and one that did not. Does that help?

Bill Walton: Yes.

Richard Bodman: Okay, so I was working here in Washington at a small company I was president of, not [00:15:00] relevant. And I got a phone call from a recruiter for the chairman of AT&T. And the chairman had asked him to get me to come up and see him. I didn't know him. His name was Bob Allen. And so, I drove up there. And we get there, and he has me meet with his HR guy. And I had a vision of HR people. Because I'd worked in a number of companies. And I met this fellow and he was brilliant and great [00:15:30] company. And we talked for six hours. He had run almost every line section of the company before. But now, he was in charge of executive human resources.

Richard Bodman: And I think one of the real reasons of that was A, he was smart, and B, we had this enormous union problem. And he could talk to them and about it. Anyway, at the end of six hours, the chairman walks in and he says to me, "What do you

think?" And I said, "Well, I was in the satellite business. I don't know much about AT&T."

Bill Walton: You [00:16:00] were chairman of Comsat.

Richard Bodman: I wasn't chairman. I was CEO-

Bill Walton: CEO, [crosstalk 00:16:03].

Richard Bodman: ... Comsat General, which was their domestic business.

Bill Walton: Okay, continue.

Richard Bodman: And I said to him, "When you were forced to break up in 1983, you forced the local phone companies to take this cellular business." And I said, "That was just a really dumb mistake." And [00:16:30] he said to me, "Well, we hired McKinsey and Company and paid them 11 and a half million dollars. And they told us it was going nowhere." And I said to him... This is the true recital of the conversation. I said, "That just proves they're smarter than you. They got 11 and a half million dollars to give you bad advice."

John Tamny: And you gave away billions.

Richard Bodman: And that chairman looked at me, and he says, "Well, how did you know that they were wrong?" I said because I read a study about Bell Labs, and from the time [00:17:00] of the first telephone on the wall where you put your mouth up to the horn and had a one foot cord to your ear, Bell Labs had a study of measuring the number of times the phone came off the hook and how long it stayed off the hook in proportion to the length of the cord. And cord went from one foot to two foot to three feet and they twisted it, that made it six feet. It went to six feet and that made it 12. And the growth was just unbelievable.

Richard Bodman: [00:17:30] A lot of it, women in the kitchen, having to do her work, and she's walking around talking to her friends on a phone where the cord covers the distance. And they have, in the labs, been able to predict the revenue of AT&T for the last 20 years each year based on the average length of the cords of their phones that are out there.

Bill Walton: So the longer the cord, the longer the conversation.

Richard Bodman: And it isn't even proportional. And the more times it comes off the hook.

Bill Walton: I was in the merger and acquisition business. And I remember I [00:18:00] had a 45 foot cord so I could walk around the... I was on the phone-

Richard Bodman: There, you see.

- Bill Walton: ... all day long.
- Richard Bodman: They should've been studying you. The funny part of the study was that they would clip the cord back, and the guy would... He could walk around and he's parked at his desk, and he's got his foot on the desk trying to talk on the phone. And many of the people in the labs didn't even know it was being done to them. They just adjusted to it.
- Bill Walton: So you're sitting with the chairman and you said you made a good decision [00:18:30] and... what was the... was that the good... anyway, elaborate.
- Richard Bodman: The bad decision was he forced the local phone companies to take the cellular business.
- Bill Walton: That was their bad decision.
- Richard Bodman: It sure was. And he said, "Well, what do we do about it?" And I said, "Well, there's a fellow out in Seattle named Craig McCaw who has cobbled together a lot of smaller cellular businesses. But if you add them all up, it's about the size of York Tel" now Verizon, which is the largest cellular business. And I said, [00:19:00] "I think he would sell that business to you." And he said, right away, "Let's do it." Anyway, I left his office, he hadn't offered me a job or anything. That's it. That's that story.
- John Tamny: Well, just briefly... or maybe it's not brief, Craig McCaw, just remarkable visionary, builds this business. What's your take on the idea that some people thought, [00:19:30] "Wait a second, you are the visionary. You created this thing out of thin air. And just as it's getting huge, you hand it off to bureaucracy"? Where do you think we are today if Craig McCaw says, "No way, I'm not selling for 11 billion. I'm going to continue to grow. I don't trust this in the hands of... where good ideas die."
- Richard Bodman: Well, he said a variant of that, if that's... I don't know what he'd say today. But he said a variant of that. When I finally did joint AT&T, Bob Allen called me in [00:20:00] and said, "Go buy 30% of Craig McCaw." And I said, "I won't even have a discussion with that." The last thing in the world he wants to do is sit around here in a boardroom arguing about what you're going to do with the cellular business. He's going to sell it all or he's not going to sell it to you.
- Richard Bodman: And so, the chairman took it away from me on the second day of my working there. And he said, "I'm giving it to our CFO." And some time later, the CFO came back and said, "It can't be done." So [00:20:30] we bought McCaw at a higher price than we would have... than before. But Craig is just like a lot of individual entrepreneurs. They do what they want to do, and they get good at it. And his timing was very good on that one.

Bill Walton: You're watching the Bill Walton show. I'm here with Dick Bodman and John Tamny. And we're talking about the early days of wireless, AT&T, Craig McCaw, and good decisions and bad decisions made by AT&T then.

Richard Bodman: [00:21:00] Well, that's one that worked out well, my cool orthogonal idea because nobody at AT&T was worrying about the problem at the time, worked out well. We got them. And anyway, then the next thing came up. I was on the executive community. There was a 12-person executive community. And you met every Monday basically on operational problems the whole day. But one day a month, one of the 12 had the whole day [00:21:30] to their subject.

Richard Bodman: And when my day came up, I was sort of a hero in a sense that they really realized that the cellular business was going to be great. But they didn't know me or necessarily trust my ideas. And I got up, and I said, "Look, Bell Labs, DARPA, Defense Advanced Research Products Association," or whatever it's called, "and [00:22:00] university of California at Santa Barbara and MIT have developed a thing called packet switching network. And I've gone out there to have a look at what they're doing with that. And the people at the lab tell me that they can make a phone call to London for about eight cents a minute if you include the cost of the clothes of all the people in the lab, in [00:22:30] that charge. And we are charging \$3 a minute, and it brings us \$25 billion of free cashflow a year."

Richard Bodman: And I said, "My thought is that I think we can buy the core of this packet switching network from the national science foundation." It was running out of money, "Developing it with our scientists for about \$500 million. I think [ONB 00:22:58] would okay that." And [00:23:00] one of the people in the... of the other 11 looks up and says, "Earth to Bodman." That was one that didn't start out so well with my orthogonal thought.

Richard Bodman: And the chairman said, "Well, what are you going to do with this?" And I said, "Look, you have two choices. You try to shut this thing down and keep yourself alive because it'll ruin this company very quickly. I think within one year, if somebody comes out offering calls to London for [00:23:30] 2 minutes and it works... for \$2 a minute and it works, our \$25 billion free cashflow will disappear to zero in [crosstalk 00:23:41]. Because we can't let people go or change our processes fast enough."

Richard Bodman: "The other thing you could do is compete with the United State post office, which is the only group around doing last mile delivery of messages. And I figured that's a \$60 billion business for them. They're losing money. And I've noticed [00:24:00] that we spend, around here, somewhere between 50 and \$20 every time we send a letter, just my going around talking about you get it typed then you retype it or you change your mind, then it flutters around the building for approval, and then it goes. [inaudible 00:24:18] that it's gone. And you can do it."

Richard Bodman: So he called me into his office afterwards, and he said, "It didn't go very well." And I said, "Well, I suppose you could say it didn't go well for me. But you made a very nice deal for me. [00:24:30] So you can let me go tomorrow. And I'm okay. However, I think it's a mistake that you didn't pay attention to it." And he said, "Well, what do you really want to do?" I said, "I want to start a venture capital fund and build that network, which is now called the internet." So Al Gore wasn't the only person-

Bill Walton: What year was this that AT&T was-

Richard Bodman: That would have been 1992.

Bill Walton: '92, okay, yeah.

Richard Bodman: Yeah, and he said, "Well, what do you need for this fund?" And I said, "Well, \$80 million [00:25:00] for the first one." And he said, "What are you going to do, hire all our people from the labs?" I said, "No, I'm not going to go near the labs. I'm only going to hire people who used to work at the lab."

Richard Bodman: And I knew two of them who were in California. And because if we get involved with these companies, I'll never be able to get co-investors in the company. We can buy the company or we can buy their services at the same price as another buyer. But if we mess [00:25:30] with them, and they think I'm representing AT&T, it's not going to work. Well, just to cut that story short, seven years later, the money that AT&T had given me was worth \$2.1 billion after tax.

Bill Walton: So you took 82-

Richard Bodman: No, I'm going to give you a little in the middle, but the end of it was a nice story for everybody. So [00:26:00] the general counsel of the company, very smart guy, and kind of baby-faced but brilliant. And he came in, and he said, "I can keep us from losing this \$25 billion cashflow. Because I'm an expert with regulators. And we can keep them from allowing this to happen for nine years. And when are you going to earn \$25 million of free cashflow on [00:26:30] this so-called internet?" And I said, "People will, but I have no idea when. I just know this is something coming." And I knew if he could keep it nine, all the people in top management at the company would be gone by then. So they would pay attention to him.

Richard Bodman: Well, in fact, he did keep it seven of the nine years. And then, it was all gone. So the end of that... in about 2000... I don't know... whenever Southwestern [00:27:00] Bell bought out AT&T, it was two pieces. They paid 60 billion for the cellular business that we did get into for about 15 billion or some number like that. And they paid 16 billion for a company whose capital value was 240 billion when I joined the company. So that had gone all the way from there to nothing. We really lost the value of the business. So Southwestern Bell got it all.

Bill Walton: Tell us the story about [00:27:30] taking that 80 million, creating a venture capital fund within AT&T. And then, you later bought it out from AT&T.

Richard Bodman: Well, all right, very quickly there. So about two years after I started the fund, my office was right across the hall from the chairman, so he called me in-

Bill Walton: And this is still Dick Allen.

Richard Bodman: Bob Allen.

Bill Walton: Bob Allen, rather, yeah.

Richard Bodman: And Dick was a very good guy, but not in [inaudible 00:27:54].

Bill Walton: We know the other Dick Allen, good golfer.

Richard Bodman: Yes, so he called me in and he said, [00:28:00] "We're going to break the company up again." And I actually thought that was a pretty good idea. And he said, "But we won't have any need for a chief strategist or a [mone 00:28:13] guy for the company as a whole. Each will have to have its own," and all that. I said, "Fine." And he said, "What do you want?" I said, "Well, I want another 150 million for the second fund." And he said, "Well, all of the companies will want a piece of that." And [00:28:30] I said, "Fine, they can be our limited partners." And then, that's a perfectly legitimate thing. And I said, "I'd like to be the general partner." He sold me the business for one buck, took me six months to get it through that smart lawyer in the company. But we got it.

Richard Bodman: So in May of 1996, there I was with the business. And it was about 320 000 000 from AT&T. [00:29:00] And JP Morgan called up. And they said, "We're new to venture capital. We'd like to invest in your business." And I said, "How much?" And they said, "Oh, 20 million for a couple funds." I said, "Forget it." Anyway, we ended up with 120 million for a domestic fund and 120 million for an international fund with JP Morgan, did. And so, all total, I had about... What did I say? 520 some... whatever [00:29:30] those pieces add up to.

Richard Bodman: So we were pretty big for being a small firm. And we made the decision to invest all of our funds into the same deals. So we could go to somebody and propose real money. We could compete against the big guys. And the timing was amazing. In 2001, we had invested in 66 companies, 22 we took public, 22 we sold to people like IBM and others. [00:30:00] And 22 we just thought we'd hang onto. We didn't know what to do with them. And one of them went public and did very well. So our IRR, if that means anything to you, for the 12 years of those last two funds, was 101%. So it was just terrific.

Bill Walton: Okay, so for those that don't know IRR, it's one of these arcane measures but really matters. It's how much money you've made on how much money you start with. And doing 101% means you double your money [00:30:30] every-

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Richard Bodman: And how long they had to wait for it. Now cash on cash is the term they talk about now.

Bill Walton: But timing's pretty important. You sold the business, most of the business, pre dot-com crash.

Richard Bodman: We had the internet pretty well built. And so, we would have to change our investment model a little bit, and we knew what we were doing when we were building the internet. And we knew what a better router was. That [00:31:00] was just really easy decision making. All we needed to do was get our way into the deal. But after that, people started to do other things. And what are we going to put on the internet? And that was a riskier business at that time. So we didn't go forward and keep investing after we sold all those businesses.

Bill Walton: We talked about your three decision rules, number one, following signs, the second, orthogonal thinking-

Richard Bodman: That's just the way it was, my decision rule.

Bill Walton: And the third [00:31:30] one was partners. And I was going to ask you-

Richard Bodman: That's the most important one of all.

Bill Walton: And I was going to ask you, who's the we, here in this? Because you've always credited people... the ability to spot people to work with.

Richard Bodman: In everything that I've been a part of the success of, I've had a partner that I knew was more capable and more energetic than I was, including my wife.

Bill Walton: That's hard to imagine.

Richard Bodman: She's at the top of the list, but it's true. And I've just always felt that way. [00:32:00] So when I... Way back at the Touche Ross days, when I decided to go into consulting, I actually had a boss who was a manager, and I'm a junior guy. But I went out and got the business. I just always like working with people that I thought were really capable and who worked hard at it. When I was at Comsat, we actually... one of my guys came up with the idea of direct broadcast from satellite to home. And it was a great business. [00:32:30] But anyway-

Bill Walton: So you won the fund in '96. And by... I don't remember when the market collapsed.

Richard Bodman: We [inaudible 00:32:39] the last one in '96.

Bill Walton: Last one in '96.

Richard Bodman: Yeah.

Bill Walton: And then, you liquidated the most of the portfolio.

Richard Bodman: 2000, 2001, yeah.

Bill Walton: What'd you see then? Did you see the bubble bursting? Did you see the-

Richard Bodman: No, I had a tremendous amount of cash in my bank accounts that I never thought I'd ever make in my life. And I thought, "Well, I think what I'd [00:33:00] like to do it do things one at a time." And I moved to Washington DC and brought in a couple of partners, both of which were more capable than I was in what they did. And that's when I learned a second lesson. Doing things one at a time is much more difficult than investing in a group of companies.

Bill Walton: Why?

Richard Bodman: Because if you cherry pick... [00:33:30] if there are 20 companies and you've decided to invest in them all, if it's a good fund, you only need to have two or three winners, believe it or not. Yeah, so in the router business, there was another company called Juniper that came out with a router that was much faster than Cisco's. We invested in it at 75 cents and got \$320 a share out for that.

Richard Bodman: And that's what I mean. If you've got a group, one of them... doesn't have to take very many to be great winners. [00:34:00] But when you start cherry picking, saying, "I'm only going to invest in this and work at this," there's too many things that can go wrong to give you great odds of success unless you're just a really good manager yourself, which I didn't consider myself. I thought I had good ideas, but I hated to sit down and do them.

Bill Walton: You're watching the Bill Walton show. I'm here with Dick Bodman and John Tamny, and we're talking about Dick's timing [00:34:30] and success in the venture capital business, and going to learn more a little bit about his life on public company boards. Along the way, you were on the board of Tyco.

Richard Bodman: Yes.

Bill Walton: And that was a fabulously successful company. We were about to do some joint ventures with them at Allied Capital. And then, everything came apart.

Richard Bodman: Well, first I'll tell you what happened. I joined the board in 1992. I got a call out of the blue from chairman, Kozlowski. I didn't know him. But it [00:35:00] turned out that a former AT&T vice president had been on the board for some years when it was a small company. And it started to get bigger. And I asked Bob if I could join this board, which I did. And it grew like Topsy. And although it

grew very carefully because Dennis was a pretty good acquirer of businesses, and he managed pretty well.

Richard Bodman: But in 2000... I think it was 2000, [00:35:30] we were looking through the proxy statement that we were about to issue. And there was a sentence in there that the company had paid \$10 million to one of the directors for help with an acquisition. And I didn't find it. Another guy had found it. And we had a board meeting two days later. And I spoke up. I said, "Look, this is wrong. You go pay a director [00:36:00] \$10 million to help you do this, he can't be a director of this company. And he should put that money back." And Dennis, the chairman, looked at me, and he said, "If you go after him, you're going after me because I'm the other side of the deal."

Bill Walton: So they didn't name the director in the footnote, but he was the director that got paid the \$10 million.

Richard Bodman: Well, we knew who it was.

Bill Walton: Oh, okay.

Richard Bodman: I didn't know that he'd gotten it... actually a pretty good guy. And anyway, the chairman said, "Then you're coming after me." And I said, "So be it." [00:36:30] And I testified in two trials, not about that issue. That wasn't anything that was ever a part of the issue. But it turned out that all the things that Dennis Kozlowski had been accused of doing, or had done, were literally peanuts.

Richard Bodman: Tyco had the lowest overhead of any company that size that I could find at the time. And he had [00:37:00] bought an apartment in New York, because they moved from New Hampshire to New York, and charged it to the company. And it was a nice apartment and all that stuff. But in fact, when everything was all finished, they sold it at a profit. And the other things didn't cost anybody anything. It just was a credibility issue. So our market value was really hurt. And Dennis was just about to break up the company anyway. So that's what happened.

Richard Bodman: [00:37:30] But there were two trials that I was a part of. And the one against Dennis and the other involved our general counsel who should have advised him and us otherwise. We lost the trial against the general counsel. We won it against Dennis. And then, just a funny... no, a serious adjunct to this, after Dennis had been in jail for three or four years [00:38:00] and the CFO, the attorneys for all sides, there were 45 of them, called me up and asked if I'd put my tie on and let the interview me for a day to review this case. And I didn't know at the time that each of those attorneys had gone to see the folks in prison.

Richard Bodman: Both sides, the prosecutors and the defenders, when they got to the prison, said there is no way those two people should be in prison. This is one of the worst

prisons there are. [00:38:30] And this is just wrong. Anyway, I haven't talked to Dennis since he got out. We obviously didn't end up particularly friendly. But he did get out early and I assume has gone back to some kind of productive life.

Bill Walton: Is there a governance question there? Is there a capital allocation question? I remember, back to your theory, it's harder to make money with one thing than it is with many, they had a very interesting portfolio of companies [00:39:00] that collectively did pretty well. And it struck me as a pretty good business model, not at all like the... there were three big failures there, Enron, WorldCom, and Tyco was in the headline.

Richard Bodman: Yeah, the Tyco... Enron and-

Bill Walton: But Enron and WorldCom were outright... were frauds.

Richard Bodman: And they were companies that were just out of control managed. That was not true with Tyco.

Bill Walton: That's what I was going-

Richard Bodman: All three of our major businesses were very good business and run very well. And the people who ran them for Dennis, a little bit more like [00:39:30] the way Charles Cook runs his company. The people that ran those business knew a lot about Dennis's belief about management and had tremendous freedom to run those business as well as they could. And they did well at it.

John Tamny: So the perception's unfair. He really was a brilliant CEO? Or how would you conclude it?

Richard Bodman: Well, yes, he was. But in the end, he wasn't. When he went from New Hampshire to New York, [00:40:00] in New Hampshire, he was an undiscovered god because he was building this giant company up there. When he got down to New York and all this excitement and action and he started to buy some art, and he had it shipped to New Hampshire instead of getting it taxed in New York. And he bought this apartment. And he didn't... charge it to the company. And as I said, the whole cost of it was really nothing from the company's perspective. But his credibility and his reputation were killed, [00:40:30] two things I mentioned.

Bill Walton: And the New York offices were palatial.

Richard Bodman: Well, they were.

Bill Walton: Remember the view at Central Park, it was [crosstalk 00:40:36].

Richard Bodman: But five, 10 other companies in the same building. Tyco, at that time, was a giant company. But anyway-

Bill Walton: It's just... he changed. I think that was my-

Richard Bodman: Yeah, it was... the going through the trials was very interesting to me. And secondly... first place, I had enough money. I didn't need to worry about it because of the venture business. [00:41:00] But the other thing was, I learned more about how the legal system worked than I ever thought I would. Nobody cared, I'm not even sure the judge did, who was right. It was only who won. It was a highly competitive process. And they used all sorts of deceptive means to get witnesses to say things that [00:41:30] they didn't mean, one of which that was most interesting was about this question of whether it was legal to pay a director money.

Richard Bodman: The defense guy got up when I was on the stand, and he starts out, and he reads the first sentence of this paragraph that says, "It is legitimate to pay a director money for services." And he stopped. And he said, "Isn't that true?" And I said, "Read the rest of the sentence." [00:42:00] And the rest of the sentence said, "Only if all the rest of the directors have understood the issue and agreed with it." And that's the kind of thing that happened in court all the time. They tried to get you to say something that is not what you meant. So that was a learning experience for me.

Bill Walton: You're watching the Bill Walton show. And I'm here with Dick Bodman and John Tamny. And we're learning lessons learned from Tyco and fascinating. Dick, once you sold the fund, [00:42:30] you moved to Washington, which is where you and I met. And you've gotten more involved in technology, specifically research on aging and immunology. You're on the... director of the Buck Institute for Research in Aging and the Jolla Institute for Immunology. I understand on the website that the aging... the Buck people think that we ought to live a life as vigorous at age 95 [00:43:00] as we do at 25.

Richard Bodman: They would say, "We'd rather have you live healthier longer."

Bill Walton: Okay.

Richard Bodman: Because they don't want to be thought of as telling you, you can live forever, even if they believe they can. I think they are beginning to believe that aging is a disease. And like any disease, it can be mitigated or held off, not necessarily eliminated, but it can be put in remission. So your first statement is right. But there's just [00:43:30] a tremendous amount of science going on in that.

Richard Bodman: And the La Jolla Institute, while not in any way related to the Buck, is... Their mission is life without disease that we can teach our immune systems that it's seen diseases. And once it's seen it, it'll attack the beginnings of a disease before you ever know you've got it. And you can stop these disease. So they're

both doing things to help us live longer and [00:44:00] healthier. And I'm very, very involved with and impressed with them both, though I'm just about to resign from one because it's more than I can cope with right now.

John Tamny: One thing on this, so with venture capital, as you say, you tried with a lot of companies, three can make up for a lot of failures. How does that square with an institute like this? Can institutes be as entrepreneurial in this way? Don't we need similar [00:44:30] failure in the aging process, learning about it, to get to the quicker, better answers?

Richard Bodman: They have them every day. Both of these two institutes, and by the way, they're Mass General, Stanford, they all do a lot of really good research on these subjects. But they aren't just specialized in what we do. And these labs, they're having failures all the time. [00:45:00] And that's how it works. That's the scientific method. If you can't test it, then your theory isn't any good. It's got to be tested before you can say it's a good one. Can I ask, you, John, a question.

Bill Walton: Absolutely.

Richard Bodman: All right.

Bill Walton: John, it's your turn.

John Tamny: No.

Bill Walton: You're on the grill.

Richard Bodman: Your books and your concept that these scientific advances lead to more rather than less employment... And I [00:45:30] absolutely agree. In fact I wrote my thesis at Princeton that automation would be good for employment. I'm not a very good writer, but I did all right and got out of there fine. But I really believe what you're saying is really right on the macro scale.

Richard Bodman: But the local disruptions can be terrible. Detroit is a really good example. We just diverted a big problem in Detroit with a strike that's going [00:46:00] on. Because there are a lot of people working in those factories now whose jobs won't be necessary. And certainly, if they switch to electric motors, you buy an electric motor and an internal combustion engine has about 1400 parts in it that you got to put together. You just don't need that many workers.

Richard Bodman: So some people are very, very threatened. And because of the internet, the whole world can know in minutes that some [00:46:30] little group is really upset and demonstrating. And you see it every night. So it fosters this disruption around the world. So I would love to see something that you've done or worked on to help us get through this transitory period because you can't instantly retrain the folks that are doing it. But it clearly will add to much greater employment.

John Tamny: Well, I don't do research as much as I theorize. [00:47:00] But my response to that is you went to... when you went to California, after MIT, you witnessed a manufacturing economy. In the 1930's and '40's New York and California were one and four manufacturing cities. Flint and Detroit were two and three. My argument always is that a closed factory, or many closed factories can never kill a city. What kills the city is the departure of people like you.

John Tamny: California [00:47:30] and New York thrive today because people like you went there and continue to go there. And where talent is, jobs are endless. I would say Detroit and Flint, the tragedy is that the jobs stayed too long... that the old way of doing things... because factories were not appealing to people like you. You grew up in Michigan but left. And so, I think the answer is that it's not as disruptive. What's disruptive is the departure of talent, never the departure of a way of working.

Richard Bodman: Well, the disruption... as [00:48:00] again, on the macro point of view, I really believe that's true. But when you've got 400 000 workers who are literally put out of a job, who are not trained for the new world, and the new world hasn't emerged yet in Detroit, you've got a problem on your hand, particularly if the whole world can see it in 20 minutes because it's spread all over the internet. That wasn't true when I was in college. Detroit and Flint had problems, but I thought we could work them [00:48:30] through because it didn't become a global problem overnight. But I really think you're on an important subject. Now, are you thinking a lot about artificial intelligence?

John Tamny: I think about it. But I think about it in terms of I view this all as one and the same thing, just ways for technology to free us from work-

Richard Bodman: I agree.

John Tamny: ... so that we can focus on what's important.

Richard Bodman: But we have a new problem with this. And it's not [00:49:00] that we should not do this, but when Moore was heading Intel, he came up with the idea that we can double the speed of a microprocessor every year. That was Moore's Law, which we're still performing on. Artificial intelligence is growing at a thousand times a year. There's absolutely no chart, log or not, where it just doesn't go straight up in a vertical [00:49:30] strikes, right about now. Chinese are already using artificial intelligence. They've got bands they put around the kids heads when they're in the classrooms, and they can tell when they're learning fast and when they're not. And there isn't anything you could imagine that probably won't happen. We might all have a chip in our head that'll do a lot of our storage and thinking for-

Bill Walton: I just had mine fitted last week. You haven't got-

Richard Bodman: Frankly, I haven't noticed any difference yet.

John Tamny: [crosstalk 00:49:58]. I'm going to follow you on that.

Richard Bodman: [00:50:00] If I were you, I'd turn the switch on, on your other ear.

Bill Walton: But it is serious. Because we always... and I think to Dick's point, we always make the case, when we started, we were agrarian, we had 90 percent of our people on the farms, they went to towns, they went in factories. Well, those people found jobs, then the factories went out of business, people found jobs doing other things. But at some point, the productivity boom or gains, [00:50:30] it seems like you're just squeezing the number of jobs that people are actually doing. And you might end up with an awful lot of people on a guaranteed annual income, which is the fashionable remedy they have in Silicon Valley. Thoughts?

John Tamny: I just... I see it the opposite way. I just think if Moore's Law is, "Obsolete because it's not fast enough," the productivity gains in the future are going to be unbelievable. If coal... if the discovery of coal was the equivalent of giving every [00:51:00] worker 20 assistants full time working for them, what do these advances mean in terms of hands that free us to do things that we never imagined doing? And so, I do not think it's going to be a problem for a lack of jobs. I think it will be a problem for...

John Tamny: Look, there's always going to be some people who are just... who choose not to be mobile, who choose not to move to where the opportunity is. But the opportunity's going to be endless. And how we know this is, let's look at the parts of the world bereft of this technology, bereft of [00:51:30] this job destruction. It's not as though those are happy places full of people who are living wonderful lives. In fact, where do people move? They are constantly moving. The purest market signal of all is human migration. And they're constantly moving to where jobs are being destroyed most quickly. And I don't see why this would change with AI.

Bill Walton: But it does seem like the pace of change is just so much... if artificial intelligence is doubling a thousand times a year.

Richard Bodman: [00:52:00] Not... yeah, it's a thousand times of growth a year.

Bill Walton: Speed up.

Richard Bodman: That's right. [crosstalk 00:52:03].

Bill Walton: And we talked about the agrarian economy moving to manufacturing economy moving to the service economy, that took a century. And then, it took five decades. Then it took... the span of time it takes to make these changes is growing shorter and shorter and shorter. In the mean time, you got all of us analog people that are trained in one thing or another, we may not be able to make the switch [00:52:30] to the new productivity tools.

Richard Bodman: Well, the good news is, we're not at great risk.

Bill Walton: The three of us at the table.

Richard Bodman: Except for the government stealing our money to give it to the people who they haven't figured out what to do with. But that's another issue.

Bill Walton: That's a whole other issue.

Richard Bodman: One of the problems that we do have that is real is education. And I'm going to be very specific about this. [00:53:00] When I was younger, I was a good student. I even skipped the 11th grade in high school, but I knew I didn't know much. I somehow figured out how to get by. And life has turned out well. And I got thinking, with all this acceleration of knowledge now, we haven't got time to write text books, train teachers, and teach students about this before their living in the new world.

Richard Bodman: [00:53:30] Well, that was somewhat the case when we were younger. Computers were coming along. I never learned anything about computers in school. You kind of learn it as you live with it. And these young kids now go into Apple stores at age two. And they sit down, and they're starting... I mean this, at age two, and they sit down, and they just fuss with the screen, and they start to have a good time. So I think this education is a big problem. And we're going to spend a lot of money on it. But we need to figure out how [00:54:00] we get these kids exposed to the things we're trying to teach them without spending a lot of time writing books to learn to teach them and training teachers.

John Tamny: Well, I just don't think that we need to presume that we need to. Education is daycare.

Richard Bodman: Good point.

John Tamny: You certainly had 11 careers. Nothing you learned at Princeton and MIT had anything to do with it. Bill is an amazing investment banker. As you said, when you were in your element, it was just this happy thing for you, it was reinforcing everything [00:54:30] about you.

Bill Walton: I really like my 45-foot phone cord. I really enjoyed it

John Tamny: Yeah, it's pretty [crosstalk 00:54:34]. Bill got into the office... We've discussed this so many times... Bill walked into the office and thought, "I'm the biggest superstar here."

Bill Walton: Well, no, no, Steve Schwarzman was down the hallway.

John Tamny: Yeah, okay, okay, fine. But there's no way that-

Bill Walton: He didn't think that.

John Tamny: School didn't teach you this.

Richard Bodman: You still have that 45-foot cord?

Bill Walton: I do somewhere.

Richard Bodman: I want to see it. I think you could sell it or give it to a museum-

Bill Walton: Double my revenue.

Richard Bodman: Yeah.

Bill Walton: [00:55:00] Okay, well, this always happens. We just start wondering into something extremely interesting, AI, education, and my career in mergers and acquisitions. And we run out of time. So, Dick Bodman, founder of AT&T Ventures, very successful venture capitalist, big thinker, thanks for joining. And John Tamny, thank you for joining. John, we got to get a quick, shameless plug for your book.

John Tamny: Yeah, what is that.

Bill Walton: We got a couple of books here.

John Tamny: This is not for free.

Bill Walton: We just happen to have a book here. Let me just have this here.

Richard Bodman: [00:55:30] It's good.

Bill Walton: Highly recommended, we talked about this in a show a couple weeks ago, John Tamny's, They're Both Wrong and find out who they is, I suggest you first buy the book. It has something to do with politics and it has something to do with Democrats and Republicans

Richard Bodman: Question, is it coming out on Audible?

John Tamny: It's coming out on Kindle and maybe... I'm not sure about Audible yet.

Richard Bodman: Well, for-

Bill Walton: You want to caress these pages.

Richard Bodman: ... for dyslexics like me. I listen to 160 or [00:56:00] 70 books a year on Audible on my iPhone.

John Tamny: Mm-hmm (affirmative).

Richard Bodman: And if I read that book, because of the speed of my reading, it would probably take me two weeks. And you can't do 160 of those a year.

Bill Walton: I know we've got to close the show, but I've got to ask the question. Now, do you crank it up to 8X to listen to it?

Richard Bodman: No, 1.25.

Bill Walton: 1.25, [00:56:30] okay. Because I have a friend that cranks it up to 8X.

Richard Bodman: Yeah, well, don't drive when he's listening to a book.

Bill Walton: He's even more orthogonal than you are.

Richard Bodman: Orthogonal.

Bill Walton: Orthogonal.

Richard Bodman: Okay.

Bill Walton: Pronunciation. Okay, well, that's it for now. Thank you for joining us. And we'll see you back on the next Bill Walton show.

Speaker 1: Thanks for listening. Want more? Be sure to subscribe at the BillWaltonShow.com or on iTunes.