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RE: **HOW DO YOU KNOW A CEO IS LYING?**

... his lips are moving! Or so the joke goes.

In earlier years of quantitative investing, avoiding the influence of the “CEO sales pitch” and focusing on the numbers was a strategy to improve decisions about where to invest and what to avoid.

Fast forward to 2022. The intention to influence is still inherent in the CEO sales pitch, but now we believe there is decision-making power in their words ... if we skip the **content** and focus on the **intent**.

***Behavioral analysis seeks to decipher the intent behind what people say (and don't say). Information can be found in the distance between someone's desire to be perceived or understood a particular way and the reality of their thoughts or actions.***

The attached piece, *SBF Under the Microscope (Behavioral Interpretation of DealBook and Good Morning America Interviews of SBF)*, is an example of the type of behavioral dissection we incorporate into our stock selection process at AJO Vista. Of course, as systematic investors, we do so with the modern-day tools of our trade (textual analysis, machine learning).

Since FTX is (was) not a company in which AJO Vista could invest, the effort to decipher the live DealBook and Good Morning America interviews is the equivalent of a parlor trick — but it serves as a disclaimer-free way to demonstrate the power of behavioral analytics.

At AJO Vista, we believe going **beyond the numbers** reveals a great deal!



“Remember when I said I was going to be honest with you, Ted? That was a big fat lie.”

## SBF UNDER THE MICROSCOPE (BEHAVIORAL INTERPRETATION OF DEALBOOK AND GOOD MORNING AMERICA INTERVIEWS)

Meg Devine and Liz O'Connor<sup>1</sup>

December 1, 2022

While much of the world tuned into the November 30, Andrew Ross Sorkin *DealBook* interview with Sam Bankman-Fried, a lesser-discussed interview on *Good Morning America* provides a richer environment to draw some specific behavioral-based conclusions. The GMA website teased the interview with the headline “Bankman-Fried denies ‘improper use’ of customer funds.” When judging the interview content from a behavioral based point of view, however, **Bankman-Fried fails to cleanly deny his knowledge that FTX deposits were being used to pay Alameda’s creditors.**

Behavioral analysis seeks to decipher the intent behind what people say (and don’t say). Information can be found in the distance between someone’s desire to be perceived or understood a particular way and the reality of their thoughts or actions. For example, during the Sorkin interview, rather than categorically deny any wrongdoing, Bankman-Fried sparingly sprinkles some detached admissions of guilt throughout the hour-long discussion, copping to “things” he wishes he had “done differently” and conceding to “little mistake[s]” and “oversight[s].” On the one hand, these statements are likely employed to make him appear more genuine and truthful, yet, when actually examined have a minimizing effect on the gravity of the accusations of wrongdoing.

To reach more specific conclusions about intent, it is most effective to utilize a stimulus-response model of analysis, where we set out to detect specific verbal and non-verbal behaviors that occur in reaction to a specific question stimulus. This process ensures that it is the stimulus itself (and not something else) that is the catalyst for behaviors.

For instance, during the GMA interview, George Stephanopoulos presents Bankman-Fried with short, direct, question stimuli. By using this effective interviewing tactic, Stephanopoulos does not give his interview subject much valuable “thinking” time to construct a way to skirt the subject matter. When Bankman-Fried tries to stray from the interrogative at hand, Stephanopoulos re-focuses his follow-up questions on the original line of inquiry, at one point even signaling to the interview subject that his question requires a “yes” or “no” response. This again foils Bankman-Fried’s strategy of trying to control the narrative.

In the world of assessing truthfulness, the facts are always the ally of the truthful person. The converse of this maxim is also true, however, and prominently on display during the segment of the GMA interview where Stephanopoulos drills down on Bankman-Fried’s knowledge of

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<sup>1</sup> Meg Devine and Liz O’Connor are employees of Mitra Capital, a joint venture of AJO Vista and BIA, specializing in behavioral analysis for investment use.

FTX deposits being used to pay Alameda's creditors. On the first pass of this question, Bankman-Fried repeats talking points used during the Sorkin interview, pivoting to the size of the Alameda position versus addressing his involvement in the lead up to the bankruptcy filing. When Stephanopoulos follows up, Bankman-Fried starts by slowly repeating the question to himself under his breath. This is a basic stall technique that also serves to sidestep giving the direct "yes" or "no" answer that the question demanded. When Bankman-Fried finally speaks, he claims not to "know" of any deposits being used. While this may appear on the surface to constitute a clean denial, this qualified statement inserts the caveat of a (potentially) faulty memory, effectively creating a psychological out for Bankman-Fried in case information surfaces at a later date that would disprove his current claims.

Finally, Bankman-Fried employs a third tactic to avoid answering this line of questioning, evident when he turns the tables and asks Stephanopoulos a question ("...which creditors are you referring to?"). This is on its face, an inappropriate question, particularly given the fact that the intent of Stephanopoulos' inquiry is clear and does not require any clarification. By invoking this question here, Bankman-Fried is granting himself even more time to equivocate and think of a way to avoid answering the direct question. It is also likely an attempt to have Stephanopoulos re-frame the question in such a way where it is "easier" psychologically for Bankman-Fried to provide a truthful answer.

This segment of the interview provides a behavioral roadmap to reach a different conclusion from even GMA itself — Bankman-Fried's failure to cleanly and coherently deny the improper use of customer funds likely corroborates the claim made by former Alameda CEO Caroline Ellison that Bankman-Fried knew FTX deposits were used to pay Alameda's creditors.