Transcript

In conversation with Jon Dye

16 June 2026, ruffer.co.uk

Introduction

You need to know what's going on in the world, but that can lead you into crowd mentality — what's on the front page of the FT, what's moving markets today — and that's unlikely to be where you'll find the best opportunities. So to observe the world and get inside...

Gemma Cairns-Smith

Hello and welcome to today's episode of Ruffer Radio.

I'm Gemma Cairns-Smith, an investment specialist here at Ruffer.

And today I'm delighted to be joined by John Dye, who we've recently announced from October will be joining Henry Maxey as our Co-CIO.

So firstly, John, welcome and congratulations.

Jon Dye

Thank you.

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We're really excited for you.

I thought the purpose of today's podcast could be to just get to know you a little bit.

So starting off, you've been at Ruffer now for just over 16 years.

You joined us back in 2010 as Head Of Research.

How did that come about, and what made you join Ruffer?

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Yes, well, in the run-up to the financial crisis in 2008, I was introduced to Henry Maxey by someone we'd both worked with independently who thought we might be interested to meet each other.

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And we certainly were, and had many great conversations around the GFC at the time.

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I'm someone who has worked in both macro investing and research, and has also done a lot of stock-based research.

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So to bring those two things together and come to Ruffer, where both are relevant at different times, and where I could focus my energies and lead that research effort, was very appealing.

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That was how it all started.

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Great.

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And obviously 16 years is a really long time.

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So what's kept you at Ruffer during that timeframe?

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What is it that makes Ruffer a special place to work?

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Yes, well, I've kind of alluded to it. At least in part, it's the variety of the work and the ability to think creatively about how we structure portfolios, alongside working with lots of smart people who are trying to do the same thing. That keeps things interesting.

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Jonathan always had this idea of offsets, and he had a nice phrase for what he meant by that, which was this juggling of nuclear weapons: putting a portfolio together with risky assets that have the scope not only to work in their own right, but also to offset each other in different states of the world so that we can deliver the returns we're looking for for clients.

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And that's, you know, that that's quite a hard thing to do.

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And that's quite a hard thing to do. It involves a lot of creative thinking in putting together a portfolio that works that way.

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And that creates a lot of opportunity for learning new things along the way as we try to pull that off.

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And then more recently, in the last five years, I've been running a bottom-up equity portfolio, which has extended those learnings by getting more into the company side and taking risks directly for clients.

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So that's the quick wrap.

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And you've touched on it already, but obviously becoming Co-CIO, your relationship with Henry will be very important.

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How would you describe your working relationship?

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How do you complement each other?

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Well, sure.

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I mean, we've worked together for a long time in different iterations and guises.

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So we know each other very well.

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Just to give you an example, in the 2010s a large part of the portfolio was invested in Japan, and we spent a lot of time travelling there.

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That sounds exciting, but it was also a little exhausting.

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From my perspective, investment in Japanese equities started from the view that valuations were extremely attractive.

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We had banks on very low price-to-book multiples, high dividend yields, and basic valuation metrics like that, which piqued the interest and made it interesting.

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So that's the kind of more like the bottom up as a starting point.

So that's more of the bottom-up starting point.

Henry would be more focused on the macro insight that the policymaking architecture in Japan needed to change and was going to change.

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Find me some assets that might represent that.

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As you know, if you caricature it a bit, he's a macro guy who understands stocks, and I'm a stocks guy who understands macro.

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If we can blend those two insights together and find fantastic ways to express the macro view, that's how we can work together at our best.

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Yes.

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So we've touched on it briefly, but clearly in 2021 you moved from being head of research to lead our bottom up equity portfolio.

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What was your approach to running that portfolio and risk taking?

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Yes, I'm not sure where to start — we could probably spend an hour on this — but I'll try to give some key takeaways.

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I think it's important to be fairly style-agnostic and go where the opportunities are, and that can vary quite a lot through time.

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I also think a contrarian streak is helpful in that context.

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And I mean, I'm certainly value oriented.

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I'm not value biassed.

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There's a slight nuance to that.

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Obviously, you've got to be careful with the prices you're paying.

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That's, that's very important.

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But that's not the same thing as only buying stocks on five-times PE multiples. Throughout the series track record, 2022 is clearly a standout year because your equity portfolio delivered positive returns in a year that was very difficult for global equities and global bonds.

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So how did you go about that?

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What did that look like for you?

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Yes, well, I think the macro overlay and having a background on that side of things certainly helped.

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We had the overhang of all the stimulus from covid that was still in the system, overlaid with various supply shocks through the global economy, which we thought would translate into higher interest rates than people were expecting.

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And that certainly proved to be the case as central banks fought inflation.

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So we were able to back a number of ideas that would benefit from rising interest rates and were either being ignored or trading at discounted valuations, such as Irish banks and Jackson Financial, a life insurance company.

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There were also quite a lot of idiosyncratic ideas that came post-covid, where the covid era had really beaten them up, such as Rolls-Royce, which had a nice restructuring and transformation story under new management as we came out of covid and had been somewhat ignored for a while.

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And I'm going to change tact a little bit now.

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And I wonder if we can talk about your Ruffer Review article, which you called always a puzzle, never a game.

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Now, in it, you write quite personally about your father, but you also write about the deeper purpose of investing, about how the key purpose is compounding people's savings over time.

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So your dad clearly shaped your world view.

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What do you think is the most important thing that he taught you about investing?

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Yes.

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I think the probably the simplest answer to that is, you know, think for yourself.

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You need to know what's going on in the world, but that can lead you into crowd mentality — what's on the front page of the FT, what's moving markets today.

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And that's unlikely to be the places where you're going to find the best opportunities.

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So to observe the world and get insight from it while also standing apart from it.

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I think that's probably a high-level point, but a key one: to be able to think for yourself and think independently.

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I think it takes a bit of willpower and a bit of practice.

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It sounds so simple, but I can imagine it's a lot easier said than done.

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And the other theme you touched on in your article, which I wanted to draw out, was this idea that so many people in our industry treat investing more like a casino and engage in that kind of risk-taking behaviour.

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What is it about that you think is so dangerous because we see it everywhere today.

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Yes, I was schooled in the dot.com bubble.

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I mean, that's when my career started was in September 1999.

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So I, I remember that very well.

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The problem for market practitioners, not least in equity markets, is the need to stay at least somewhat in the herd.

It's career-limiting to radically underperform the market, which leads people into perverse behaviours: buying things they wouldn't otherwise want to buy just to retain momentum in portfolios.

You know, it's career, it's career limiting to radically underperform the market, which does lead people into perverse behaviours of, of buying things that they wouldn't otherwise want to buy in order to just kind of retain the momentum in, in portfolios.

Sometimes that's just the ebb and flow of financial markets.

Now, sometimes, you know, that's just the ebb and flow of, of financial, financial markets.

It doesn't have a broader macro impact.

It doesn't have a, a broader, you know, macro impact.

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But if it becomes the only thing — the only game in town — then it can turn into a frenzy.

We saw that back in 2020 and 2021 with some of those covid winners.

And we saw it like in, in back and we were just talking about it in 20/20/21, some of those kind of covid winners.

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If that then spills over into people being their own worst enemy — buying stocks purely for momentum — what tends to happen is that some fortunes get made, but many more get lost on the way down, especially when people keep buying and hoping for the magic to return.

Once the magic moment has passed.

Once, once the once the kind of the magic moment has has passed.

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And then sometimes, as we saw in 2008, the economic spillovers can be very dramatic and underestimated. The housing bubble ultimately led into the largest recession we'd seen in the best part of a century.

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And just picking up another theme you discussed in your article:

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It was about the, the importance of taking a long term view of history.

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Now markets today, we've kind of touched on it already, but they're becoming increasingly myopic.

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And it's something Jonathan has ingrained in all of us, the importance of taking a look back over history.

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Why do you think it's so important for investing?

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Well, I think history is a great substitute for experience, basically.

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Whether that's the political situation, the economic system, corporate history, or even seemingly boring things like regulation and governance through time, what you learn is that things change in ways people didn't necessarily anticipate.

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And just having that broader range of knowledge about how things might evolve is enormously helpful.

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Because it's very tempting to take today and assume tomorrow will look much the same.

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But the longer you go on, the broader the possibilities are.

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So in a sense, looking backwards equips you better for looking forwards and keeps you open-minded about the possibilities.

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So if we keep with the theme of looking forward, where are you seeing the biggest risks and opportunities in markets today?

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Yes, I think the clearest answer on the risk side is the state of government debt and deficits.

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We live in a world that has become used to ever-larger government deficits, first after the financial crisis and then after covid.

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There's year-to-year borrowing, but also the cumulative effect in terms of the overall debt, such that if we were to have a recession tomorrow, the usual lever of expanding the government deficit to cushion the pain would be more difficult to use, or would result in deficits much larger than we've become used to.

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So how does that play out in terms of the politics of it?

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The inflationary impact of that is a very interesting question.

I don't have the answers, but I think it's definitely a key risk because, back to the earlier point, that world may look different from the one we've been used to.

I don't have the answers, but I think it it, it's definitely a key risk because back to the earlier point, that world may look different from the one we've been used to.

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And on the other hand, in a world of those deficits and most likely higher inflation, which has been accompanying them, the scope for central banks to cut interest rates and help clear up problems is also lower.

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So from a market point of view, you've got this overlay of like, well, how does the politics work from there?

So from a market point of view, you've got this overlay of: how does the politics work from there?

And how does the standard toolkit of central banks and government help cushion the blow from recession? Those feel like key risks to me. On the opportunity side, as the world focuses on the clear AI beneficiaries of the build-out, a lot of other stocks are increasingly being left behind or even sold to fund positions elsewhere.

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So we are seeing some potential bargains build up. That may, of course, go on a bit longer.

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But if it does, then there'll definitely be some major opportunities there.

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And you’re starting to build a position in some of those opportunities.

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Yes, we are.

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Yes, we are.

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Yes.

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Great.

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We could keep talking about markets, risks and opportunities forever, but I am conscious of time.

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So I’ll come on to our final couple of questions here.

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As you step into the role of Co-CIO, what is it that you think you’re going to bring to this role?

Yes, well, hopefully it’s the overlap.

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We’ve talked about some of the Ruffer guiding principles around offsets.

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Convexity is another one that Henry would labour on.

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If I can bring some of the more alpha-side ideas from what I’ve been doing into that mix, then hopefully that can be very powerful for clients.

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Speaking of clients, what is the one thing you want clients to know about you and how you think about investing?

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Yes, I think I’m very open-minded and very keen on fresh ideas.

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And I always like to end these podcasts with a slightly different question.

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So for you, I’ve picked, what do you think?

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What is the one thing that you would like the next generation of investors to think about or read or know?

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Yes, I have a fun answer to this one.

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I think it's to read chapter 12 of Keynes's General Theory, which actually covers a few of the bases we've been discussing. It's a very fun read in what is otherwise quite a dense book, and I recommend it to anyone who'll listen. It's a very fun read, otherwise, it's quite a dense book and I recommend it to anyone who'll listen. He's on my team. So I print it off and give it to people.

It touches on some of the classic ideas — the market can stay irrational longer than you can stay solvent — and other familiar Keynesian themes.

But it also explores the whole idea we've been discussing around conventional wisdom at any point in time, and how that conventional wisdom can change and look very different in five years' time.

And that's probably the key takeaway from it.

But it's a great, fun read on markets, despite having been written 90 years ago.

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Importance of looking back over history.

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Well, there you have it: chapter 12 of Keynes.

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Thank you so much for joining us, Jon.

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Thank you to everyone for for listening.

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