Secrets every Investor Should Know

YOU WEREN'T SUPPOSED TO SEE THAT

JOSHUA M. BROWN

"One of the greatest financial writers of all time."
—MORGAN HOUSEL

"Josh writes like he speaks, with refreshing honesty."
—SCOTT GALLOWAY

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STAR OF CNBC'S *THE HALFTIME REPORT*, CEO OF RITHOLTZ WEALTH MANAGEMENT

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Joshua M. Brown

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INTRODUCTION

You will finish reading this book, put it down in front of you, sit for a moment and then say to yourself, "*Wow*."

At least that's how I picture it.

There's a lot in here you've never heard before. There are some things you may have heard before but you've never seen confirmed. There's some behind the scenes stuff in this book you've probably never even considered. So the "wow" is not going to come as a result of my writing ability. It'll come because I'm going to share some details with you that no one else has a vested interest in sharing.

To be honest, I don't even have a vested interest in saying these things myself.

In fact, I'm probably working against my own interests sometimes as a daily chronicler of the investing world. I never really know what bridges I'm burning when I press publish on a thing. I'd like to say that I do it anyway because I'm on some sort of quest to reveal the truth and save the world, but it's a bit more prosaic than that. The reality is I just talk too much. And when I see a thing, I can't pretend I didn't. And if it's a thing that's notable, I have to say so.

I'm both a player on the field and a commentator in the press box, acting and narrating simultaneously. It's a strange vantage point but there are no lines anymore. Everyone's doing content these days. The hedge fund guys are tweeting. The CEOs are writing on LinkedIn. The venture capitalists have YouTube shows. There's no fourth wall. We don't wait until after we've accomplished a thing to write a book about it. Now we write the

book as we do the thing. The exposition of the effort becomes part of the creation itself.

This mirrors what's happening in professional sports, with Derek Jeter having created The Players' Tribune and several active NBA stars producing podcasts while they're still playing in the league. Musicians comment on the state of the music industry as a means of cultivating a fan base who will help them chart high, sell out concert venues, and defeat their perceived enemies and rival musicians on social media.

These days, we're all both the performer on stage and the narrator who explains the performance as it happens. The Gen Z kids do a thing where they post an embarrassing photo of themselves and then caption it, "Not me showing up to my class wearing two different shoes LMAO!" or "Not me losing my job at the funeral parlor for taking selfies in front of an open casket!! OMG!!" A lot of the time I feel like it's, "Not me revealing secrets about a tactic that's going to piss off a thousand people I do business with!!"

But again, I can't help myself. So that's what's in this book. Things I probably shouldn't be talking about.

I spent 15 years writing about investing, trading, markets, regulation, economics, geopolitics, trends and fads, heroes and villains, entrepreneurship, culture, and the collision between Wall Street and Main Street. My blog, *The Reformed Broker*, ran from the fall of 2008 through the fall of 2023 and has been read by millions of people over the years. I've heard from fans and critics from around the world. I've met people who've been reading my stuff from every walk of life—young, old, amateur investor, professional trader, you name it. I've gotten thousands of emails, most of them encouraging and grateful for my perspective, some of them completely unhinged or furious with something I'd said. I've posed for pictures, responded to written letters, sent Happy Birthday videos to fans, signed thousands of books, and I even surprised a guy whose wife begged

me to stop by a lunch she had planned across the street from my office on the off chance I'd say yes. That one didn't go well, but that's a story for another time.

The blog has been the center of my professional life and it occupied a great deal of my personal life as well. The blog is what saved me from a career in obscurity selling stocks to strangers over the telephone. The blog is how I met my mentor, idol and current partner, Barry Ritholtz. The blog is how the first dozen or so employees who've come to work with us discovered what we were doing. The blog got me columns at Fortune, Forbes, the *Wall Street Journal*, Yahoo Finance and elsewhere. The blog got me seen by the television producers at CNN, Fox Business, Bloomberg and, ultimately, CNBC, where I've been an on-air persona since 2010 and a contributor under contract with NBCUniversal since 2012. The blog established me as a pundit worth listening to. The blog landed me on all the 40 Under 40 and Most Influential lists. The blog opened doors to me all over the world. It changed my life and, according to many investors and fellow advisors I've heard from over the years, it's also changed theirs.

And that's why this book is so meaningful to me. Because when I write here and elsewhere, I'm not just talking about finance or money, stocks or bonds. I'm talking about my life. Your life. What all this investing and money in motion is supposed to mean. What is the point? How does it work? Why should we care? How should we think about it? What is it all leading to? What are we trying to achieve?

I hope to help you answer some of these questions for yourself with what you're about to read. I hope to educate and entertain you on the way to uncovering these answers. And most of all, I hope to convey how helpful this process is for me, as I am also in search of these answers, right alongside you. Still, after all these years.

The *Wall Street Journal*'s Jason Zweig once said, "The longer I'm doing this, the more I realize I don't know." Similarly, I think I've figured out

quite a few important things along the way, and these are the things I'll be telling you about on the pages within. But it's never over, which is why the writing continues. Let's begin.

Joshua M. Brown
Long Island, New York
April 2024

JUST OWN THE DAMN ROBOTS

…five ranks of ten machines each, swept their tools in unison across steel bars, kicked out finished shafts onto continuous belts…

Paul unlocked the box containing the tape recording that controlled them all. The tape was a small loop that fed continuously between magnetic pickups. On it were recorded the movements of a master machinist turning out a shaft for a fractional horsepower motor. He'd been in on the making of the tape, the master from which this one had been made.

He had been sent to one of the machine shops to make the recording. The foreman had pointed out the best man – what was his name? – and, joking with the puzzled machinist, had been hooked up to the recording apparatus. Hertz! That had been the machinist's name – Rudy Hertz, an old timer, who had been about ready to retire.

And here, now, this little loop in the box before Paul, here was Rudy as Rudy had been to his machine that afternoon – Rudy, the turner-on of power, the setter of speeds, the controller of the cutting tool. This was the essence of Rudy as far as his machine was concerned.

Now, by switching in lathes on a master panel and feeding them signals from the tape, Paul could make the essence of Rudy Hertz produce one, ten, a hundred, or a thousand of the shafts.

Kurt Vonnegut, *Player Piano*

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here's something insidious going on in the psyche of investors that

T deserves a lot of the credit for today's bull market, and almost no one is talking about it.

But I will.

The first American retirement system was available only for gunfighters. Let's say a colonist in Massachusetts picks up his arms and goes off to defend his settlement against the Indians. They chop off his arm, rendering him unable to participate in the only form of labor that existed in those days (manual). He can't build shelters anymore, raise animals or till the soil. So the colony takes up a collection, in the form of taxes, which enables the wounded fighter to retire and continue to support himself and his family.

You know who collected these taxes from the colonists? Usually the guy himself. True story.

The concept of retirement evolved from there. For most of the 1800s, you basically worked on a farm til you died. Retirement took place in a graveyard. Until 1875, when the American Express railroad company established the first private pension fund in America, followed by many other companies shortly after. It was no big deal, given that the average person wasn't expected to make it long past their 50th birthday. The US government created a public version of this in the 1930s—the Social Security system—when it became apparent that not everyone was going to have a job long enough (or secure enough) to earn these pensions.

And then that went on into the 1970s, whereupon the personalization of retirement funding began, with 401(k)s and individual retirement accounts (IRAs) and the like. Pensions were replaced with investment accounts owned and managed by each worker, which is where we are now. So the concept of retirement as we know it is essentially just 50 years old. It's what the majority of investors have been doing in the markets in the first place—deferring spending today so that they'd be able to have enough money to spend later on.

But something else is going on right now. There is a sense of desperation

underlying the way in which we're investing.

Why won't people panic!?!

Trump! Kim-Jong-Un! Nukes! Border walls! Race riots! Trade agreement demolition! Impeachment proceedings! Sell, goddamn you!

But they won't sell. Stocks make new highs, volatility completely disappears. Every week a fresh reason to freak out. No reaction from the investor class whatsoever, other than in short, sharp bursts that dissipate within hours.

Why?

Well, if you think Donald Trump's outbursts on Twitter should be scaring investors, then perhaps you failed to consider the possibility that there is something even scarier out there.

A 45-year-old married father of two with a mortgage and a pair of college educations to fund. The remote yet persistent threat of a nuclear war is not what keeps him up at night. In fact, he might almost see it *as a relief* should it come. He is a bundle of raw nerves, and each day brings even more dread and foreboding than the day before. What's frying his nerves and impinging on his amygdala all day long is something far scarier, after all. He, like everyone else, is afraid that he doesn't have a future.

He is petrified by the idea that the skills he's managed to build throughout the course of his life are already obsolete.

In Kurt Vonnegut's 1952 novel *Player Piano*, we are introduced to a future in which only engineers and managers have gainful employment and meaningful lives. If you're not one of the engineers and managers, then you're in the army of nameless people fixing roads and bridges. You live in Homestead, far from the machines that do everything, and are treated throughout your life like a helpless baby. The world no longer has a use for

you. Anything you can do a machine can do better, and you are reminded of this all day, every day by society and the single omnipotent industrial corporation that oversees it all.

Vonnegut wrote this 65 years ago. It couldn't have been more apropos to what we're witnessing now than if had he written it this morning, right down to the nostalgia-selling demagogue who seizes the opportunity to foment rebellion amongst the displaced and disgruntled. When millions of people start seeing their purpose begin to erode and their dignity being stolen from them, the idea that there's nothing left to lose starts to creep in.

In the book, the result is a violent rebellion against the machines. In the real world, we've resigned ourselves to investing in them instead.

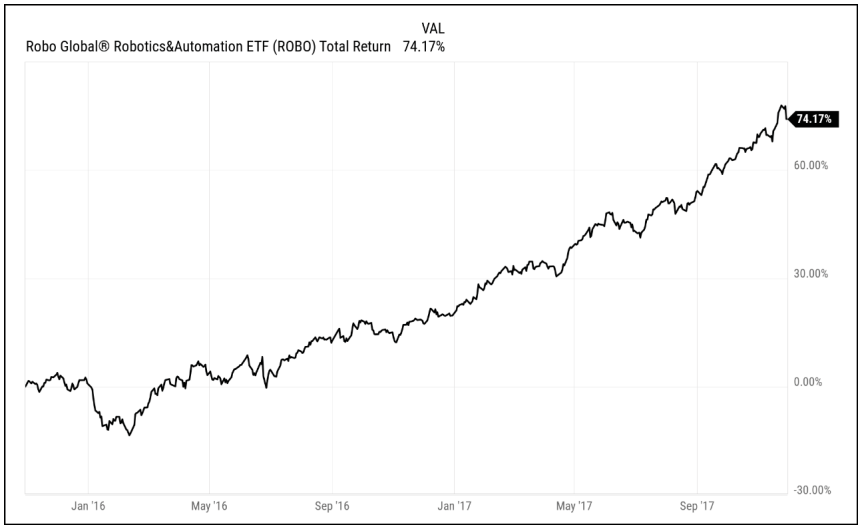
We could be in the midst of the first fear-based investment bubble in American history, with the masses buying in not out of avarice, but from a mentality of abject terror. Robots, software and automation, owned by Capital, are notching new victories over Labor at an ever-accelerating rate. It's gone parabolic in recent years—every industry, every region of the country, and all over the world. It's thrilling to be a part of if you're an owner of the robots, the software and the automation. If you're a part of the capital side of that equation.

If you're on the other side, however—the *losing* side—it's a horror movie in slow motion.

The only way out? Invest in your own destruction. In this context, the FANG stocks are not a gimmick or a fad, they're a f***ing life raft. Market commentators rhetorically ask aloud what multiple investors should pay to own the technology giants. That's the wrong question when people feel like they're drowning.

What multiple would you pay to survive? Grab a raft.

Here's the "Robotics and Automation ETF" from November 2015 to November 2017.



There's panic in this chart. A much more sustained kind of panic than can be sown by the pronouncements of Trump or the bellicosity of North Korea.

There's a great joke about an automated car plant in Japan, where the machines work in the dark (no need for light, they don't have eyes) and there are only two living things authorized to be on the factory floor—a man and a dog.

What's the man there for?

His job is to feed the dog.

What's the dog for?

The dog keeps the man from touching any of the machines.

Matt Levine at Bloomberg View has an interesting way of thinking about Bridgewater, a gigantic hedge fund overseeing almost $200 billion in assets:

> if you had to describe in two words what Bridgewater's 1,500 employees do, "not investing" would be a pretty good fit. They have a computer to do the investing! Bridgewater runs on algorithms, and famously few of its employees have much visibility into how the algorithms actually work. They instead spend their time marketing the firm, doing investor relations, and—crucially—evaluating and

> critiquing one another. I once explained my theory of Bridgewater: "One stylized model for thinking about Bridgewater is that it is run by the computer with absolute logic and efficiency; in this model, the computer's main problem is keeping the 1,500 human employees busy so that they don't interfere with its perfect rationality."[1]

This heuristic—a room full of geniuses playing mind games with each other while computers keep the profits rolling in—is definitely silly, but Vonnegut would have loved it. And it works really well symbolically, even if it's a distortion. You don't get a better educated, more highly pedigreed workforce than the folks at Bridgewater. So the image of them looking for ways to fill their days—even though untrue—could only increase the dread of people working in firms further down in the Knowledge Economy food chain.

"Specialize," the displaced workers are being told. "Up your education and increase your skills! Move to a different city! Find a niche where technology can't replace you! Learn to code!" They're trying, but this doesn't seem to be a long-term solution. We're in an age where we're being told AI is about to start writing its own software. Machines are going to be trying legal cases and diagnosing illnesses, writing songs and architecting buildings, giving financial advice and driving our vehicles. Every day more articles about this or that breakthrough. There are no limits, there are no protections. It's bordering on lawlessness.

No one is immune. Not even the creatives. Netflix users have spent 500 million hours watching Adam Sandler content, so it isn't far-fetched to imagine its programming algorithm devising an art house film starring Sandler.[2] Why do we need producers? Why is a monster like Harvey Weinstein even necessary in a near future where software determines what we want to watch and automagically gives us more of it? What would be Weinstein's role in that, besides grabbing people and running up massive legal and travel bills for the studio?

People have never felt more ill at ease about their own reason for existing. This is manifesting itself in the trillions of dollars being thrown at Facebook, Google, Uber, Nvidia, Apple, Amazon, Alibaba. Yes, these companies create jobs, but they are *different* jobs that the people being displaced mostly can't get. When 10,000 sweater-folding department store workers are laid off in 50 different cities on a Friday, it's not like they can all relocate to Seattle and begin building mobile user interfaces for Amazon the next Monday morning.

Professor Scott Galloway, an expert on the technology giants that now dominate every facet of the economy and our lives:

> Uber only has a few thousand employees, and they're very technically literate. Uber has figured out a way to isolate the lords (4,000 employees) from the serfs (2 million drivers), who average $7.75/hour, so its 4,000 employees can carve up $70 billion vs 2 million on an hourly wage. So, Uber has said to the global workforce, in hushed but clear tones: 'Thanks, and f*** you.'

Michael Batnick frames this as the price of progress,[3] which is becoming a full-blown crisis. We have no answers for this yet. He is hopeful that we come up with some. It's happening a lot faster than we can adjust to it, even if it's all *eventually* for our benefit (and what sort of capitalist would be caught dead arguing otherwise?).

The anarchists in Vonnegut's book have paid the price of progress. They worry about their sons committing suicide when their IQ test results sort them out for a lifetime of roadwork rather than an invitation into the upper echelons of managers and engineers. They write a letter explaining the destruction they're about to unleash as payback for all of the "progress" that's been inflicted on them:

> I deny that there is any natural or divine law requiring that machines, efficiency, and organization should forever increase in scope, power,

> and complexity. I see these now, rather, as the result of a dangerous lack of law. The time has come to stop the lawlessness.
>
> Without regard for the wishes of men, any machines or techniques or forms of organization that can economically replace men do replace men. Replacement is not necessarily bad, but to do it without regard for the wishes of men is lawlessness.
>
> Without regard for the changes in human life patterns that may result, new machines, new forms of organization, new ways of increasing efficiency, are constantly being introduced. To do this without regard for the effects on life patterns is lawlessness.
>
> Men, by their nature, seemingly, cannot be happy unless engaged in enterprises that make them feel useful. They must, therefore, be returned to participation in such enterprises.

The disruptor's credo, say it with me: *Your profit margin is my opportunity. Put another way: Your profitable small business is basically a market failure. But only for now, because we've got investors, motherf***er.*

Friend of a friend owns a small chain of grocery stores in New Jersey. A few years ago, when Amazon got into groceries, he changed his mind about investing in the growth of his own business. He started buying Amazon shares with his investment capital instead. He saw what happened to Circuit City and Tower Records, Borders and Barnes & Noble. So he bought some Amazon and then he bought some more.

This wasn't retirement investing. This was something else. What should we call it? *Disruption insurance?*

I don't know. Anyway, long story short, Amazon is up over a thousand percent over the last ten years, and <Jersey accent>he don't need the stores no more.</Jersey accent>

Of the people actively looking for jobs right now, 96% are currently employed, as of the latest labor report. This, of course, excludes tens of millions of working-age folks who have stopped looking, are working off the books or have otherwise just given up. A great deal of them come from industries or vocations that no longer exist. This is not a new phenomenon, it's been going on since the beginning of time.

What is undeniable, however, is that the pace of this process has increased to breakneck speed. It also seems to be perennially advantaging those for whom advantage has already accrued. Winners keep winning. A momentum strategy, but for people. You would expect the folks on Wall Street to be celebrating all-time record highs for asset prices. It's the opposite. It's making them miserable. Headcounts and fund closures are this bull market's accoutrements, not lavish parties and cocaine. It's never been like this before.

For the last 50 years, we've invested for retirement. For the last two or three years, we might be investing for a whole other reason. What price is too high to pay for a company's stock if the company spends every waking minute trying to replace you?

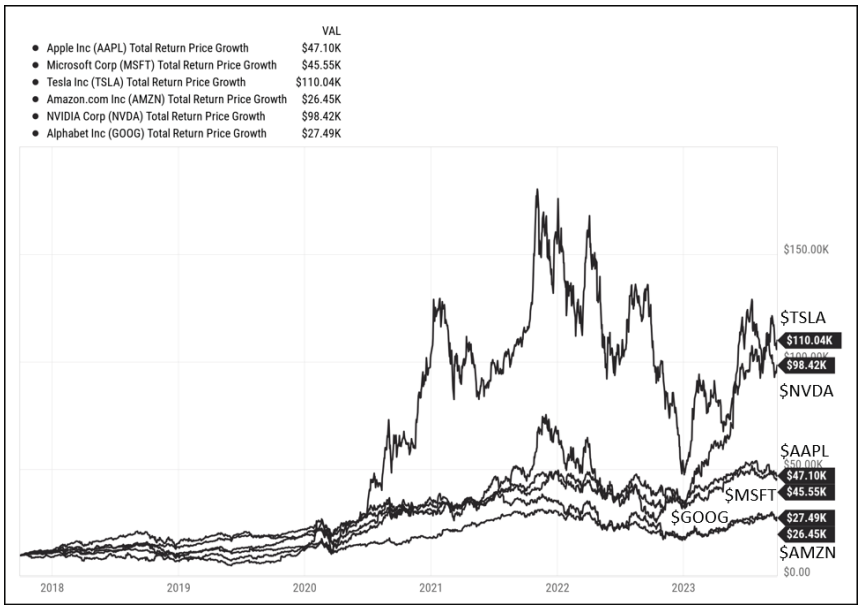
So what else is left to do? Just own the damn robots.

Josh's Remarks

Over the six years following the publication of this post in the fall of 2017, Alphabet, Amazon, Apple, Microsoft, Nvidia and Tesla all more than doubled. Meta, formerly referred to as Facebook (I will always call it Facebook), lagged its cohort, gaining just 80%—roughly in line with the overall stock market. But those other tech giants only got gianter, with Tesla and Nvidia growing eightfold. Apple and Microsoft both quadrupled,

becoming $3 trillion market capitalization companies—larger than any publicly traded companies anywhere in the world, ever.

The chart shows the growth of $10,000 from October 2017 through October 2023.



By the end of this period, Apple’s market value was equivalent to every single company in the Russell 2000 Small Cap Index combined. The so-called Magnificent Seven stocks grew as a proportion of the stock market to the point where they accounted for 28% of the S&P 500’s index of large cap stocks. One in four dollars invested in the US stock market was invested in just these seven companies.

The idea of machines taking the jobs of ordinary people and thereby tearing at the fabric of society is an ancient paranoia. John Henry was said to have swung his steel hammer in a race against a steam-driven replacement in 1870 as the C&O Railroad was breaking a mile-long tunnel through Big Bend Mountain in West Virginia. As most people are aware, specific jobs come and go, but every technology revolution we’ve had so far has ultimately led to the creation of new vocations and careers none of us could have imagined in the prior period. But there’s a lag between the death of the old and the birth of the new. A chasm in time where folks who aren’t

trained or suited for the new availabilities fall through the cracks. Not everyone can or will be trained for whatever's next. This lag in time and the threat of personal obsolescence is what fuels the fears I described in the post.

On November 30, 2022, a software program known as ChatGPT was released to the general public for the first time via a not-for-profit organization called OpenAI. Not long after, technology industry folks were sharing its writing and coding capabilities on Twitter to a chorus of wonder and borderline disbelief. From there, visual versions of OpenAI that dealt with images rather than text began to circulate, led by its sister program DALL-E and a San Francisco-based upstart called Midjourney. These programs had been "trained" with data over years until the point where they were ready to handle all sorts of tasks and queries from a general audience...

> Write me a college admissions essay incorporating my experiences volunteering for homeless charities playing tennis in an international tournament.
>
> Create a table listing all of the top-selling SUV makes and models in America during the month of January 2016, sorted by sales volume in descending order.
>
> Write a text message I can use to break up with my boyfriend but make it kind and gentle.
>
> Create an image of the skyline of Manhattan but composed entirely of spaghetti noodles and a red sauce river surrounding it, in the style of an Impressionist painting.
>
> Make me a rectangular logo for my trucking company, Greenbriar Hauling, using the image of a large tree and a modern typeface.

The above demands are known as "prompts" and prompts are going to eventually replace search queries in many instances of our collective internet use. It's been remarked that a Google search tells you where to find

the answer you are looking for while a ChatGPT prompt just hands you the answer itself. If this isn't a great leap forward for billions of internet users, I don't know what is. It feels like the world is about to make a jump and everything about how we live and work with information is about to change.

It took Instagram two years and six months to reach 100 million users from its launch in 2010. It took Uber five years and ten months to get there. YouTube and Facebook took a little over four years each to get to 100 million users. The World Wide Web took about seven full years.

So when the TikTok app came along and got to 100 million users in just nine months, people were blown away. And then ChatGPT did it in just two months, a rate of adoption the likes of which we've never seen before. So of course, as this earth-shaking revolution was getting underway, investors were searching for a way to make money from it.

All roads led to Nvidia. For over a decade, the one-time video game graphics card maker had been transforming its business to be ready for the AI revolution. Unlike central processing unit (CPU) chips (think Intel), whose computational order of operations is linear, graphics processing units (GPUs) are built to carry out many operations at once, referred to as parallel processing. These GPUs—and the software platform that dictates their actions—became the most in-demand technology products in the world in 2023. Nvidia was practically the only game in town—and by "in town," I actually mean in the whole world. The revolution came and only they were there to supply the picks and shovels on day one.

And then one day in May 2023, everyone, everywhere, all at once, was put on notice that this was real—the next tech tidal wave was now crashing upon us, ready or not. On May 24, Nvidia reported its second-quarter earnings and gave guidance for the rest of the year. It was the most explosive earnings report of all-time.

Here's how Reuters reported it:

> Nvidia Corp on Wednesday forecast second-quarter revenue more than 50% above Wall Street estimates, and said it is boosting supply to meet surging demand for its artificial-intelligence chips, which are used to power ChatGPT and many similar services.
>
> Shares of Nvidia, the world's most valuable listed semiconductor company, rocketed as much as 28% after the bell to trade at $391.50, a record high. The gain increased Nvidia's stock market value by about $200 billion to over $950 billion, extending the Silicon Valley company's lead as the world's most valuable chipmaker and Wall Street's fifth-most-valuable company.

Never before had a public company added $200 billion in market cap in a single day after an earnings report. Nvidia would eventually get above the $1 trillion market cap level and keep going. It rose from around $150 per share at the start of 2023 to over $500 in the first ten months of the year, with subsequent earnings beats powering a 250% rally in its shares year-to-date. Nvidia's stock is up over 13,000% over the decade up until this writing, making it one of the greatest winners in US stock market history.

Its Taiwanese-American co-founder and CEO Jensen Huang saw his net worth rise to over $40 billion, catapulting him onto the list of the wealthiest people on Earth. In October of 2023, Huang gave a talk at a technology event organized by Columbia University. Relaxed and clad in his now trademark black leather motorcycle jacket, he told the audience, "AI is not going to take your job. The person who uses AI is going to take your job."

The simultaneous launch of popular AI text and image applications, combined with the eruption of demand for Nvidia's GPU chips, was the starting gun being fired in the first half of 2023. As the onslaught of new large language models and other AI applications come at us in wave after wave, we'll look back on this moment as the beginning of a new era. In hindsight, there will only be a *before* and a *since*.

Given the sheer power of this new technology, both realized and imagined,

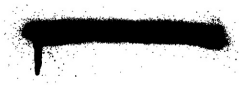
it should come as no surprise to you that the companies associated with it have enjoyed a massive spate of outperformance in the stock market ever since it emerged. Indeed, owning the damn robots has never seemed so incontrovertibly necessary as it does today. Own them or be left behind as they are trained to do what you do, only cheaper, faster and better. Invest or die.

1
M. Levine, “The Case Against Bridgewater Isn’t Proven,” Bloomberg (October 13, 2017).

2
A. Rodriguez, “The Netflix algorithm’s perfect movie is an arthouse comedy starring Adam Sandler,” *Quartz* (October 13, 2017).

3
M. Batnick, “The Price of Progress,” *The Irrelevant Investor* (October 10, 2017).

YOU WEREN'T SUPPOSED TO SEE THAT



I'm going to tell you a quick story in the order in which it happened. You were there. You will be familiar with the sequence of these events. But you may not have reached the shocking conclusion that I have. At least not yet. Wait for it…

Our story begins in 2019…

It was the best of times, it was the best of times. The tail end of a decade of uninterrupted asset price appreciation for the top decile of American households who own 89% of the US stock market and 70% of all of the wealth. Not only did they ride this wave higher, they even figured out a way to have their cake and eat it too—a way to not even have to sell any of their assets to maintain the costs of a top ten-percenter lifestyle.

Securities-based lending. A silver bullet.

The banks were more than happy to arrange a loan against any stock, bond or building in their clients' portfolios. And why not? This way, no one had to sell and pay taxes while the money under management remained *sticky* and eligible for fees forever. You could be rich, stay rich, borrow at will, never come out of pocket, never give up your piece of the pie and yet still be able to pay for whatever you wanted. Clients loved it, banks loved it, financial advisors and fund managers loved it.

It was a win-win engineered by the cleverest of the clever on Wall Street and a decade of ultra-low interest rates courtesy of the Federal Reserve and central banks around the world. Stock market volatility was minimal, taxes were low and borrowing costs were so slight they may as well have not even existed. Never before was it so easy to finance, accumulate and

maintain a portfolio of real and financial assets—from private real estate to startup shares to public stocks to fixed income of every sort and stripe. The upper class was floating away on an endless river of cashflows and capital gains. Meanwhile, prices and costs in the real economy barely budged. Income and wealth inequality soared but it was hard to say the "winners" were directly hurting anyone or causing any harm to any other group. It's just that they were noticeably pulling ahead of everyone else at faster rates. But everyone was advancing to some degree, so, whatever. Life went on.

So long as inflation remained in check, the Fed could more or less manage the stock market with occasional quarter-point rate hikes or rate cuts and a smattering of speeches here and there.

And it worked beautifully—here are the annual inflation rates (as measured by CPI) for the years leading up to this ecstatic moment in the history of American-style capitalism:

2015: **0.12%**

2016: **1.26%**

2017: **2.13%**

2018: **2.44%**

2019: **1.81%**

The economists couldn't believe the marvels of the disinflationary era. We had lived through decades of "the great moderation" following the peak of prices in the 1980s, but the last few years of it were truly extraordinary. It broke all of the models and core tenets of how we thought money was supposed to work. If people were willing to pay their governments interest to hold their money for them—and they were—then nothing made sense and all of our assumptions about "rational actors" in the capital markets were up for a reexamination. At one point during the summer of 2019, some $15 trillion worth of sovereign bonds, or one-quarter of the overall global bond market, had negative interest rates.[4] There was too much money

sloshing around in these countries and the central banks were basically saying, “Go invest or spend it, we don’t need it but hopefully you do.” The bond yields in Japan, Germany, France, Sweden, the Netherlands and Switzerland were all deeply negative.

People in the know were utterly mystified by how all of this free money wasn’t causing enormous amounts of inflation in the real economy, let alone how it could actually be feeding into the disinflation being felt everywhere. They blamed tech (“Software is eating the world”), they blamed globalization, they blamed just-in-time inventory strategies, they blamed China (“They’re exporting deflation!”), they blamed millennials (“They’re not having sex! They’re not starting families and buying homes!”), they blamed indexing and ETFs (“It’s a gateway drug to communism!”) and, when all of that failed to explain the lack of inflation, they blamed the statistics themselves (“Obama! He’s hiding something. He’s in on it with the Jews and the lesbians! They’re taking over the pizza parlors in Washington D.C. for their satanic sex rituals and suppressing the inflation stats to keep Donald Trump Jr. from discovering the true location of the treasure chest Jesus Christ gave to George Washington for safekeeping in 1984!”).

I wish I was kidding about that last thing, but I am not. We are surrounded by imbeciles. Social media has enabled the village idiots of every town and region to discover each other and band together in the millions. Society is actually regressing intellectually for the first time since the Dark Ages. We’ll get to that some other time.

Anyway…

Even after all these tortured economic theories were run through the financial media’s military-industrial spin cycle, deconstructed and recombined into takes on takes on takes, endlessly ricocheting off the walls of a thousand PDFs, we were no closer to having a real understanding of

how a phenomenon such as this could even be possible in the first place, let alone how it could run on for as long as it did, year after year.

And then the pandemic came along a few months later and, without knowing it, we were about to run the greatest economic experiment since the Great Depression, in real time, for all to see. Everyone got to participate in this experiment, whether they wanted to or not. Every existing person in our economy—from the CEO of the largest publicly traded company in America to the lowest-paid employee of the smallest commercial farm—we would each be assigned a role to play. Every single one of us—that's how big this experiment would be.

Most experiments start with a question. A hypothesis is then proposed to answer that question. A test of the hypothesis is devised and then carried out. It is proven true or false.

Our experiment started out with the following question: "Can we shut the economy down for a health emergency and not cause a second Great Depression?"

The answer turns out to have been: "Yes, we can."

The hypothesis was that if we print enough money so that no one falls behind on their bills, we can effectively shut down all but essential commerce for an indeterminate period of time and most people will be okay. It took a lot of money, but it basically worked.

We carried out stimulus in several ways but the most notable thing we'd done was brand new: Direct payments to regular people whose employers had permanently or temporarily asked them not to show up for work. This happened in three rounds of payments. These numbers are taken directly from the government's pandemic oversight agency:[5]

- Round 1, March 2020: **$1,200** per income tax filer, **$500** per child (CARES Act).
- Round 2, December 2020: **$600** per income tax filer, **$600** per child

(Consolidated Appropriations Act).

- Round 3, March 2021: **$1,400** per income tax filer, **$1,400** per child (American Rescue Plan Act).

To prevent companies from conducting mass layoffs of their employees, the Paycheck Protection Program (or PPP) was created. Beginning in late March of 2020, and continuing over the course of two rounds, a total of $792.6 billion went out to 11.5 million small and midsized businesses. Over ten million of those loans ended up being forgiven (not repaid); that's $742 billion worth. My firm borrowed money under the PPP during the unprecedented uncertainty of early April 2020 and then repaid the loan in its entirety two months later in June. Almost none of the program's borrowers saw fit to do the same. It's possible that the 90% or so of firms who kept the money genuinely needed to. I don't sit in judgment of people and situations I have no knowledge of so I will leave that debate for others. But the money was almost entirely kept, so we're talking about another three-quarters of a trillion dollars of stimulus remaining in the economy and never coming out.

The Coronavirus Relief Fund was created to get money to states and cities. A total of $150 billion was sent to almost 1,000 entities, from the Governor of Texas to the Treasurer of California, the Commonwealth of Kentucky to the Executive Office of the State of Wyoming.

Then there was the State and Local Fiscal Recovery Fund (or SLFRF if that's easier to pronounce, and it isn't). $350 billion distributed to 1,756 states, territories, cities, and counties with populations over 250,000. Bergen, New Jersey. Albuquerque, New Mexico. Tampa, Florida. Green Bay, Wisconsin. The money went everywhere and to everyone for everything.

Throw in another $186 billion through the Provider Relief Fund to support hospitals and healthcare organizations, of which $134 billion was actually

sent out. Then there was another $16 billion in the form of the Shuttered Venue Operators Grants—cash handouts for movie theaters, Broadway, museums, etc. The Restaurant Revitalization Fund (or RRF) was another $28.5 billion with an average grant amount of $283,000 to over 100,000 recipient restaurants. This is above and beyond whatever they got in paycheck protection, tax and rent relief, etc. They needed money to convert their dining rooms for additional spacing and plexiglass enclosures for ordering counters and hand sanitizer and masks and all sorts of other stuff that didn't end up working at all.

In total, the federal government created $4.3 trillion in direct economic stimulus, of which $3.95 trillion was dropped onto the economy, as if by helicopter, in a period of under 18 months. There were people comparing the dollars spent on the government's pandemic response to the spending America did on World War II. This is a silly comparison, especially when calculated as a percentage of GDP,[6] but the point is that there are few other things you could compare it to that would even be in the same ballpark.

And while the Treasury was disbursing all of this money into the bank accounts of business owners and workers, the Federal Reserve was doing its part on a parallel track, with the bank working "hand in glove" with the federal government. Interest rates were slashed to zero and the Federal Reserve began an asset purchase program designed to re-liquefy financial institutions by buying Treasury bonds and mortgage bonds from them at prevailing prices, no questions asked, to the tune of $120 billion per month, every month, for an unspecified period of time (which turned out to be almost two full years!). This led to unprecedented liquidity in the system and plunging borrowing rates for corporations, which would eventually lead to record profit margins for the S&P 500, record stock buybacks, and one of the greatest bull market rallies in history.

Between March 23, 2020 (the day stocks bottomed) and August 16, 2021, the S&P 500 had doubled from 2237 to 4479. It took just 354 days, the fastest double in stock market history back to World War II. In the one-year period from March 2020 through March of 2021, over 95% of all S&P 500 component stocks had a positive return. In calendar year 2021, over 1,000 companies came public, wiping out every initial public offering (IPO) record on the books.

We used the term “unprecedented” so many times in this era, heedless of Pee-Wee Herman’s warning, that we effectively wore it out. But it was no exaggeration. Everything was unprecedented.

Trillions of dollars in cash hit people’s bank accounts while the balances in their brokerage and retirement accounts exploded higher and the value of their real estate soared. The cost of their household debt shrank and even the used cars parked in their driveway had appreciated in value. There wasn’t a lot to do so their monthly expenses declined and their savings rates rose. According to Federal Reserve data, by the end of 2021 the median American had never been in better shape. Household net worth rose to a new record in the fourth quarter of 2021, totaling $150.3 trillion, which was up 3.7% or $5.7 trillion from the previous quarter, and 14.4% from the end of 2020.[7]

And things were good.

Here’s the thing about the pandemic experiment: It worked *too* well.

Everyone had money. Everyone had options. There was a bull market in people forming their own LLCs and starting companies. A bull market in sitting on their asses and doing nothing too. A bull market in quitting their jobs. A bull market in whatever they felt like doing. Indulging their hobbies, accepting flexible hours, moving their residence, taking college classes while being employed, secretly having two full-time employers, quitting without quitting, being paid for waking up in the morning, taking extended periods of time in between gigs, making a big career change. Whatever people wanted to do, they could do. Freedom on a previously unimaginable scale.

Young know-nothings from all walks of life were investing in digital art and SPACs, trading options on their phones, starting their own companies, selling their own weed and launching their own crypto projects. Older ordinary people found themselves accidentally wealthy overnight, their houses instantly worth 30% to 50% more almost regardless of condition or geography, the values of their 401(k)s bursting at the seams, potential buyers for their small businesses and real estate holdings coming out of the woodwork with blank checks ready to be signed at the conclusion of a Zoom meeting. You could sell anything to anyone for any price at any time. We were minting millionaires by the minute.

Capitalism felt like it offered possibilities for *everyone* for the first time ever. Influencers fluent in the language of entrepreneurship and personal finance had a potential audience in the millions for their messaging. The world was ripe with possibility and people felt emboldened. They were liquid and ready to maximize their own opportunities. It was an exciting moment in time. No one was left out.

And that was the problem.

Widespread prosperity, it turns out, is incompatible with the American Dream. The only way our economy works is when there are winners and

losers. If everyone's a winner, the whole thing fails. That's what we learned at the conclusion of our experiment.

You weren't supposed to see that.

Now the genie is out of the bottle. For one brief shining moment, everyone had enough money to pay their bills and the financial freedom to choose their own way of life.

And it broke the f***ing economy in half.

The authorities are panicking. Corporate chieftains are demanding that their employees return to the way things were, in-person, in-office, full-time. The federal government is hiring 87,000 new IRS employees to see about all that money out there. The Federal Reserve is trying to put the toothpaste back into the tube—the fastest pace of interest rate hikes in four decades and the concurrent unwind of their massive balance sheet. Everyone is scrambling to undo the post-pandemic jubilee. It was too much wealth in too many hands. Too much flexibility for too many people. Too many options. Too much economic liberation. "Companies can't find workers!" the media screams, but what they really mean is that companies can't find workers who will accept the pay they are currently offering. This is a problem, we are told. After decades of stagnating wages, the bottom half of American workers finally found themselves in a position of bargaining power—and the whole system is now imploding because of it. Only took a year or so.

The War on Inflation™ is the new War on Drugs. In the 1980s they were willing to sacrifice entire cities and communities to the War on Drugs. A million brothers and sons behind bars, a million children in fatherless homes in service to some nebulous goal of a drug-free society that's never actually existed at any time in human history. We figured out how to ferment barley to get intoxicated more than 13,000 years ago, which predates the invention of the wheel for god's sake.[8] The War on Drugs had

less of a chance of working than Prohibition. We went ahead and destroyed countless lives with it anyway.

Now we have a new war.

Today they're willing to sacrifice the stock market, the bond market, housing values, *anything*—there's nothing they're not willing to do to get it all back under control. Over $10 trillion in wealth wiped out this year, a sacrifice on the part of wealthy Americans in order to ensure a return to normal.

You're hearing the term "normal" a lot these days, or *normalization*. Normal is 2019, where the rich had unlimited options and the not-quite-rich had the chance to join them someday by helping to maintain the status quo. The working poor had no options in this world but had lots of obligations. It's just how things were. This kept the economy humming on an even keel. It was necessary. It was "normal." It's what the Federal Reserve is willing to crush the stock market and the real estate market in order to return to. Every time you hear a Federal Reserve official use the word "pain," they are really saying "recession"; and when they say "recession," which they are loath to do, they are actually referring to people losing their jobs so that wage gains return to a "slower trajectory." You are being f***ed around with, assaulted with the English language and all its inherent trickery. The Greater Good requires a less good circumstance for millions of workers. Too many Chiefs, not enough Indians for the game to run smoothly.

They cannot say any of these things out loud in plain terms. But what they want, what they *need*, is a s**ttier situation for the bottom of the income distribution in order to preserve the advantages of the professional and managerial classes who ran the pre-pandemic establishment. It's not pleasant to admit out loud. No politician or authority figure wants this included in the talking points. It's not exactly an applause line.

We have to fight the War on Inflation, the story goes, because it is going to hurt the lower-income people in our society most. Never mind that the

lower-income people are actually the biggest beneficiaries of the current labor shortage. Never mind the fact that, when it comes to inflation, the lowest-income Americans are most affected by gas prices, which *a)* have already fallen and *b)* are completely outside of the control of the central bank anyway. So they'll distract us with a never-ending parade of bulls**t lest we consider the truths unleashed in our economy last year.

Look over there, Kanye West is doing something insane! And look at that! Marjorie Taylor Greene is using the N-word again! Joe Biden's adult son just packed his own spleen into a crack pipe and smoked it! Look at Kim's ass! Yes, you've seen it before, but still! And look over there, abortion rights in Alabama under siege! Trump stole the nuclear codes! New Lord of the Rings *content on Amazon Prime.* Game of Thrones *is back. The NFL returns!*

Look here, look there, look anywhere else. Just don't look at the almost-liberated wage slaves being put back into their places. *How dare you ask for more, how dare you expect more. Stock trading time is over, get back to loading these cardboard boxes.*

I know we're not supposed to admit these things about our system. We're not supposed to say them aloud in polite company. But how can you say they aren't true? How can you say that the reality is anything other than what you've just witnessed with your own eyes?

When some people have prosperity and the American Dream is still a brass ring for the masses to reach for, the system works. Everyone stays in line. When the American Dream is actually *attained*—by everyone all at once—the system buckles. That's what you're living through today. There isn't a moment to lose. We have to hack off a couple of limbs to save the patient. Emergency surgery. Four hundred and fifty basis points of interest rate hikes in nine months. We went from trying to prevent layoffs to daring companies not to do them inside of a single calendar year. *We'll make it worse, just you wait and see.* The beatings will continue until the desks are

filled and the warehouses are staffed. Until everyone gets back in line. Then, and only then, when the world is *normalized*, can the pain come to an end.

And please, for the love of god, forget what you saw last year. You weren't supposed to see that.

Josh's Remarks

In the aftermath of the pandemic, we began to experience a once-in-a-lifetime onset of inflation. No one who hadn't lived through the 1970s had ever seen anything like it before.

At first, it seemed as though the inflation would dissipate as things "got back to normal." They told us it was transitory because supply chains were still f***ed up from the shutdowns around the world. "Supply chains will heal," they said. They told us the surprising strength in demand was due to "base effects"—meaning the data was comping against locked-down conditions from a year prior. If 2020 was the baseline, then everything in 2021 was going to look abnormally high.

And they were right about a lot of this stuff. Supply chains have normalized. Commodity prices have stabilized. Tens of millions of workers got their jobs back. Wage increases have slowed or stopped. Corporations began doing targeted layoffs, cooling off the demand for labor in many segments of the economy (but not all—try finding nurses or accountants or electricians or anyone with an actual skill to hire).

It's not quite back to normal. In cities and throughout the knowledge economy (I hate that term too, I'm sorry), workers are in more control of where they can work from. Employers are negotiating two- and three-day in-person workweeks with employees who were showing up to a desk five days a week in 2019. The next recession might give employers an upper

hand in this negotiation, but by then it might be a moot point. We're getting used to the new mobility, even if the management caste are still kicking and screaming while poring over activity logs or mouse-click records.

New York City still doesn't have even half of its office workers back in their offices on any given weekday. Friday basically became the new Saturday. Thursday night is the new Friday night. As badly as Big Finance, Big Law and Big Tech may want to reverse this and get everyone back to their $200-per-square-foot glass towers, it's just not going to happen. The genie is out of the bottle.

I wrote "You Weren't Supposed to See That" during the brutal bear market that took place in the fall of 2022. Stocks began falling on the very first day of January that year and had been collapsing for ten months. All I could think about in those days was the irony. We finally gave everyone enough money so they could take care of themselves, take care of their families, pay the bills, sock something away and even take some career risk, and look what happened: Economic Armageddon.

That was quite a reveal. Let's pretend we didn't see it. Moving along…

4
Maggie Fitzgerald, "Amount of global debt with negative yields balloons to $15 trillion," CNBC (August 7, 2019).

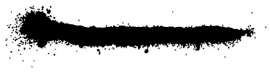
5
"Three rounds of stimulus checks. See how many went out and for how much," Pandemic Oversight (February 17, 2022).

6
Samuel Williamson, "Comparing the Government Expenditures on WWII to the Covid Stimulus Packages. $24 trillion is better number," measuringworth.com (March 15, 2021).

7
Robert Hughes, "Household Net Worth Hits a Record While Corporate Balance Sheets Improve," American Institute for Economic Research (March 14, 2022).

8
"'World's oldest brewery' found in cave in Israel, say researchers," BBC (September 15, 2018).

MY *WOLF OF WALL STREET* REVIEW



I finally managed to see *The Wolf of Wall Street*, and thought I'd write up some impressions…

For starters, I began in the business on Long Island at the tail-end of that era and I had met a lot of the guys depicted in the film while cold-calling at Duke & Company during the summer after my freshman year. They really were dumbasses and savage maniacs, but to the young guys who didn't know any better, they were Ferrari-driving gods.

Duke & Co was the boiler room spin-off opened and run by ex-Stratton Oakmont guys who had broken away during the regulatory troubles. I'm fairly sure that the Asian character in the movie, "Chester Ming," is meant to portray Victor Wang, one of the founders of Duke (Jordan refers to him as "the depraved Chinaman" in the book).

The big irony is that Duke & Co's office was on Third Avenue in the 50s, next door to the Lipstick Building where, even then in the late 1990s, Bernie Madoff was running his secret (but much larger) fraud all along.

I've known ten or 12 guys who worked at the Lake Success headquarters of Stratton during its heyday; all the stories are true and there's very little embellishment in the movie. It all happened and then some. I've been hearing these stories for 15 years. There was a diaspora of sorts that happened after that firm went down; a thousand others had opened up shop as the brokers were scattered like seeds in the wind. Boiler room brokerages had sprung up from Westchester to New Jersey to Staten Island to the Financial District in Manhattan to Boca Raton, Florida. But nowhere was there as heavy a concentration as there was on Long Island. At one point,

there was a nickel broker-dealer in every glass office tower in Suffolk and Nassau Counties (and many big buildings had several firms housed on different floors—imagine the stairwells).

The scripts used in the movie were the exact same ones taught to every NY metro area broker in the late 1990s. I printed the entire Belfort pitch (which itself had been stolen from the Madison Avenue office of Lehman Brothers) in my book *Backstage Wall Street*. I'm fairly certain the producers read my book when they were making the film. I doubt Jordan had a copy of the pitch lying around from 20 years ago. They also used the term "Wildebeest," which is something I use on TV a lot to describe runaway stocks. My friend Paul and I made it up in a finance context five years ago, so I'm flattered, I guess.

The great irony that's not discussed is that Belfort, had he done Wall Street brokerage the legitimate way beginning in the late 1980s, would probably have become a billionaire by now. I could picture him running a hedge fund of funds business or being a brokerage CEO and just selling the s**t out of it while other people did all the real work. He could have been a major player legitimately if he wasn't in such a rush.

Leo's Long Island accent was perfect, so was Jonah's. And I should know. Don't be surprised if they start talking like that in real life now, it's kind of addictive after a while.

Margot Robbie as Nadine. Oh my god.

The drug stuff was sad/hilarious. Leo's scene on Lemmon quaaludes might have been the most humorous thing he's ever done on-screen.

The real Jordan Belfort has a cameo at the end where he introduces Leo as Belfort the motivational speaker. He's tan and fit and undoubtedly having a great time. Not sure how anyone consulting on a biopic of their own life starring and directed by Oscar winners could even be capable of remorse.

I found it pretty shocking that they didn't incorporate one scene showing the victims of this systematic theft. They don't show the face of a single

one, although we hear a handful on the phone. These scenes are played so that the audience is meant to laugh at the “customers” whilst high-fiving with the Wolf and his crew. It’s pretty ugly.

The female boiler room broker character was based on a woman I knew. Only she wasn’t just an ordinary “single mom,” she was actually a stripper who was so aggressive that the Strattonites figured she’d be a killer on the phones. She was, until they hauled her out in cuffs from another firm years later over Stratton-era IPOs.

There are still a handful of wannabe Belforts and mini-Strattons out there to this day. There are a handful of firms still holding out and doing the whole yelling into the phones while wearing Armani suits thing. A big one was taken down this past summer, but the brokers simply jump to a new firm and start all over again. These days, they can’t take inside rips in penny stocks, so it’s more about churning accounts using real stocks, or selling clients private placements. There’s a good chance you’re talking to a boiler room broker if his office is located on actual Wall Street. But these guys are dying out. Their licenses are Swiss cheese and potential suckers don’t answer their landline phones anymore anyway—hard to con someone over the phone you can’t get in touch with. It’s been over for a while but what else are they going to do? They think Stratton’s coming back someday and they’ll get rich again selling s**t over the phone.

The movie itself is extremely well made and entertaining. Lots of people are saying it reminds them of *Goodfellas* and I agree. Maybe even a little more like *Casino*, given the theme—guys who had no business running something that lucrative could never be smart enough to hold on to it without going too far.

100% of teenage boys who see this movie are going to want to grow up to be Jordan. I’m sure Scorsese didn’t set out to accomplish that but it’s inescapable. Oliver Stone didn’t think he was inventing Gordon Gekko to be the role model for a million young would-be finance guys, but that’s

exactly what happened. Don’t think Belfort and Danny Porush (on whom Jonah’s character Donny Azoff is said to be based) didn’t have serious Gekko envy. That was the blueprint. Gekko’s like Billy the Kidd in that regard. He’s still quoted, revered and even emulated in every corner of the business world.

I recommend seeing it, if you can get past the real moral issues that some have raised. I get the argument against going to see it, but I couldn’t stay away.

Josh’s Remarks

In the decade or so since *The Wolf of Wall Street* was released, Leo’s portrayal has become a staple of the financial meme world. Numerous screen caps of him dancing, shouting into a phone, addressing the mic at the front of the room and enjoying his yacht now form a kind of foundational iconography for the young and aggressive retail traders (mostly boys) who took over the stock market during the post-pandemic period.

Leo-as-Jordan jpegs are a go-to form of expression for this demographic as the movie served as their first introduction to the stock market during their adolescence. By the time they were in their early 20s and the Gamestop and crypto era had gotten underway, the Belfortism was in full flower. You can still see its lawlessness when you read stories about the FTX crime syndicate in the Bahamas stealing customer money to acquire respectability, celebrity proximity and renown. You can hear it in the lingo with which young men recount their activities in online trading forums from Reddit to Twitter to Discord. You can feel it in the air when a Lamborghini passes by an outdoor restaurant in Brickell. “I wonder what that guy’s trading…”

There is a generation of online speculators who’ve become hopelessly

infected with the ethos of everything, all at once, by any means necessary. The movie's influence runs deep and has not abated.

To my knowledge, they aren't making a lot of movies about investors who've gotten rich slowly. There are several documentaries about Carl Icahn and Warren Buffett out there, but no feature films. The Wolf had sex, intrigue, ruthlessness and the sort of frenetic energy that makes teenage boys howl at the moon and their slightly older selves, years later, act out these fantasies with their own brokerage accounts and the margin balances borrowed from Robinhood.

As a postscript, the irony about how the film itself was funded by a massive financial scandal is worth mentioning.

The producers obtained capital from a man named Low Taek Jho, otherwise known as Jho Low, who was a fixture at Hollywood parties and events, throwing around obscene amounts of money and building relationships with the stars. Unfortunately it would later become apparent that the money was not his. The so-called "Asian Gatsby" turned out to have been the perpetrator of one of the largest, most brazen frauds of all time.

Low was born into a wealthy family in Malaysia and was educated at top schools in London and the United States, including the Wharton School of Business. He cast himself in society as a high-flying financier, but his wealth was mostly stolen from a Malaysian development fund known as 1MDB. Working with people said to be close to the country's prime minister at the time, Low was accused of having looted as much as $4.5 billion from the fund, mostly as a result of several bond deals that had been led by Goldman Sachs.

Low went on an enormous international shopping spree, spending billions of dollars on art, houses, luxury apartments, hotels, cars, diamonds, planes, boats and, yes, Martin Scorsese's movie, *The Wolf of Wall Street*. According to the *New York Times*, he bought:

> A 22-carat pink diamond necklace worth $27.3 million… a $31

million condominium in the Time Warner Center in Manhattan, the Viceroy L'Ermitage Beverly Hills hotel and a $17.5 million mansion in Beverly Hills that came with a gold-tipped pyramid floating in a reflecting pool.

There was a Van Gogh, a Monet, an Oscar that had belonged to Marlon Brando for *On the Waterfront*, a $250 million yacht and a $35 million Bombardier jet.

Supermodel Miranda Kerr had been showered with jewelry and a see-through baby grand piano for her Malibu home. DiCaprio was gifted a Picasso, which has since been returned as a team of global investigators traveled the world seizing the stolen assets.

Red Granite Pictures, which produced *The Wolf*, was owned by the Malaysian prime minister's stepson. They ended up settling with the US government for $60 million.

When Malaysian police in Kuala Lumpur raided the prime minister's six residences, they recovered 35 bags of cash in 26 different currencies, including 25 bags of gold. There were 272 Hermès handbags and 423 watches included in the haul. It took a team of 22 officers to calculate the value of all that they had found.

Low hid out in China and fought with authorities from a distance over an additional $900 million in cash and assets before eventually giving up his claim to the stolen loot.

A film about fraud financed by one of the largest frauds in history. Jordan Belfort himself couldn't have concocted a better story to tell.

SCARCITY AND ABUNDANCE

Scarcity

Indoor soccer.

It's how you get through the winter when every day is grayer and more freezing-cold than the one before. And the kids are going crazy, they've grown tired of or broken every toy in the house. So you start kicking a ball against a wall and you don't stop until the sheetrock's dented.

The little boy—we call him The Nugget—is fast and kicks hard. I'm the goalie and he whips it by me again and again. "Goal! Goal daddy, right?!?" Then it's my turn. How hard can I kick it at him now? He's five but he looks eight. And he's fearless. Didn't get that from me.

I kick it and he stops it. "No goal daddy!"

I turn 38 years old today and I find myself thinking a lot about scarcity these days. Scarcity as it pertains to investing and as it relates to living my own life.

Steve Ballmer bought the LA Clippers last year and the financial commentariat howled indignantly about how much he paid. "The Clippers aren't even worth a fraction of $1.8 billion," they railed. To which I thought, *Well to Ballmer they are*. There were actually articles detailing the return on capital required to justify that price, and lamenting the price-to-cash flow multiple. Imagine, talking about valuation multiples on a sports franchise to a billionaire with nothing to do and a few idle decades in front of him. You may as well be speaking Klingon.

We're talking about a pro sports team in Los Angeles—which is one of the

largest, wealthiest media markets on planet Earth. And there aren't ten basketball teams up for sale on the West Coast. There aren't even two. There was one. And it happened accidentally. The Clippers are the scarce resource—they're worth whatever the guy who wants them is willing to pay.

Scarcity is driving so much of what's happening right now. Ten thousand Baby Boomers will turn 65 years old today. Another ten thousand will turn 65 tomorrow and then every single day after that until 2030. I'm not exaggerating. They're living way longer than their parents did and way longer than they'd originally expected to. Twenty-five percent of them will make it into their 90s. What do they need more than anything? It sounds crazy, but they need stocks. Bonds aren't going to cut it for a 30-year retirement, unless you include some supplemental income from Walmart greeting, or running retirement home affinity scams.

And stocks are scarce. The good ones anyway. There aren't ten Disneys, there's just one. There aren't two Apples, there's one. Buybacks have shrunk the quantity of S&P 500 company shares. Zero-percent interest rates have ballooned the demand for dividend-paying blue chips.

The stock market won't go down because too many people need it to. It's not rocket science.

Uber is worth $40 billion. Not the business, mind you, the private-market shares. The business is probably worth a lot, but not $40 billion. But the shares are because they are scarce. You can't be a venture capitalist (VC) and not own them, or have access to them. What kind of a piker VC misses out on Uber? It's like being at a monster truck rally and not having that t-shirt where the Ford pisses on the Chevy. You may as well go home. That's why they'll pay any amount.

Goldman Sachs struck a deal to get access to pre-IPO Uber shares for their wealth management clients. Those clients will never bring up performance,

management fees or commissions ever again. The scarce resource covers a lot of ground and works magic wherever it goes.

Same with Shake Shack's newly minted shares. There's only one Shake Shack; if you manage a growth fund and miss out on what could be "the next Chipotle," you're fired. So you just pay for it. *Seven times enterprise value to sales?* YOLO. Eight firms on Wall Street initiated coverage of SHAK in February 2015. All but one had it as a "neutral" or a "market perform" rating. Every single analyst said the same thing—I'm paraphrasing here—"God, we wish this thing would come down ten points." That's how you know it probably won't, and they'll be upgrading it later, *higher*. There's only one.

Time is scarce. There isn't enough of it by half. There's so much I want to do, *I have to do*. It's a good problem to have but it's still a problem.

I guess I'm almost famous now. I sign autographs in airports and pose for selfies (ussies?) in steakhouses and bars where finance people hang out. I fly around the country and beyond meeting clients and potential investors, and giving speeches to my industry. People read my books and actually take the time to write to me about them—emails, letters, postcards. I'm still amazed that anyone cares what I think. Not long ago, I had an empty bank account, two babies to raise and a ten-year career at fourth-tier brokerage firms with nothing to show for it. I'll take my new problems over my old ones any day.

I'm getting much better at prioritizing my time, as circumstances have forced me to. I'm only doing the things where I can actually add value and derive some value back. I'm saying no to stuff too, finally. But every once in a while something slips through. I just shot the cover for a Swedish airline's in-flight magazine. OK, so I don't have this down to a science yet.

I have a lot of help. My advisory practice is run by absolute ninjas. It's scary how good we're getting in such a short period of time.

And when I'm not working, I'm doing my best to keep everyone from getting mad at me.

My friends are getting older too. They're getting cancer. *What the f***?* Ten years ago I was drunk at all of their weddings. Now the only time we hang out is when one of their parents dies, which is like every other week. I should spend more time with my parents, before…

Also, I should get to the gym. It's been six days. I'll go later. Always later.

More scarcity. Scarcity is, paradoxically, in abundance everywhere I look.

Back to soccer. The kid is winning—18 goals to my 5 in a game to 21.

And then he starts losing. And then I realize it's on purpose.

"Why are you letting me score, Nugget?"

"Because if I win, the game will be over and you'll go back on your computer. And I want to play with you forever."

Abundance

The only way to save the economy is to crash it.

There's too much of everything and it's not good for anyone. It's hurting everyone. Paradoxically, abundance is now the enemy. This sets us apart from virtually every other society throughout history.

You can blame the Federal Reserve's loose money policies if you like. There is over-investment in every industry. It's killing confidence. Nothing is worth what it used to be. We haven't adjusted to this reality yet.

Unlimited music, $9 a month.

Unlimited movies and TV shows, $13 a month.

Unlimited news and journalism, $0 a month.

Facebook is free. Twitter is free. Snapchat is free. Instagram is free. YouTube is free. Video game apps are free. Texting is free. Sexting is free.

Skyping is free. Chatting is free. Why would you spend money on anything? Where do you think people spend their time now? Endless entertainment and content, for almost nothing.

Oil costs almost nothing too. We have so much there's nowhere to even store it. Natural gas supplies are overflowing, they're burning it off at the wellhead. Coal demand is going extinct. Copper prices, iron ore prices—it's going bidless. No one wants it, they keep producing more regardless. Why? *"I don't know, it's what we do."*

Portfolios are free. *"Give us a billion dollars, we'll lose money on the cost of managing it for you."* Online asset management firms are spending $600 to acquire a customer that will pay them $60. Their financial backers love it. *"It's user growth!"*

What's the business model? *"We go public or get bought out by someone with the opposite problem—too much profit, not enough user growth."* The business model is an exit for the investors. *"BlackRock will eat it. They'll eat anything."* No one cares how many actual business models get wrecked in the process. How many useful jobs are lost in the process. The new fixed income or currency trader on Wall Street will never need healthcare, or take a vacation or grab a co-worker's ass. It's a chip on a server. Much cheaper to employ, much easier to manage.

Automate everything, outsource the rest—it's cheaper for the customers. *"But now there are no customers left, no one has the money to be a customer anymore."*

Congrats on your efficiency.

- Start up
- Cash in
- Sell out
- Bro down

“Let’s take a product or service that people used to charge for, make a worse version and give it away for free!” Why would we do that? *“Bro down.”*

Clay Christensen’s book on disruption, *The Innovator’s Dilemma*, has been twisted into an entirely different book. It was once the Bible, now it’s the Necronomicon—the book of the dead.

Even money is free. The people and firms with the least need to borrow it can borrow it with abandon. Apple can have as much money as it wants, virtually free. They have no idea what to do with it. The US and German and Japanese governments can borrow for free. Then what? There is nowhere to put the money and no will to risk using it for the future. The electorate is old. They don’t care about the future. They don’t have one, just a present. We live in their basement. We live in their extended past.

Malinvestment is everywhere. The capital markets runneth over. *“Give us something with an income stream to put our money into! Even the promise of an income stream will suffice.”*

Here’s the perfect business idea for this environment: Open a Hundred Dollar Bill Store™. You sell $100 bills for $90 each. You’ll lose $10 per transaction but you’ll do a trillion in revenues in year one. Maybe you show an ad to everyone who walks into the store and you break even. User growth will be on the order of 1,000% per month. A billion users. You’ll be the biggest IPO of all time when Goldman’s underwriters get wind of that growth rate. Go public and let someone else worry about a competitor selling $100 bills for $85.

When you can have anything at any time, is anything worth anything?

Here are the results: You can get a job but there’s nowhere you can afford to live that is anywhere near that job. You can create your own job but, absent access to capital markets, you can’t compete with those who have it. Plenty of hiring in New York and San Francisco. Good luck living there.

What a difference a year makes. Today is my 39th birthday. On my 38th

birthday I was writing about scarcity. There is no such thing.

Today there is too much of everything and no demand for it. Abundance is wrecking the economy. Too much oil, too much gas. Too many websites and shows and streaming services and apps. Too many subcultures and verticals and genres. How can anyone be heard or seen? How can anything rise above the din?

We used to have a pop culture. The biggest song on the radio, the biggest movie in theaters, the number one show on television, the best-selling book. Now we have 50 different pop cultures. Microcultures within subcultures within cultures. There is no agreement on anything.

We're more connected than ever and it's making everyone feel more alone. Connectivity is giving us a constituency of the like-minded. When you can find think-alikes online, there's no reason to even have a conversation with anyone who thinks differently. We're retreating back into our subcultures. The only consensus is that there isn't one.

What do we do with all this *everything* that we have? All the abundance that's holding us back?

I don't have any answers other than what I began with—we need a washout. A recession would be plenty, no need for anything worse. It's got to be flushed from the system. Bad business models that were never designed to succeed outside of raising capital to continue must not be allowed to continue. No need for legislation, the cycle will clean it up. It always does. The best thing that could happen here is for a return of the cycle. We're in year seven of an "expansion" and no one is happy. It's time for a contraction. It's long overdue.

Large pools of money need to be drained so that they can no longer be a source of malinvestment on an epic scale. Some people have to suffer for the benefit of the whole. Spock told Kirk this: "Logic clearly dictates that the needs of the *many* outweigh the needs of the few."

The few will be just fine, even if they have to lose a few dollars.

The many will not be fine until the current cycle turns and we wring out some of the excess.

And then we begin again. Less abundance of resources will demand more ingenuity. The system will be back on track.

The present situation cannot stand.

- Start up
- Cash in
- Sell out
- Bro down

What the hell are we selling? Time-wasters and profit-shrinkers in place of companies and industries. Schumpeter didn't have the current version of creative destruction in mind when he coined his phrase. This is destructive destruction.

The abundance is killing us.

Josh's Remarks

"Scarcity" and "Abundance" are bookends bracketing both sides of the same idea, from the same era. I wrote and published them on my 38th and 39th birthdays, respectively, in 2015 and 2016. They are two sides of the same coin, describing the moment in time from two opposing perspectives.

In "Scarcity," I wrote about how there was not enough of the things that really mattered to me, specifically time with my family and friends. There was a scarcity in stocks due to a lengthy drought of IPOs following the Great Financial Crisis, a drought that would persist through the rest of the 2010s. This scarcity helped to explain the rise of the megacap technology

stocks, as there were just a few of these platform companies with massive network effects available to invest in.

It helped to explain the nascent chase for sports franchises that had kicked off when former Microsoft CEO Steve Ballmer paid a few billion dollars for the also-ran Los Angeles Clippers organization. That single act of impulsivity has since been seen as the starting gun that set off a frenzy of acquisitive activity in professional basketball, baseball, football, hockey, and even soccer. Valuations soared into the stratosphere, the sole justification for the new prices becoming, “But he really, really wants it.”

There are 30 teams in Major League Baseball.The NBA has another 30 and the NFL now has 32, as does the NHL. In America, Major League Soccer counts 29 teams but there are major soccer franchises (sorry, “football clubs”) around the world that have been up for grabs. Just not that many of them. Most don’t carry the prestige and the fanbase (revenue base?) of the average US-based NFL or NBA team.

So that’s the supply side. It’s fairly limited. Leagues don’t decide to add expansion teams lightly. They require widespread approval from the existing ownership base. There is risk involved—are they expanding the opportunities for the incumbent teams or cannibalizing the product while diluting the advertising pool? So scarcity reigns.

Now here’s the demand side: According to *Forbes*, there were over 735 individual billionaires in the US as of the end of 2022. During the year 2020, irony of ironies, *Forbes* estimated we were minting new billionaire households at a rate of one every 17 hours. There are 573 more billionaires today than there were just before the pandemic started. So not only is there a scarcity of opportunities to own a team, there is a record amount of people who would be both willing and able to do so when the opportunity arises.

I should point out, we’re no longer talking about regular, run of the mill billionaires. We’re talking about plutocrats who could just as soon own five teams in five different sports if they felt like it. When scarce supply means a

rising class of billionaires who are valuation-ambivalent when it comes to their hobbies, the prices explode.

The companion piece to “Scarcity,” “Abundance,” looked at things differently. Written in an election year during a historic swoon for oil and gas prices, it discussed the deleterious effects of their being too much of everything. Too many channels and streaming services and radio stations and websites had splintered what was once America’s pop culture. This shared layer of entertainment that once draped across the country’s shoulders like a blanket had helped to keep us united. In a nation as geographically and socioeconomically disparate as the United States, it helps if we all know the words to the same songs and can recite the same beloved TV sitcom characters’ catchphrases when things get tense. That America, the one I grew up in, doesn’t quite exist anymore. Social media both promoted and thrived off of our differences. The clashes these differences created served as fertile soil for engagement, the stuff ad revenue is grown from.

The culture shattered and the shards became microcultures with less crossover between them than ever before. Thirty years ago, there was universal agreement that Julia Roberts was America’s Sweetheart, whatever that means or meant. Ask the question today and you might get hundreds of different responses. Mariah Carey and Janet Jackson sold a combined 50 million albums in 1993, and if you put on one of their hit songs, in any setting, whoever was there knew who sang it and probably most of the lyrics. Each week 35 million people watched the sitcom *Home Improvement*. You can’t get 35 million people to do anything anymore. The entire nation was watching and talking about *Roseanne*, *Seinfeld*, and *The Fresh Prince of Bel-Air* each week in 1993. Today, a Netflix series might come close but rarely can more than one series at a time captivate our aggregated attention and never for more than a couple of weeks.

Abundance has been great for content creators and for the audiences who love feeling like something special is being made just for them. It hasn’t

been particularly healthy for our national identity, however, as the commonalities we'd once taken as a given fade away. Do we even know each other anymore? The incivility of our elections and partisan politics is merely a reflection of how divided we've become culturally. The polls are now suggesting a record amount of enmity between the two sides of the spectrum. As of this writing, these differences seem irreconcilable. I don't mean to suggest that an abundance of streaming video options is solely at fault, I'm just offering it up as something that's probably not helping.

Throughout the course of 2016, Donald Trump continued to rack up primary victories, knocking his opponents off the debate stage and crowding his opponent from the Democratic party, Hilary Clinton, out of the daily conversation. It was all Trump, all the time, for months on end. Never before in my lifetime had America's dividing lines been more evident.

How can these people, whom I share a country with, possibly believe that the right choice for the presidency of the United States could be [insert your candidate here]? What's wrong with them? How can they not see what is so obvious to me?

This was the national mood, brought about—in part—by an abundance of news outlets. Thirty years ago, you watched NBC, ABC or CBS each evening for the local reports and national headlines. You got the same news as people everywhere else. The basic facts weren't in dispute. There were differences of opinion but the news was the news. Today we can't agree that Tuesday comes after Monday. If you say it doesn't while waving a Bible in one hand and an American flag in the other, you can probably get five million people to agree with you, no questions asked. You can probably get a few thousand of them to show up and riot on your behalf. They've flooded us with conflicting information and, in the absence of a shared viewing experience, we have lost our ability to reason with each other. We have lost our minds.

Similarly, an abundance of capital in the second half of the 2010s led to a generational spate of malinvestment and capital incineration, culminating in a wild speculative bubble during the pandemic. In 2022, the chickens (finally) came home to roost as thousands of “bad idea” companies saw their share prices plunge to penny stock status. This was the silver lining of the corrective bear market I had been hoping for. The “time-wasters and profit-shrinkers” I had been writing about were finally back on defense.

Buzzfeed, a time-wasting, profit-shrinking media enterprise that came to epitomize the era’s excesses and cynicism, announced it was shuttering its news operations in April of 2023 and laying off most of its staff. Its stock price dropped below $1 per share, putting it among the biggest losers of that entire generation of SPAC-tracked IPOs.

What killed the Buzzfeeds of the world? Higher interest rates? Increased competition for eyeballs? Bad business model? Mismanagement? Yes.

Abundance has a way of correcting itself when the tide goes back out.

WHEN EVERYTHING THAT COUNTS CAN'T BE COUNTED

An analysis of book value captures things like plant and equipment and facilities and hard money—*real* assets that corporations have managed to accumulate over their lifetimes.

And when the cost of money is higher, these things are more highly valued by investors because they are expensive to replicate and costly to replace.

An analysis of book value doesn't capture things like intellectual property and brand—intangible assets that corporations have accumulated or are currently accumulating.

And when the cost of money is lower (or, effectively zero), these things become more highly valued by investors than physical assets, because they are weapons that corporations can use to nullify the moats and assets of the incumbent corporations that they are competing with for customers, revenue and market share.

This is why Airbnb came to be more highly valued than all of the publicly traded hotel chains on the NYSE.

This is why Uber was worth more than all of the auto makers and taxi companies that own their own fleets of cars.

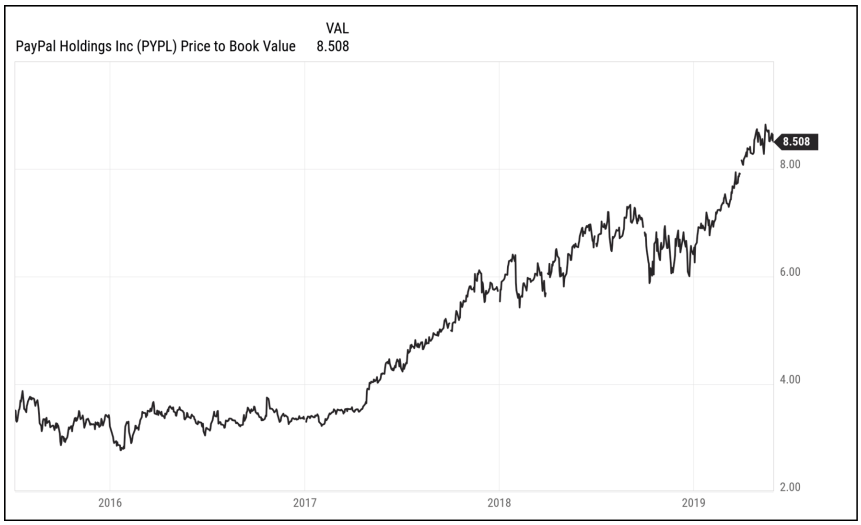
It's why WeWork, which leases floors from building owners, could be worth more than those building owners' corporations.

This is how it's possible that Beyond Meat, with its sizzling hot brand, could be worth exponentially more than the other publicly traded food processing companies, with their century-old supply chains and

manufacturing operations and union relationships and supermarket shelf space privileges and trucking contracts.

This is why the CEO of Goldman Sachs laments the fact that if his company's Marcus online bank was a standalone "social finance" company backed by VCs, it would be worth significantly more.

As he said this, note that the Goldman Sachs share price slipped below its tangible book value again. In the meantime, here's PayPal's price to book value—it doubled from 2017 to 2019.



Nobody cares about PayPal's book value because the truly valuable aspects of PayPal's business—its brand, its ubiquity on the phones of millennials and its technological savvy—are not captured in the calculation of this metric. They lease office space, and they take market share. They don't build factories or erect smokestacks off the side of the interstate highway.

And as a result of this popular preference for asset-light, recurring revenue model companies, factor (or smart beta) strategies that weight portfolios by the stocks' price-to-book value have badly trailed the market.

Capital is now free, have fun

I had dinner with one of the foremost authors and thinkers in the history

of the investment markets, William Bernstein, early in 2019. At the end of the dinner, Jason Zweig asked Bernstein, “What’s the one thing that’s on your mind that no one else at this table is talking or thinking about right now?”

Bernstein said he’d been thinking about the question, “What if the cost of capital never rises again?”

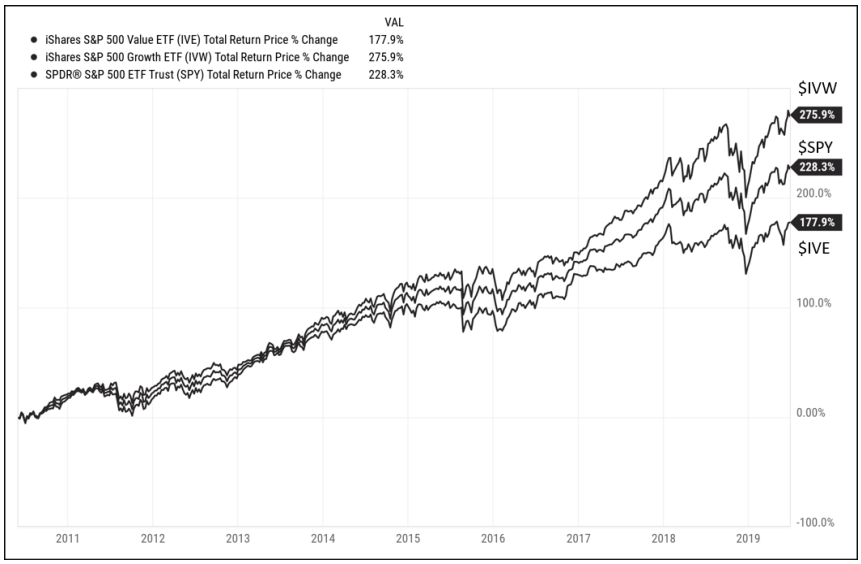
The implications of a world in which equity capital is flowing while interest rates on credit never rise to the level of being a serious roadblock for innovation are fascinating to consider. What if every new idea that comes along, no matter how world-altering and disruptive, no matter how unproven or risky, can get overnight funding without much of a problem? Masayoshi Son’s Vision Fund has been investing based on this premise. Massive pools of capital from sovereign nations and university endowments and gigantic corporations like Google’s moonshot division are investing this way as well.

This question is being answered on Wall Street every day, even if the participants are not aware of it. Their actions and allocations have already decided what we think this world would look like. Value stocks have appreciated significantly less than growth stocks in the post-crisis period that’s been marked by a cost of capital that has approached zero. Value stocks have underperformed the overall stock market and their size within the indices has declined as a percentage of the weighting of these indices accordingly.

Lines

Here’s a ratio chart showing the incredible under-performance of value vs growth. The IVE is made up of US large value stocks. Here, it’s divided by the IVW ETF, which holds large cap growth stocks.

Seen another way, here's the IVW (growth) in leading the S&P 500, with the IVE (value) trailing substantially.



These are not just lines on a chart.

They are responsible for the shifting of trillions of dollars in market cap from one group of companies to another.

They are responsible for the collapse of some of the greatest reputations in the investing business, and for the numerous closings of their funds.

These lines have caused divorces and broken marriages among the hedge fund elite, as aging 1990s superstars, who could once reliably bet against highfliers while overweighting cheaper stocks, found they no longer had a

viable investment strategy after a decade of free money funding moat-busting disruption and heretofore unfathomable business models. You don't go home to Greenwich from your Park Avenue office in a good mood when the market makes it a point to remind you of how vestigial your skills have become, day after day after day.

Lines on charts become lines on people's faces in this game. They become dividing lines separating things that used to work from things that may work in the future. While these lines are merely made of keystrokes and digital ink, the trends they are emblematic of in the real world cause layoffs and pivots and fire sales and bankruptcies on Wall Street.

Everyone likes a bargain (in theory)

There are no asset managers who represent their strategy to clients as "We buy the most expensive assets, and add to them as they rise in price and valuation." That's unfortunate, because this is the only strategy that could have possibly enabled an asset manager to outperform in the modern era. It's one of those things you could never advertise, but had you done it, you'd have beaten everyone over the ten-year period since the market's generational low during the Great Financial Crisis.

But almost every investment professional says that they do the opposite of this. Even the explicitly growth-oriented managers use terms like "at a reasonable price," to communicate their place on the spectrum of speculative chastity. There are no textbooks lauding an investment approach where it makes more sense to buy PayPal at four times book on its way to nine times book while forsaking Goldman Sachs at less than one times book.

New IPOs for companies worth billions of dollars with little or no history of profit-making or tangible book value growth are arriving every month now. Public companies with long histories of profitability and substantial tangible assets are being routinely met with investor apathy, unless and until

they make their digital transformations the paramount part of their story (à la Walmart and Disney and McDonald's).

Customers are now being referred to as “users,” and, as such, commanding more respect (and capital) from the investor class. “Customers” is an unsexy term, with the connotation that they must continually be sold to and “reacquired.” Users, on the other hand, mustn’t be reacquired because they are always there. I get a customer, I keep a user.

“What’s in a name? That which we call a rose / By any other name would smell as sweet.” Poor Romeo would be lost today.

As inventive as he was, even William Shakespeare couldn’t have envisioned a society in which money was free. He died a century before the dawn of equity funding—in his day, it cost an average of 4% to borrow from either a British bank or a Medici money lender in the Italian nation states. In fact, the plot of *The Merchant of Venice* literally depends on the premise of capital having a cost attached to it. Shylock was ready to maim to collect the interest owed—his pound of flesh.

If Ford Motor were a savvier marketer of their stock, which has changed hands at more or less the same price for 20 years, they’d be calling buyers of their cars a “user base” and the cars themselves would be rechristened “physical mobility apps.” But they don’t, and so Ford, with all of its

heritage and legacy assets, is considered to be worth less than nothing by the modern marketplace for money and attention.

Bernstein's question

Bernstein's question, left unanswered, as all large and weighty contemporaneous questions about human civilization must be, introduces additional mysteries that we can only guess at.

Here are some additional questions I cannot answer:

Will "real" assets remain permanently undervalued relative to brand and intellectual capital?

Will the entire business of securities analysis institutionally restructure itself to account for this new reality, prizing other facets of a corporate issuer of securities more highly than projected cashflows and balance sheets?

What, if anything, could possibly come along to change the investor class's attitudes about this?

Is it true that every time a purported "value investor" invents a justification for buying Amazon shares, an angel has its wings ripped off?

Do we simply need a recession for the old attributes of value stocks to shine through? What if that only makes it worse, given that in times of low *cyclical* growth, companies with high *secular* growth become even more sought after?

Would a sudden and long-term rise in the price of money and the cost of capital upend everything I've written here and completely reverse the lines on my chart, as a railroad worker throws the switch and sends itinerant trains onto completely different tracks?

Did I just call the top in the decade-long growth-versus-value massacre?

I don't know the answers. You have opinions, but you can't know for sure

either. Maybe we need the last active pure-value manager on The Street to close up shop and retire as our signal. It'll never happen. Even the buyers of stocks like Workday and ServiceNow and Zoom are convincing themselves that they're playing a "relative" value game, and can always find things more obscene to point to in their quarterly virtue-signaling.

Paying your borrower

In the piece "Scarcity and Abundance," I imagined the perfect startup business for that moment in time, not thinking back then that what I'd used as a parody would come closer to being a reality three years later:

> Here's the perfect business idea for this environment: Open a Hundred Dollar Bill Store™. You sell $100 bills for $90 each. You'll lose $10 per transaction but you'll do a trillion in revenues in year one. Maybe you show an ad to everyone who walks into the store and you break even. User growth will be on the order of 1000% per month. A billion users. You'll be the biggest IPO of all time when Goldman's underwriters get wind of that growth rate. Go public and let someone else worry about a competitor selling $100 bills for $85.

As ridiculous as that seemed at the time, it is today slightly less ridiculous, in a world where $20 trillion of the $55 trillion in global sovereign bonds currently yield zero percent or less. There is even a negative interest rate in some cases, with German citizens and other buyers paying the German government a quarter of one percent each year for the privilege of lending it money. What foul vision of unsurvivable torment, on earth or in hell, could the "investors" in these bonds possibly be running from when they consider the alternatives and decline?

Talk to a venture investor these days and they'll tell you the single thing they don't need more of is money. We have so much money in this new world, we're inventing new digital forms of currency just to have a place to stuff it all. Capitalists need ideas, talent, attention, audience—anything but

more capital. Please don’t give me more. I can barely earn a lower-risk return on what I already have!

Which would you rather have?

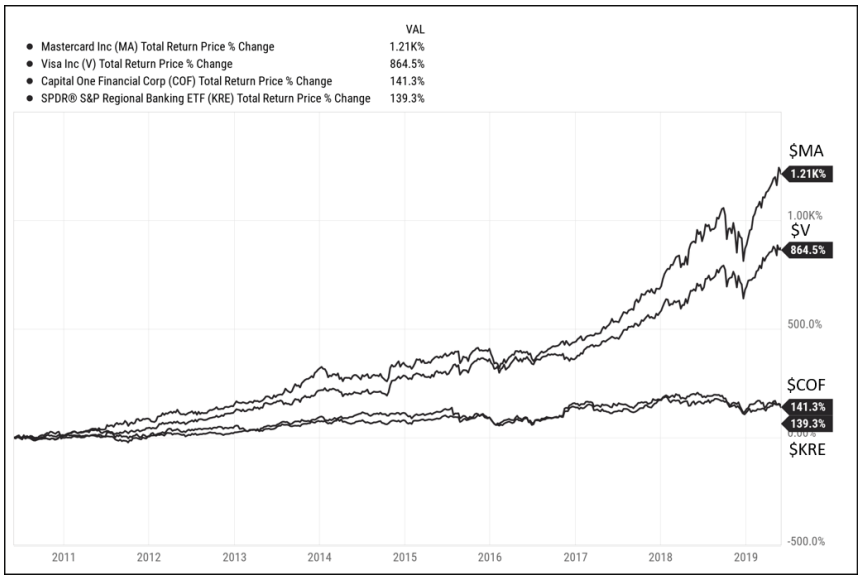
Joking around with no one in particular, I asked which currently had more value—having a generic four-year degree from Anytown University, or an Instagram account with a million followers?

It was a Twitter survey and the results were what you’d have expected. Voters in the poll overwhelmingly chose the followers as having more value. Instagram doesn’t pay you a dollar for your follower count. It’s worth nothing on paper. But, as with most things in life, it can be an asset to you if you know how to use it. That right there is the intangible thing that everyone wants right now.

The following represents the power and reach of your brand. The college degree, in this analogy, is also an asset that you must make use of, but it is seen to be of substantially lower value given the ubiquity of young and middle-aged people in the labor force who also have one.

You’re a CEO in the financial sector. Which would you rather have as your corporation’s main asset: a chain of marble-floor main street bank branches or the payment network of Visa or Mastercard? We know what your potential shareholders would prefer you had.

Here’s the regional bank stock ETF versus the interchange fee credit card giants, who collectively have zero bank branches despite being in the business of money changing hands and consumer borrowing.



On the bottom we have the regionals. Meh. The two top lines are Mastercard and Visa, respectively. The holy grail. And just for fun, I snuck in Capital One Financial—it's in the credit card issuance game and the regional bank game, and still it's done less than the S&P 500 since the Great Financial Crisis.

In the battle for capital right now, the brands and intangibles and user bases and networks are winning by a landslide against the things that used to be important. And the companies that are rich in those old-fashioned things, like Walmart, Disney and McDonald's, are spending all of their time and attention to transform themselves into the spitting image of their upstart competitors. Disney wants to look like Netflix, Walmart wants to retail like Amazon, McDonald's wants to be as habit-forming and celebrated for its freshness as its former protege Chipotle. Goldman Sachs wants to grow up to be BlackRock. And in emulating these younger models, they hope, their multiples will soon be following suit.

And as for those stodgy old stalwarts of the 20th century that aren't pursuing this transformation… it remains to be seen whether the rusty old assets they do possess will ever matter to investors ever again.

Josh's Remarks

So… things have changed since I wrote this post. But not entirely.

In 2019, there was a prevailing sense that interest rates (and therefore, the cost of capital) might never rise again. We had been in a prolonged near-zero percent rates environment for a decade by that point and this had completely reshaped the stock market and the business world. An entire generation of new companies had been formed, nurtured and brought public under this interest rate regime without a care in the world about accessing capital. Everywhere they looked there was money available and their shareholders rewarded them for building without fear, expanding without the slightest hesitation. The worst thing they could do in the eyes of their backers was to slow down.

The money was cheap and was getting even cheaper. Half the world's sovereign bonds were selling at an interest rate of zero or lower. What's lower than zero? Japan and most of the countries in Europe had a negative interest rate. This enabled massive liquidity for investment—so much liquidity that no one even wanted it. It felt like too much. The valuations of older, more mature companies sank as everyone and everything looked existentially disruptible.

Why invest in an insurance company when you could invest in an insurance app that built no infrastructure and merely danced on top of the infrastructure that others had already built? "Asset-light" was the word on The Street and thousands of startups were funded on the basis that this would continue for a long time to come. So long as there was no inflation, or even disinflation, there wasn't a care in the world about getting capital and building as far as the eye could see.

Little did any of us know that, within a few months, the worst global pandemic in a century would arise to change everything.

In the early innings of the Covid crisis, capital not only remained cheap, it had gotten even cheaper. Central banks and treasury departments flooded the world with money to keep the wheels turning. The idea was to make capital so abundant that employers could lay people off sparingly until the reopening and no one would miss a bill or a mortgage payment. It worked. Too well.

We did so much backstopping and reliquefying that the excess actually drove the stock market trend of growth investing into outer space. Thousands of companies raised money, came public or SPAC'd themselves onto the exchanges in the span of just a year and a half. By late 2021, it became apparent that we had done too much.

Once the entire population had been exposed to the virus via the Omicron variant, the fear was gone. The vaccines didn't prevent transmission in the way they were meant to but there was evidence that they had reduced the risk of death for the infected. This is still being debated but what is not up for debate is that we were done, as a society, with the lockdowns. The political will to keep people masked and at home was gone. We sort of just all agreed to stop worrying about it.

There was no official whistle blown to end the pandemic. The closest thing I can remember was getting on a plane to St. Maarten in April 2022 wearing a mask and being tested upon landing, then getting on a flight a few days later with no masks because the airlines had declared that the restriction was over. It was as though someone had flipped a switch. I arrived back in New York to a maskless airport. A new world.

In this new world, consumers went on a rampage of buying and spending and doing the likes of which the world had never seen. They simply could not be contained. This burst of pent-up activity, combined with the already strained supply chain issue, led to a gigantic surge in inflation. Everywhere you looked—healthcare, home prices, rents, labor costs, commodities, used cars, new cars, restaurants, grocery stores, hotel rooms, airline tickets—

prices rose and supplies dwindled. The Federal Reserve began raising rates at a pace not seen since the 1970s in order to counteract this phenomenon.

Fighting inflation took the place of fighting disease and the narrative in investing markets followed suit.

Consumer inflation, as measured by CPI, hadn't peaked until the summer of 2022, but the cost of capital had to continue higher throughout the year and into 2023 as the labor market stayed tight and the cost-of-living increases remained above the long-term trend. The Federal Open Market Committee was forced to ratchet up the pace of its rate increases, with 50 basis point moves and then 75 basis point moves at several subsequent meetings. From the end of 2021 through the midpoint of 2023, the Fed jacked interest rates from zero to over 5%.

One would have assumed that a hiking cycle this fast and extreme would have affected the economy as though someone had slammed on the brakes, sending us smashing through the windshield. That's not exactly how things played out.

It turns out that inflation is a difficult thing to reverse if it's been left to run rampant for long enough. There's an economic concept called the wage-price spiral whereby employers have to give people pay raises to account for higher rents, which then leads to people making more money, which leads to even higher rents, which leads to employers having to give out even more raises, etc.

It ends eventually, but not until it resets the prices of everything significantly higher than they were just a short time ago. This is what made the Fed's job so difficult.

In addition, because of all the stimulus and low cost of capital from the pandemic era, there was plenty of money in bank accounts, which prolonged the economic expansion and kept people spending more than they would have during prior hiking cycles. You can hike overnight rates a lot, but if corporations and mortgage borrowers have already locked in their

interest rate costs at sub-4%, it's going to take a long time for them to alter their behavior. Companies and people refinanced and refinanced again, lowering their rates and pushing out the maturities of their debts. The Fed couldn't change that retrospectively, they had already facilitated it.

Meanwhile, however, the stock market did finally take notice of this increase in the cost of capital. Technology stocks (and pre-public startups) felt the adjustment first and most acutely. The Nasdaq fell 35% peak-to-trough between Thanksgiving 2021 and the fall of 2022. A wave of wind-downs and failures hit Silicon Valley's smallest and most vulnerable startups. Bitcoin and the entire crypto ecosystem hit the wall and collapsed. The SPAC spigot was turned off and we went a year without any IPOs. High-valuation, high-concept growth stocks lost the majority of their market capitalization and many high-profile VC firms and hedge funds endured generational losses.

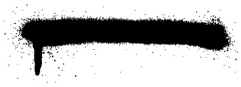
William Bernstein's question about what would happen if rates never rose again would be left unanswered because, at long last, after a decade and change, rates were rising quickly.

Even the most well-capitalized mega-cap technology companies were forced into a reckoning as their share prices plunged under the weight of their own excesses. Facebook, which had changed its name to Meta, suffered a historic drawdown and market cap loss of greater than 70% before pivoting to "efficiency" and away from the kind of spending that was no longer in fashion. Gone were the tens of billions of dollars being blown on dreams of the Metaverse, a nebulous concept wherein the entire physical world would be rebuilt into hallucinogenic digital facsimiles. During the time of zero interest rates, it might have made sense to create a video game version of the world complete with people purchasing "virtual real estate" or investing in digital images of cartoon monkeys smoking cigarettes and wearing eye patches. As soon as there was a price attached to money, this no longer made sense and the interest in these things crashed as quickly as it had arisen.

Instead, Meta and other tech giants began to lay off workers and focus on profitability once again. Playtime was over. The mass delusions were wiped away by the new reality the Fed's rate hikes had ushered in. Mark Zuckerberg announced that 2023 would be "The Year of Efficiency" as he cut headcount and redirected the company's focus back to earning money. Netflix, Alphabet, Microsoft and Amazon all went through a similar reincarnation, very publicly, in which they scaled back their spending and increased their stockholders' attention on their profitability.

This process was painful at first, but eventually enough people were fired and enough projects were shelved to placate the investor base. Stock prices recovered as profits began to rise again. Disciplined growth took the place of "anything goes" as the employee massage tables and banquet-esque snack carts disappeared from Palo Alto to Menlo Park.

EIGHT LESSONS FROM OUR FIRST YEAR



This week marks the one-year anniversary of my registered investment advisory firm (RIA), Ritholtz Wealth Management (RWM).

As co-founder and CEO, I've spent the last 12 months learning the process of starting an investment management firm, laying the foundation for sustainable growth, recruiting high-quality staff members, hiring (and firing) vendors, and building in-house products and services that are competitive in the marketplace, relevant to our areas of expertise and scalable for the virtually limitless opportunity ahead of us.

I'd like to share some of these lessons because I think they're applicable to my entire audience—private investors, my fellow industry pros and businesspeople around the world.

1. Mission Buy-in: Launching a firm, in most cases, requires partners, employees and customers. All of them have to buy in. Everyone has to believe in the mission. In order to get that buy-in, you must be absolutely clear about what you want to achieve as well as what you will and won't do in order to get there. In the case of RWM, our launch began with a Mission Statement that we felt perfectly encapsulated what we stand for:

Ritholtz Wealth Management is a Registered Investment Advisory firm solely focused on providing financial planning and wealth management services to our high net worth–clientele. We combine market wisdom, technological savvy and planning expertise to enable investors to achieve their specific life and retirement goals.

The "solely focused" part was important to me. Having been a part of firms

that weren’t exactly sure what they were—brokers, wannabe investment bankers, prop traders, private equity and blah blah blah—I was determined to build a culture around a single purpose: Helping people fund retirements, college educations, vacation homes, medical care, etc., through the intelligent allocation of their investable assets. No banking, no product sales, no cross-selling, no recreational speculation, no BS. I’ll explain later why this specificity was so instrumental for us.

All of our clients are with us because they’ve bought into the mission and its paramount importance. All of our employees live and breathe this mission every day.

2. Control: Barry and I are well known in the industry and when word got out that we were going to be launching something, lots of people expressed interest in backing us, including some names you probably know. We entertained a few of these conversations but ultimately decided that the best thing to do was to maintain complete control and fund the firm entirely with our own capital. The main reason for this was pragmatism—in order to launch on our own timetable, we didn’t have the ability to wait for checks to be written or documents to go back and forth between three sets of lawyers.

The secondary reason at the time, but in hindsight the most important, was we didn’t want to be beholden to anyone or have to make short-term decisions that could jeopardize the future. Barry and I jointly make every decision together, with input from our partners and staff, and we never do anything for the sake of what feels good today. We reinvest constantly and default toward picking the highest-quality solutions and vendors almost across the board. With the pressure of an outside investor clocking our day-to-day profitability, we would probably not have been in a position to do this. We’re open to the possibility of outside investment at some point down the road, but having control in the early stages meant we could take our time and get things right.

3. A-Listers Only: Barry and I have an unspoken policy of working with A-Listers Only. Both of us have spent time in the brokerage industry and we've seen what happens when the inmates are allowed to run the asylum —we've seen how firms desperate for growth have allowed the wrong element in the door in the name of expedience. My first book, *Backstage Wall Street*, was, in part, the story of what happens when you work for and with the wrong people, even when you've got the best intentions. Neither of us are willing to go through anything like that ever again. I would rather be unemployed than work for or with someone I didn't trust or who did not share my zeal for doing well by doing right. If you think that's a spiel, you should see the parade of potential hires and partners we've told to go take a walk.

I don't do business with B-listers, C-listers, potential headaches, liars, con artists, wannabes or big shots. I'll never hire an advisor to work in this firm just because of the assets he says he can bring. I'm definitely leaving money on the table by being this doctrinaire. I definitely don't care. I'm crazy like that.

4. Client Fit: We're lucky that we can choose which prospective clients to take on and which clients to turn down. Not every practice has that luxury. I've come to understand that *client fit is everything*. No one can be all things to all people and not every lid fits every pot. Taking on the wrong kinds of clients with the idea that you can change them is a recipe for disappointment on all sides.

When potential clients inquire about our portfolios or ask for recommendations, we first invite them to a "client fit" conversation. This is where we explicitly lay out what we will and won't do for them. This is where we ascertain whether or not we have the ability to meet their objectives. Uber-advisor Ric Edelman likes to explain to potential clients that "This is not Burger King and you cannot 'Have it your way.'" I'm sure he puts it more politely, but over decades in the industry, he's learned that without great communication and expectations management from jump

street, there will never be a successful relationship. It took me a long time to learn this lesson but it's something I became extremely committed to a few years back. We have a finite amount of time and resources, it is our responsibility to dedicate these to our real clients and not to "take a flyer" on inappropriate situations.

We don't take hot money, we don't cater to people who are trying to "get rich" through the markets and we don't agree to take undue risks and race the indexes just to close a new account. If we take you on as a client, it's because we think we can help you and we can tell that you actually want to be helped. There are plenty of firms out there who will promise you those other things. Best of luck.

It should be noted that despite our selectivity, we've been able to grow assets under management (AUM) at an annual rate roughly four times faster than the average RIA firm.

5. Invest in Technology: We're a tech-centric practice. I mentioned earlier that one of the first decisions we made was to spend money on the best available solutions. I've rhapsodized about Riskalyze in the past. In addition to that excellent product, we've standardized our practice on what we consider to be the best performance reporting product, the best customer relationship management (CRM) system, the best web designers, the best compliance archiver, the best rebalancing software, the best laptops and desktops, etc. Are you noticing a pattern? We did this deliberately and at a high cost from day one. One year later, I wouldn't change a thing. The benefits accrue to our clients and our employees every day. We find other ways to cut costs, but we never skimp on user experience or productivity.

6. Ask for Assistance: A few months prior to setting out on our own, Barry allowed me to vent about all of the reasons why we couldn't pull this off. I made a massive list of everything that had to be taken care of that was outside our core competencies. You can probably tell which one of us is the Big Picture optimist and which of us is the irritable skeptic by now.

Fortunately, we found people who had expertise in areas that we didn't. We used consultants and favors from friends and asked a lot of questions. We had to get up to speed on everything from payroll processing to office leases, disability insurance to employee retirement plans. We got very lucky in terms of our network and the people we were able to bring this stuff to.

By asking for help and recognizing our own limitations, we've been able to focus on the most important things that make us who we are. Similarly, we've gotten help with our blogs, with our CRM build-out, and with our portfolio analytics. We've had consulting work done for us by BlackRock, Vanguard and State Street simply by being humble enough to ask. You can't do everything yourself, especially if you want it done right. Know your strengths, and know when to ask for help—even if it costs you money or pride.

7. Learn From the Best: The first day we opened up shop, my friend Michael Kitces happened to have been in New York and he came by to wish us well. Kitces being the foremost authority on the wealth management business in America, we pumped him for advice and information until he was able to sneak out a side door. We learn from guys like him all the time.

We're going to be here for a long time and we're going to get bigger. We want to emulate the best and build on the practices that have made them successful.

8. Think Big: Okay, this last one is a cliché but I swear by it. Barry thinks big and so does my partner Kris. They've pushed me to think bigger than I otherwise would have on my own. This fall we're rolling out some products and services for clients that have the potential to rocket our growth forward for years to come, if we can execute. They're way outside of the scope of what most first-year RIA firms are even contemplating, but I've been convinced that they're both doable and worth doing. We're going for it.

One way I've learned to get comfortable about taking on new initiatives like these is to ask myself, "What happens if we don't? What happens if

someone else takes this idea and runs with it?" It's a great heuristic if you're a risk-averse person like myself.

We have a lot of work to do to become the firm I want us to be, *the firm I know we can be*. But these eight lessons have brought us a long way since last September. I hope you find them helpful for all of your endeavors as well.

"Piece of cake, guys."

Josh's Remarks

I once heard the hedge fund manager Nelson Peltz remark upon the new generation of activist funds he had found himself competing with all of a sudden. We were at CNBC's Delivering Alpha conference in New York City and Andrew Ross Sorkin was asking him about these upstart players who were agitating for change at public companies, just like Peltz's fund, Trian, had become known for.

Nelson’s comment was highly dismissive. He said something to the effect of, “Most investors have grown up staring at a Bloomberg screen. The difference between us and them is that we have run businesses. Most investors look at the balance sheet first. We start with the income statement. Sales up, expenses down—that’s our motto.”

His point had landed on me, because I was just a few months away from launching my own firm, the first business I had ever founded or been an owner of. It was July of 2013 and what I took away from Peltz’s remark was that I had a lot to learn too. Sitting in front of a screen full of ticker symbols and quoted prices doesn’t tell you anything about what it’s like to own a business. What most people do on Wall Street has nothing to do with management and very little to do with investing, ironically. Their time is mostly preoccupied with trading stocks and bonds, buying and selling at various prices for various reasons. This has nothing at all to do with entrepreneurship or hiring or managing or building products or services.

Trading in stocks is mostly an exercise in bulls**tting ourselves into the idea that we can reliably and repeatedly outsmart all of the other bulls**tters each day. That was the extent of what I’d done in the business world up until that point, unless you count training a small army of cold callers at the brokerage firm or running the syndicate on a small cap IPO. I had built nothing of note, besides an audience for my opinions.

That September, we launched. Now we were owners. Barry put $30,000 into a checking account at JPMorgan Chase for a 60% stake in the firm and I put in $20,000 for a 40% stake. That was all the liquid capital I had. We took that $50,000 and our desire to strike out on our own, and the rest is history.

Writing this post in September of 2014, a year later, I thought I had learned a lot. It wasn’t even scratching the surface. But when I re-read these eight lessons today, ten years later, I still agree with almost all of it. We haven’t forgotten them or deviated from the takeaways I laid out here. I was

surprised to see how well this stuff has held up, as I write this a week before our tenth anniversary.

The premise of what Nelson Peltz was saying from the stage that day is that his firm was a superior activist fund because he and his colleagues were not just buying and selling stocks all day. They actually had experience running businesses. Building and strengthening corporate entities like Pepsi, Mondelez, Procter & Gamble, Arby's, Wendy's, Pepsi, Ingersoll-Rand, Snapple, Dupont. Real businesses, with employees, executives, creditors, banks, shareholders, attorneys, labor unions, diplomatic relations with foreign companies, supply chains, disputes with regulators, concentrated ownership, and family legacies. This isn't blinking lights on a screen, it's real life.

Do you become a better investor having had these real-life ownership experiences away from the brokerage account? I think so. When I hear non-business owners talk about publicly traded companies, I can tell that I have an advantage over them. They seem to be focused (fixated, even?) on things no business owner would really care about, like quarter-over-quarter sequential growth rates or earnings "whisper numbers" and other nonsense.

Business owners focus more on quality of cash flows and return on investment and staffing level decisions that may not look great on paper but make a big difference in the physical world.

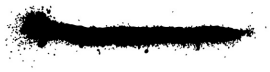
One other bonus is that my partners and I have come to understand our business-owner clients better than most financial advisors ever could. Starting and owning a business is hard. Relating to the people who are facing these challenges as someone who is also in the arena makes a big difference. It was an added, unexpected benefit. The juice we have when talking to entrepreneurs and founders in all different industries has meant a lot, it turns out. There's a respect factor that has to be earned for having made the sacrifices and commitments we've made.

When you meet us, you know that we're not just giving advice from the

safety of the sidelines. We've actually done this for ourselves and we know all of the joy and pain that you do. If you're telling us about the work you have ahead of you and we nod, you know that nod is coming from somewhere meaningful. If you share the euphoric heights of your success and the sleepless nights from your mistakes, you can see that we can relate as we commiserate with you.

We've been there. We've seen it. We've lived it. It's just different from the folks who haven't.

THE RELENTLESS BID, EXPLAINED



You hear it all the time these days—"There is a *relentless bid* underneath this market just waiting to buy every single dip…" and you can't really argue with the statement itself.

The dips have become shallower and the buyers have rushed in more quickly each time. Sell-offs took months to play out during 2011—think of the April–October peak-to-trough 21% decline for the S&P. In 2012, these bouts of selling ran their course in just a few weeks, in 2013 a few days and, thus far in 2014, just a few *hours*.

It's rather extraordinary. I've been thinking about the reasons why for a long time now and I believe I've got the answer—my *unified theory of everything*, so to speak. I'll lay it out below…

Morgan Stanley Wealth Management is now the world's largest retail brokerage and investment advisory firm, having bought Smith Barney from Citi in its entirety. When it reported fourth-quarter earnings the other day, we learned that the firm's wealth management unit took in a massive $51.9 billion in fee-based or fee-only asset flows for the full-year 2013.[9] Further, we were told that 37% of Morgan Stanley Wealth Management's total client assets are now in fee-based accounts, a record high.

Bank of America Merrill Lynch's wealth division had similarly astounding results—Merrill Lynch Global Wealth Management saw "$48 billion in flows to long-term AUM in 2013, up from flows of about $26 billion in 2012." This is a huge amount of gathered assets for one year's haul. But more importantly for our purposes here, the brokerage reported that "44%

of its advisers had half or more of their client assets under a fee-based relationship."

Lastly, Wells Fargo Advisors—which is an amalgam of AG Edwards, Wachovia, Prudential and Wells all in one—said that "at the end of 2013 it had $375 billion in managed-account assets, roughly 27% of the unit's $1.4 trillion in total assets under management." That's up from $304 billion in managed-account assets.

Are you seeing a pattern?

Wells Fargo brokerage account AUM is now 27% fee-based, Morgan Stanley's is 37% and 44% of Merrill's Thundering Herd has more than half its assets oriented that way. The nation's largest traditional advisory firms have accelerated their push toward fee-based management and away from transactional brokerage. This has a huge impact on how the money itself is managed and this in turn greatly affects the behavior of the stock market.

These wirehouses, along with JPMorgan and UBS, have slightly less than half of the wealth management pie in America. RIAs have almost another 25% (the fastest-growing channel by far) and they are almost completely fee-based—with the exception of some hybrid brokers-and-advisors. That's 75% of the wealth business in this country being largely driven toward fee-based strategies and accounts.

In 2005, fee-based accounts directly managed by financial advisors and brokers totaled $198 billion. As of year-end 2013, that figure had soared to over $1.29 trillion—more than a sextupling in under a decade. It is safe to say that, while some of these fee-based accounts are managed actively (brokers picking stocks, selling options and whatnot), the vast majority are not. Most of this money is being run more passively—in the absence of a transactional commission incentive for the advisor to trade, why else would he? Edge? LOL.

No, the vast majority of this snowballing asset base being reported by both wirehouse firms and RIAs is being put to work in a calm and methodical

fashion: long-term mutual funds, tax-sensitive separately managed accounts (SMAs) and, of course, index ETFs. Vanguard, State Street and iShares are to this era of investing as Janus, Fidelity and online day-trading were to the 1990s. In fact, Vanguard's share of all fund assets—now approaching 20% or $2.3 trillion—is the vexillum behind which the entire do-less movement marches.

What this means for the very character of the stock market and the way it behaves is very important. It means that, almost no matter what happens, each week advisors of every stripe have money to put to work and they're increasingly agnostic about the news of the day. They've all got the same actuarial tables in front of them and they're well aware that their clients are living longer than ever—hence, a gently increased proportion of their managed accounts are being allocated toward equities. And so they invariably buy and then buy more.

Whereas yesterday's brokers were principally concerned with keeping money in motion and generating activity each month, today's brokers—who call themselves wealth managers, by the way—are principally concerned with making client retirement accounts stretch out over decades. Stocks are increasingly the answer to this puzzle. Bonds, with their fixed rate of income, *by definition* cannot get the job done. This means a bias toward buying equities everyday and almost never selling. It means adding to stocks sheepishly on up days and voraciously on the (rarely occurring) down ones.

In short, it means *a relentless bid* as the torrent of assets comes flowing in every day, week and month of the year.

My theory also explains several other mysteries.

For one, the lighter volume on the NYSE in recent years—trades are only taking place at the margin and about half of it is ETF creation-redemption related. Most of what's invested in the market doesn't move an inch. It also explains the depth-plumbing ratings of financial television. People are

behaving differently with their assets, both individuals and the professionals who invest for them, and the TV networks haven't figured out the right programming to cater to them. The community of really active traders that everyone in the financial media is trying to reach has been estimated at just 3 million. I'd take the under.

As the behavior of investors and their advisors has changed, it's had an anthropomorphic effect on the stock market itself. It is the primary reason for the shallowness and shorter duration of corrections in recent years. It is the reason why both bad news and good news seems to be bought, almost as if the two things were entirely interchangeable. It is the reason for the low ratings of shows about trading and for the almost eerie lack of volume on the major exchanges.

It's amazing that almost no one has connected these dots before.

Josh's Remarks

In "Relentless Bid," I uncovered a new connection that no one else in the investment business had yet thought of at the time. The question to be answered was, "Why is the stock market behaving this way?" By which, of course, we meant why won't it go down and stay down for longer than a day or two? Keep in mind, my post was just five years after the Great Financial Crisis and there was a ton of PTSD still heavily present among the trader commentariat. Everyone was mentally scarred. Higher prices with only short, shallow pullbacks created an environment of suspicion among the investor class, despite how long it had gone on for during the 2010s decade.

I was uniquely positioned to answer this question precisely because of where I sat professionally—blogger and TV market commentator, RIA founder and CEO, former retail stockbroker. It's a unique combination of

experiences and areas of expertise. It put me in a position to make this connection and share it with the world.

The big idea of the post was that the best explanation for the market's new behavior had nothing to do with the fundamentals of the stocks themselves and everything to do with a business model shift among the largest financial firms on Wall Street. For the entirety of the 20th century and all of the 21st up until the Great Financial Crisis, most of the financial advice being given by the large banks and brokerage firms was merely incidental to the real business, which was selling stock trades, mutual funds and other products or transactions to rich people.

If you had a financial advisor prior to 2008, it's likely that financial advisor had a Series 7 license and was getting paid to keep your money in motion via individual stock trading or allocated to actively managed funds. None of this had worked well during the crisis and so, in the aftermath, there was a tremendous career change underway. Thousands of retail brokers were putting their guns in the ground and moving over to the advisory side of the business. And the first thing that occurs to a broker who's broken away and become a fiduciary advisor is that the portfolio management he or she was doing on the retail side no longer made sense.

If you weren't being paid a selling concession to place clients into a high-cost, highly active mutual fund, then why would you do it? Certainly not for the performance. If you could no longer receive commissions for buying and selling stocks in a client's brokerage account, then why on earth would you bother? When you're right, you're supposed to be right and when you're wrong, you're an asshole. Let's say you're an advisor faced with that risk and reward and there's no benefit financially because commissions and transactional fees are not part of the compensation—you'd never do that if you had a brain in your head. Heads I don't win, tails I lose the client and get sued. Dumb, dumb, dumb.

So you can see how the brokerage model began to go extinct with the rise

of the RIA firm. I used to get s**t from brokers for writing about this revolution in my book *Backstage Wall Street* and on *The Reformed Broker* blog. Then those same people would end up changing over their business to fee-based and even go on to start their own RIAs. I was right and they knew it, even if it made them mad and they didn't want to admit it. Brokerage was dead, commissions were going away and client preferences had been permanently changed.

If everyone in the industry was about to go fiduciary (or, at least pretend to), then by definition they'd do less trading of stocks and allocate more to index funds and ETFs. Like, a lot more. Trillions, it turned out. This business model shift and the concomitant mass exodus away from active and into passive strategies involved way too much money *not to* produce an observable behavioral effect on the stock market. Of course it had to have a noticeable impact. The larger the flows grew and the longer the trend persisted, the more this effect would be felt.

When brokers become financial advisors and begin managing portfolios on an AUM fee basis rather than a product sales and commission basis, activity slows down because it is no longer financially beneficial to the advisor. Asset allocation becomes the reason for what gets bought and sold. Financial planning becomes the guiding light for these allocation decisions and once a plan has been created, a certain type of investment philosophy becomes necessary. Clients identify their future costs (planners call them "liabilities") and the portfolio's job is to fund those future costs with investment gains on today's assets. This leads to permanent stock allocations and to rebalancing buys every time stocks fall.

Once you have tens of millions of people handing over their portfolios to advisors practicing this highly rational method of investment management, you see the dips get bought faster and market volatility being dealt with more dispassionately. Every advisor is using software to determine allocations based on Monte Carlo simulations and other tools that seek to define the client's needs in mathematical terms. The software will say that

when stocks go down, buying more rather than selling will aid in the financial plan achieving success years into the future. Therefore, the advisor will say, “We are selling 2% of our bonds and buying more of the stock market into this weakness.” Why? “Because this is what your plan is calling for us to do.”

All of the trends I cited in my piece back in 2014 have since accelerated and become the status quo, obvious to everyone. Wealth management became the very best business on Wall Street. Listen to a conference call from Goldman Sachs or Bank of America, Wells Fargo or Morgan Stanley. They’ve been crowing about how wealth is both their most reliable business and also their steadiest grower. Everyone loves it.

Vanguard and BlackRock have swallowed up trillions of dollars of assets from the actively managed incumbents as flows to RIAs continued to grow rapidly over the last decade since I wrote the piece. They’re now the largest asset managers in the world. Small to mid-sized asset management firms have spent the last decade melting like ice cubes, flailing about for a reason to exist. They’re still paying wholesalers six-figure salaries to play golf with UBS advisors, but those UBS advisors are all migrating toward fee-based and the inevitable end result of that migration will always be lower-cost funds and, eventually, a breakout into the RIA space. You might as well be fighting against gravity and time if you’re on the other side of that bet.

I didn’t mean “The Relentless Bid” as an argument for why we would never see stock market volatility ever again. Some of the critics of the post were taking it that way, because they wanted something to argue against. There are a lot of frustrated people in our industry who are on the wrong side of history and destined to make less money in the future as a result of the trends I was describing. A lot of times you will see people argue against an opinion not because they think it’s wrong, but because they don’t want to accept that it’s probably true. I’ve been on the receiving end of this sort of illogical anger since I started writing. It took me a while to understand the

impulse in people and to be gentle in how I chose to respond. No one wants to be the last horse-and-carriage driver in town. Or to be told that the way they're currently making money will never be as profitable as it had been ever again. Of course that message sucks to the recipient whom it will affect. Of course it demands a heated response.

I don't want to end this commentary with an "I told you so" because that's not my style, and there have been plenty of things I've been wrong about. But this was a big fat pitch and I smashed it into the upper decks for a grand slam. When I wrote the post, my RIA firm was just a year old and we had a lot of bets about the future we had to get right in those early days. This generational business model shift and its implications for stocks and markets was one of those bets. We had all our chips on it. We kept our clients invested, bought all the dips and surfed the Relentless Bid to great returns, hundreds of referrals and a giant reputation for success in our industry.

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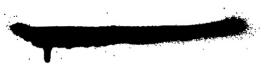
9 C. Driebusch, "Wirehouses' Wealth-Management Units See Record Year," *Wall Street Journal* (January 17, 2014).

THE APOTHEOSIS OF DAVID TEPPER



Apotheosis:
Exaltation to divine rank or stature; the elevation of a person to the rank of a god; deification
Late Latin, from Greek *apotheōsis*, from *apotheoun* to deify, from *apo-* + *theos* god

The grand ballroom at the Bellagio Hotel and Casino in Las Vegas is dark, apart from the massive wall-to-wall video screens behind the stage. In the audience, there are over 2,000 hedge fund and brokerage firm movers and shakers, most of them slightly sunburnt owing to the endless winter they've endured back in New York and Connecticut. The room is filled, nearly every seat occupied for the speaker we're all really here to see: David Tepper of Appaloosa Management LP.

In every market moment, there is one man—and it is *always* a man—who is deified by his peers and the media; an *anointed one* in every sense of the term. His every word is hung on, his pronouncements are the day's discussion, his off-the-cuff remarks become the business press's front-page headlines the following day.

David Tepper now occupies this place in the firmament, wholly and completely. He's earned this position in the monetary-industrial complex by virtue of the following three attributes, likely in this order:

1. His big returns
2. His even bigger personality

3. His well-known reputation for philanthropy

We're all in our seats and quiet as Anthony Scaramucci takes his place behind the podium.

Scaramucci is the Zelig-like industry figure who puts on the SALT Conference each year, summoning the financial faithful to this Western Mecca of capitalism and casinos. It's impossible not to like the guy personally and it's even harder not to admire the empire he's built for his fund platform, Skybridge Alternatives. He is everyone's contact, confidant and counselor. His magnetism is the mortar that this enormous annual event is built with, it's the cement holding it all together. This week I've heard Magic Johnson, former British Prime Minister Tony Blair and retired four-star general David Petraeus all refer to him amiably as "the Mooch." David Tepper doesn't typically speak at conferences or to the media—the only reason he's here is that Anthony asked him to come.

Scaramucci wastes little time in introducing Tepper. He spares us the perfunctory biographical details that everyone here is already familiar with. He tells us instead, "If you had put a million dollars with David Tepper when he started Appaloosa 20 years ago, it would now be worth $149 million net of fees." There's an audible gasp at that figure. Whenever you're surprised at the massive AUM of the hedge fund industry, given its lackluster performance, remember that this is the exact dream scenario all of that money is chasing in the first place.

Tepper joins Scaramucci on the stage and the video screens project the two of them in black leather chairs, at a scale of ten times their actual size. Glancing down at my laptop, I see the streams of financial Twitter explode across my Tweetdeck with mentions of the discussion that's about to begin. It is at this moment that I realize what's taking place—David Tepper is becoming today's Hedge Fund God. He's younger than Soros and Cooperman, less cantankerous than Loeb and Icahn, can claim higher returns than Einhorn and Ackman, carries none of the regulatory taint of

Steve Cohen, and has all of the garrulous authenticity that almost none of his peers possess when in a public setting.

This is his moment, whether he wants it or not. The apotheosis of David Tepper is now complete.

Scaramucci's questions guide us through the gospel of Dave, which roughly follows the narrative arc of the New Testament.

David Tepper comes from humble origins

Tepper started as a junk bond analyst at Goldman Sachs, which lasted for only six months before his trading ability was discovered. He became the head junk bond trader by default: "The guy they had before me was no good, so I was in charge right away." Even though Goldman was always Goldman, he began in a backwater at the firm—junk bonds weren't exactly a sexy line of business at the time. "At 85 Broad Street they put the junk bond department next to the ladies room because they wanted to hide it."

Even the origin of his firm's name has a folksiness to it—"Everyone was doing Greek gods back then. 'Pegasus' was taken, they wanted $300 to sell it to me, I said no way." Looking for other equine names, he settled on Appaloosa. The "A" name was strategically brilliant: "Information used to be sent out from the brokerage firms by faxes, so if you were at the beginning of the alphabet, you got it 15 minutes faster."

David Tepper trekked out into the wilderness to find his purpose

We're told about how David left Goldman Sachs with nothing but his own money. He was sick of the culture and there is still no love lost for his alma mater. He had invested $3 million of his own money in the

market prior to leaving, that money doubled very quickly to $7 million, which allowed him to found his own shop.

He next goes out and finds a following, raising another $50 million in outside capital to get started. “I had no family connections, someone like me leaving and starting up a fund was Goldman’s worst nightmare.”

David Tepper faces trials and tribulations

Tepper tells us his fund has been down 20% or more on three different occasions. This includes the episode in 1998, where he was blown out because of the Asian Contagion and subsequent Russian currency devaluation. Tepper was heavily exposed to emerging markets and Russia; the combination crushed the fund. But then he made it all the way back to Appaloosa’s high-water mark within six months.

“We did it two more times—people started flooding us with money whenever we were down big because, counterintuitively, they knew it was good timing to get in.”

David Tepper’s mission becomes clear

David’s in the performance game, not the AUM game. After almost every profitable year, he kicks principal and profit back to his investors. “We do this to make money and send it back to people, not to collect assets. I love the game.”

Performance is what liberates him from having to manage people issues—it allows him to focus on the only game that matters to him. “I like most of my investors, I don’t like them all. But when you give them back twice what they gave to me, what are they gonna say? It’s freedom.”

He is not big on bureaucracy or committee decision-making. “We have $20 billion in assets and we run it with 33 people.”

David Tepper wants us to repent

He thinks that the global economic risk is mostly from central bankers who are way too complacent. He thinks Europe (ECB) actually needs to ease by June (2014). The risk there is deflation and if they're serious about targeting 2% inflation, they need to act now.

As far as the US markets go, he is not as confident as he was a few years ago in predicting the now-infamous "Balls to the Wall" rally—a call that played out immediately and exactly to his expectations. This time feels different and he is concerned.

"Now is the time to have some cash. If you're 120% long here, it's probably not a good idea. I am nervous, it's probably nervous time. We've been in this stupid trading range for awhile. I'm not saying be short, I'm saying don't be too frickin' long."

He prefers fearful environments and the complacency of this one is not to his liking. "We have this saying: 'The worse things get, the better they get.' When things are bad, they go up."

David Tepper's business philosophy is a spiritual one

He believes in doing good in order to do well. At Scaramucci's behest, Tepper tells a story about being down over 20% in 2008 and making the decision to backstop every single soup kitchen in the state of New Jersey with his own money. He's not just writing checks; he's involved in making sure the money goes to where it's needed as the economy collapses. The moment he made this decision marked the low for his fund's assets, performance exploded to the upside from that day forward.

Anthony asks if he believes in good karma. Tepper shouts, "Are you f***ing kidding me?" As though the question were utterly absurd.

David Tepper brings a message of hope

This is a man who is doing exactly what he was put on Earth to do. When he's asked about what advice he has for the assembled acolytes in the ballroom, he simply says, "Do what you love."

Thunderous applause accompanies his exit from the stage. Any doubt about whether he's "the real deal" melts away. In its place, there is only awe and admiration.

Josh's Remarks

When I wrote this paragraph, it was true at the time:

> In every market moment, there is one man—and it is always a man—who is deified by his peers and the media; an *anointed one* in every sense of the term. His every word is hung on, his pronouncements are the day's discussion, his off the cuff remarks become the business press's front-page headlines the following day.

All of the most famous market-beating fund managers who'd reached this place had been men. We don't need to get into a debate about why. Men have dominated Wall Street since its inception and, until recently, have not been terribly hospitable to the women who've come along to earn their place on The Street. Just look at how they treated Muriel Siebert, the first woman to buy a seat on the NYSE. They made her find a man to co-sign the bank loan in order to effect the purchase. She was denied by every financial institution she went to for help with the transaction. They refused to install a ladies room at the NYSE, prompting her to threaten the imminent arrival of a construction site portable toilet out in front of the building. This was not hundreds of years ago—this was in the 1960s.

When Siebert took her place as the sole female member of the NYSE on

December 28, 1967, she did so in the company of 1,365 male members. With a ratio like that, you can understand why all of the famed investors who've become emblematic of their moment in time have been men.

Until 2020. That's when Cathie Wood stepped into the spotlight as the investor of the moment. Wood's ARK Investment family of ETFs had exploded into the public consciousness during the post-pandemic period as innovation and the digitization of our economy became the hottest themes in the stock market. Hundreds of millions of investors around the world were betting on some of the most inventive (or speculative) companies of all time and Cathie presided over the resulting technology stock frenzy like a high priestess. And she made people a lot of money.

Cathie managed six active ETFs at ARK that had more than doubled in a single calendar year, an unheard-of feat never before accomplished by any of her male predecessors in the fund business. There was a stretch during late 2020 and early 2021 where you couldn't go more than a couple of days without seeing her on TV, whether it was Bloomberg, CNBC, or even on the mainstream cable news channels. When she wasn't making an appearance herself, they'd create segments to have other people talk about her. In South Korea, they had a nickname for Cathie—they called her "Money Tree."

The pandemic-era stock market gave birth to a new generation of stock market pundits. They were extremely online, mostly using Twitter, narrating the action for the hundreds of millions of people trapped at home with nothing to watch or engage in other than trading, speculation and digital collectibles. The "professional" pundits who had normally served as the voices and faces of the market each day were broadcasting from their own apartments and living rooms, and this shattered the illusion of authority. "These are just regular people." Suddenly, the mainstream journalists, commentators and opinion-havers seemed less vital, less official. Just regular people sitting in the middle of their own houses,

wearing neckties and pearl necklaces, doing their own makeup, posting up in front of a laptop camera.

The public looked elsewhere. They found a raging inferno on the internet and a new crop of personalities with investment takes. The qualifications of the new pundits weren't terribly important, so long as they were loud, brash and interesting. They became the soundtrack for America's newfound obsession with trading. Each day they spoke to their audiences of millions while buying, selling, bashing or praising this stock or that crypto coin. When the NFT thing erupted, they jumped on that bandwagon too. They began launching venture funds, SPACs and ETFs to capitalize on all this attention. During this period of time, the most influential market commentators were Barstool's Dave Portnoy, Social Capital's Chamath Palihapitya, Vayner Media's Gary Vaynerchuk, Galaxy Digital's Mike Novogratz, Skybridge Capital's Anthony Scaramucci (yes, always Anthony), Morgan Creek Digital's Anthony Pompliano, and Shark Tank's Mark Cuban, along with an extremely thirsty Kevin O'Leary, panting to keep up with his co-star's pace of dealmaking.

What started with a dollop of stock market commentary and economic dilettantism continued with IPOs and crypto endorsements. As the bubble accelerated, the gains piled up and billions of dollars began to circulate through the crypto-SPAC-meme stock ecosystem, and these voices became louder. Elon Musk joined in, as he became the richest man on Earth, playfully promoting Dogecoin just to see the reaction in price and then count the likes on his tweets.

Of all the newly influential people who had emerged in this time, however, Cathie was the most interesting and unique. She was using social media like a real-time research laboratory, encouraging the analysts on staff at ARK to share their financial models publicly and observe the feedback. She talked about how much better her firm's research quality was because of all the criticism and scrutiny she had opened it up to. Crowdsourcing the insights of others to create, manage and fine-tune her own portfolios, she became

both a sensation and a lightning rod all at once. As the fund rose in price (and AUM), retail investors worshiped her while professionals scoffed at the valuation methodologies and lofty price targets she'd been assigning to such controversial stocks as Zoom, Peloton and Teledoc. When she announced her Bitcoin target, a cool $1.48 million per BTC, you could see the eyerolls of the "experts" from outer space, never mind the fact that they had completely missed the run from $300 to $60,000 before that.

Wood's biggest winner was a massive position in Tesla, which she would become forever associated with during its historic rise between 2020 and 2022. Tesla shares rallied 740% in the year 2020, one of the most legendary runs for any stock ever—an eight-bagger inside of 12 months. Cathie had predicted it and stayed long throughout the entire run, while some of the notable investors on Wall Street were either ignoring it or outright betting against it with short positions. As David Einhorn, Jim Chanos and other Tesla bears were repeatedly smacked in the face by its relentless rise, Tesla made Wood a hero to the retail investors who had dared to buy into the stock, despite oceans of bearish research and opinions warning them to stay away. By the time Tesla's stock was being added to the S&P 500 index (begrudgingly), it had become clear that the professionals were wrong while the retail bettors who had become fascinated by Elon's exploits and Tesla's unsinkable inventiveness were right.

Very few fund managers had been on the Tesla ride from the beginning. Cathie Wood, who had become synonymous with the Tesla story, had prevailed. Billions of dollars in new assets flowed into her various thematic ETFs (Genomics! Artificial Intelligence! Robotics! Metaverse!), while the flagship fund became one of the most successful products in the industry. This particular market moment was hers. She had become its avatar. The most famous professional investor in the world. The hot hand. The person the press could not stop talking about.

This is not as much fun as you might think. In fact, it could turn into a nightmare if you're not thick-skinned enough to endure all the attention and

outright hatred when the market gods turn against you. And turn they will. No style or strategy can persist in its performance through the turning and tumbling of the economic cycle. No one is invincible and no portfolio can withstand the weather forever. “That’s life,” Frank Sinatra sang. “That’s what all the people say. You’re riding high in April, shot down in May.”

The strategy Cathie Wood had become famous for—betting on the most innovative companies most likely to change the world—had fallen out of favor by the end of 2021. The stocks most associated with this style of investing were falling 60, 70 and 80 percent from their 2021 highs, taking the ARK funds down with them. Twitter’s legions of retail investors began to turn on the hero of 2020 and her critics raced into the pile-on to get their kicks in too, while they could. The glee with which they took her down from her pedestal seemed personal to me, and I said so, defending her on television during one of those blood-red days in the markets where it really seemed to have gotten carried away. I pointed out that they would not have been talking about her the way they were if she were a man, not a woman. I wasn’t the only one to detect a tinge of misogyny in the criticism.

The bullying of Cathie Wood reminded me of how the former star analyst Meredith Whitney had been chased off The Street in the wake of her being wrongly bearish about municipal bonds after the Great Financial Crisis. Whitney rose to public prominence on October 31 after publishing a bearish report about Citigroup, effectively calling it insolvent with a declared dividend larger than its actual profit. The stock fell 8% that day and the entire stock market would follow, shedding almost 400 billion in an afternoon. Citi’s CEO, Chuck Prince, would resign in disgrace a few days after Whitney’s report. Citi would go on to decline more than 95% in price before being rescued at the height of the Great Financial Crisis.

The relatively unknown Oppenheimer & Co analyst had become a superstar overnight. Unfortunately, she then committed the unforgivable sin of doubling down with an even more bearish prediction shortly after. Whitney appeared on *60 Minutes* in 2010 to tell an already rattled investing public

that their sacrosanct municipal bond portfolios were also about to crater as towns, cities and states ran out of money to pay the interest. This would be the next shoe to drop, she confidently warned us, as the experts in municipal finance openly questioned her qualifications as a bank stock analyst to be making a call like this. She had just launched a fund of her own to begin making investments based on her market calls when the crowd had overwhelmingly turned against her. The only thing people love more than tearing down a famous investment industry person is to do so when that person is also female, and relatively and objectively attractive. And if, like Meredith Whitney, she's a blonde, then god help us all, the invective will be thermonuclear. And it was. Whitney was never able to fully capitalize. Her moment, almost within reach, had slipped away as the muni bond call had become increasingly absurd.

In 2018, the *Wall Street Journal* looked back on the episode during the tenth anniversary of the Great Financial Crisis. They attempted to contact Ms. Whitney but she had vanished from the face of the Earth.

> Ten years ago, she was one of Wall Street's best-known analysts, credited with foreseeing the calamity that would lay waste to some of the nation's biggest banks.
>
> Now old phone numbers have been disconnected. Emails go unanswered. Calls to her former attorney and a Bermuda rugby pal of her husband, a retired professional wrestler, elicit no response from her. Finally, an email to Donald Watson, an executive vice president of finance for her current employer, Bermuda-based insurer Arch Capital Group Ltd., elicits a terse, 'Meredith is aware of your inquiry, but prefers not to comment for your story.'[10]

You can see how that patronizing tone had remained. This was a decade later and the *Journal* still felt it necessary to reference Whitney's husband, who happened to have been a professional wrestler a million years ago. Why? No reason. Served no purpose within the context of the story. They

wanted to remind you of that, though. *Meredith Whitney was the wife of a pro wrestler.*

Great, thanks.

Back to Cathie. I had met her a few times at various industry events both before and after her meteoric rise to boldfaced name status. She had been a guest on my CNBC show, *The Halftime Report*, in the infancy of her ARK business. She had said some interesting things about technology stocks but didn't make much of an impression. Then the two of us were the invited guests on stage for a Bloomberg symposium discussing the impact of social media on the stock market. This was circa 2019 while I was openly contemplating walking away from Twitter and never looking back, something I would eventually do for real in May of 2020.

Cathie was pointed in the opposite direction. She had just started getting traction on the social media platform and building the early foundation of her fanbase there. It was a year before she would truly break out but we could not have known it then. My final remarks on the stage to her were something like, "It's all yours, have fun," in reference to my pulling back from the platform while she accelerated her footprint there. A few months later, the pandemic began, her largest holding Tesla exploded to the upside and the rest is history. Cathie became CATHIE.

A few years later, I would get the chance to interview Wood a couple of times, once in 2022 before a live audience of financial advisors in Nashville, Tennessee and then again down in her newly adopted hometown of Saint Petersburg, Florida for my own podcast. The market for speculative technology companies had cooled off and so too had the fervor for funds like ARK that had focused on them. By the time we talked for the podcast, she had already weathered more attacks and criticism than any stock market personality I had ever heard of, barring those who had actually committed crimes, like Bernie Madoff, or bankrupted their companies, like Dick Fuld or Jon Corzine. Wood had done no such thing. She simply happened to have

been on the losing end of a market-wide rotation from expensive tech stocks to boring value stocks as the Federal Reserve raised interest rates to fight inflation. You wouldn't know it from the way they hounded her on Twitter and in the media.

I was amazed by her attitude in the wake of it all. She was pretty zen about the whole thing, more focused on the stocks she was excited about and the innovations that continued to fascinate her firm's analysts. She didn't seem to have taken any of the criticism personally, despite how personal it had obviously gotten at its worst moments. Cathie Wood wasn't looking for any sympathy from anyone. She had a fund company to run, a portfolio to manage and an investor base to deliver returns for. This was what she wanted to talk about, not the unfairness of the press who had built her up just to tear her down. So that's what we talked about. Stocks. And it was awesome. I learned a lot from watching her navigate this rise and fall so publicly and with so much poise. Without having a dollar in any of her funds, I root for her comeback from the sidelines. Her market moment may have passed, but hopefully there are many years ahead for her to prove herself and earn the last laugh.

As for David Tepper, he did the smartest thing I've ever seen a man of the moment do. He gave all the money back and retired. These days, Tepper maintains a "family office" to manage his own money without any outside investors to placate or answer to. He also got divorced, bought the Carolina Panthers NFL franchise and moved down south, far from the glare in which he used to operate. These days, you might see David Tepper on TV once a year, or less, as he enjoys his money, his success and the thrill of the game he has always loved to play. His 13F filings still make news as he buys and sells stocks for his own accounts each quarter, but you will never hear him publicly comment on them. No need. He already won. Why continue to play?

I think this is what sets David Tepper apart from most of those who have become market gods in prior eras. Very few of them go away when they

should. As of this writing, Carl Icahn is fighting to save his empire as his publicly traded vehicle, Icahn Enterprises, has been cut in half following the accusations of an activist short-seller. A six-decade career laid low by a thread of tweets. Leon Cooperman went “family office” after fighting accusations of insider trading at his legendary hedge fund, Omega Advisors. Chamath Palihapitya, rather than being content counting the hundreds of millions he’d made from the SPAC bubble, now spends his days fighting pseudonymous accounts on Twitter in an effort to get his reputation back. Dr. Michael Burry has also utilized social media to piss away as much of the social capital he’d accumulated from *The Big Short* as he can over the last few years. You can regularly find him s**tposting his economic opinions as they occur to him, then deleting them as the press publishes the most salacious headlines they can come up with, using these blurted utterances as grist for their daily content mills. It’s all very upsetting to watch.

Fame is an inevitable consequence of having made the big call or become the most notable investor to capitalize on a massive trend. What Icahn achieved during the era of activism catapulted him into the consciousness of the American public for decades. And then he stayed too long. The same is true for dozens of other investing legends, who hadn’t had the sense or the instinct to walk away the way Tepper had, just a few years after his most notable streak of performance.

Going out on top is hard. We can count the number of celebrities who have done it on one hand: Dave Chappelle, Michael Jordan, Jerry Seinfeld, The Beatles.

We have a saying on Wall Street: “The Trend is Your Friend, Until the End.” As investors, we never know the ride is ending until long after it has actually ended. Selling high is the name of the game, but selling *THE* high is almost impossible. Tepper did, cementing his legacy as one of the greatest of all time, forever.

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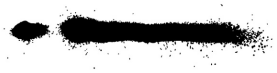
Asjylyn Loder, “Star Analyst Who Predicted Bank Collapse Is Ducking the Spotlight,” *Wall Street Journal* (April 13, 2018).

I’M HERE, TO REMIND YOU



Good morning. It’s March 9, 2020. Stocks were halted after a 7% drop, which triggered the first of three circuit-breakers designed to give buyers and sellers a chance to regroup during moments of extreme volatility.

The system is clearing itself of over-leveraged players, forced liquidators and panic sellers. There are people selling for a variety of reasons, but everything that gets sold, from a share of Apple to a barrel of oil, must also have a buyer on the other side.

You will see and hear amazing things today and this week—in stock prices, in oil prices, in government and central bank response. It’s going to be a time you’ll look back on.

Unprecedented things are taking place, such as the entire US Treasury yield curve below 1% for the first time ever, which we saw happen this morning —meaning every US bond, from the 3-month T-Bill to the 30-year Treasury, currently yields less than 1%. The 10-year has gone from 1.5% to 1% to 0.5% in three sessions. Utterly historic.

But I’m here, to remind you, of the things that are now still true and will always be true, regardless of what happens:

1. **This is the Super Bowl for financial advisors.** When the market is going straight up, months and months in a row, with little volatility, financial advisors can come to seem like a vestigial appendage—*What do I need you for?* After over 20 years of experience and having survived multiple 20% bear markets and two episodes in which the S&P 500 was cut in half, I can tell you definitively that these are moments when advisor-client relationships are solidified.

Not in summertime, when the living is easy, but right now. In the depths. In the middle of the maelstrom. Helping people contain their fears. Keeping people from doing what might feel like a relief now but is sure to represent a mistake in hindsight. Refocusing people on the reason they're investing in the first place, and the things they want to be able to fund far into the future. Last week we got 34 new inquiries from potential clients. Twenty-five the week before and 21 the week before that. Our services have never been more in demand. Many of the people coming to us thought it was easier than it is and were trying to do it alone. Many are working with advisors that have revealed themselves to have been inept all along. Great advisors across America will rescue these investors. These are the environments in which clients' retirements are saved and advisors elevate their game and come to embody the highest ideal of our profession. Game on.

2. **Your retirement plan probably isn't going to change**, and nor will the future uses of your money, which means throwing out your long-term plan or radically changing your portfolio makes absolutely no sense. Locking in permanent losses today, while fleeing to an asset class that yields nothing, is a surefire way to be unable to pursue our dreams tomorrow.
3. **The end of the world only comes once.** If your new base case is some sort of *Birdbox*-like scenario, then it will make no difference whether or not your asset allocation is incorrect. So let's assume we're going to end up somewhere between the February highs and Sandra Bullock traipsing through a forest, in a blindfold, to save her children.
4. **You may be more at risk than you think.** If your financial advisor has previously encouraged you to take portfolio loans against your stocks and bonds, which has put you in a position where you may be forced to liquidate assets, then you do not work with a fiduciary, you

work with a salesman. He's figured out a way to take double the fees on the same pool of your assets, and has gotten paid for adding additional risk to your personal situation. Which is fine. You were, of course, in on that decision too. Just don't forget that your portfolio's holdings can be liquidated by your brokerage firm at will if and when they slip below the loan thresholds. Just like a margin call. They will not wait for you to sell a boat or a ski house to come up with the money.

5. **No, nobody "called this."** I mean, plenty of people had been calling for recession this year, but they are the same people who have been calling for recession every year. There are people who spent ten years and about 23,000 Dow points predicting bear markets perpetually. This doesn't take any talent. If you can find me someone who was a bull until January and then a bear beginning in February I will be suitably impressed. But even that person will not have the ability to tell you when it's over and time to get bullish again. A perfectly correct economic or market call, that cannot be systematized and repeated in the future, is worth just as much as no call at all. Unless this was your very last year as an investor.
6. **Never pull the goalie.** The risk-off portion of your strategic asset allocation—most likely comprising some combination of long-term government bonds, short-term government bonds (or cash), TIPS, gold, and municipal bonds, has done its job since the stock market's peak. Long-term Treasurys in particular have gone literally vertical as yields have plunged. As improbable as bonds had looked for forward returns at the end of 2019, they have worked spectacularly well during the recent panic. These segments of your asset allocation are there to play defense for you. They come to represent the dry powder—so that when you rebalance into stocks that have gotten killed, you have somewhere to take the capital from that has performed well. Do this systematically over time and volatility's

effects have been negated.

7. **“Why don’t we just sell everything and wait this out? Get back in when the dust settles?”** This is the question every financial advisor is getting this week, from at least one or two clients. They’re asking out of genuine curiosity, not just panic or fear. And it’s a great question. The great answer is that you won’t know when the dust settles. There’s no airplane writing the “all clear” in the sky above your neighborhood. And when the dust settles, do you think stocks will be at their lows? Or will they have already rallied furiously, in anticipation of this? Let me give you an example. Today is March 9. Precisely 11 years ago today, in 2009, the stock market stopped going down. There was no reason. The dust had settled, without fanfare or any sort of official announcement. If you had polled people that day, or week or even month, most would not have agreed that we had seen the worst. The economic headlines were not improving. But there it was. And by June 1, less than three months later, the stock market had climbed 41% from that March low. And even with that having happened, the majority of participants still weren’t clear that the dust had fully settled. That we had, in fact, seen the worst. There were still people calling us three, five and seven years later who had gone to cash and still hadn’t gotten back into stocks. They missed a new record-high a few years later and hundreds of percentage points in compounding on their assets.
8. **All-in or all-out are terrible strategies.** You cannot afford to miss the 25 best days in the market, or your returns are wiped out, and you may as well have simply sat in 5-year Treasurys. The catch is that the 25 best days are frequently clustered among the 25 worst days. You can’t have the up without the down. Anyone promising you otherwise is either uninformed or a liar. I have often observed that it’s usually some combination of the two. In October of 2011, we were in the midst of the European debt crisis, and stocks were

rising and falling by 2% and 3% every day. Volatility was off the charts. Being all-in or all-out was stupid then, in the middle of that storm, and it is stupid right now too.

9. **There are things you can do right now** to be proactive and take advantage of the moment we're living through:
    a. Up your automated 401(k) contributions at work. Raise your equity exposure if appropriate given your time horizon.
    b. Set up monthly contributions from your bank to your investment accounts, or increase the payments you already make. My wife and I just upped our monthly number. It's money we won't be spending today.
    c. Make sure your funds/stocks are set to reinvest dividends automatically rather than have these regular payments sit in a money market fund earning nothing. You'll be buying more shares of your investments at lower prices.
    d. Put in some "crash bids" for the stocks you missed on the way up and have always kicked yourself over. The ones that got away. I've been doing this trick for 15 years.
    e. Re-read the classics on risk and reward. Turn off the news and grab a life-changing book that will really give you the perspective you need right now. I recommend *Simple Wealth, Inevitable Wealth* by Nick Murray, *Against the Gods* by Peter Bernstein, *The Investor's Manifesto* by William Bernstein. These are the stories about why we take risk, and why it pays off for those who are willing to bear it.
    f. Make your 529 contribution now. Make your SEP-IRA contribution now. You may not be getting the lowest price. But a 15% or 20% discount to the prices of a month ago is almost certain to look like a steal years from now when you look back.

10. **Most importantly, remember your ABC's: Always Be Cool.** You only have control of one thing—your own actions. The other stuff will work itself out, regardless of what you think or say or do. So be cool. Be armed with context, wisdom, patience, humility and a sense of humor. See you on the other side.

Josh's Remarks

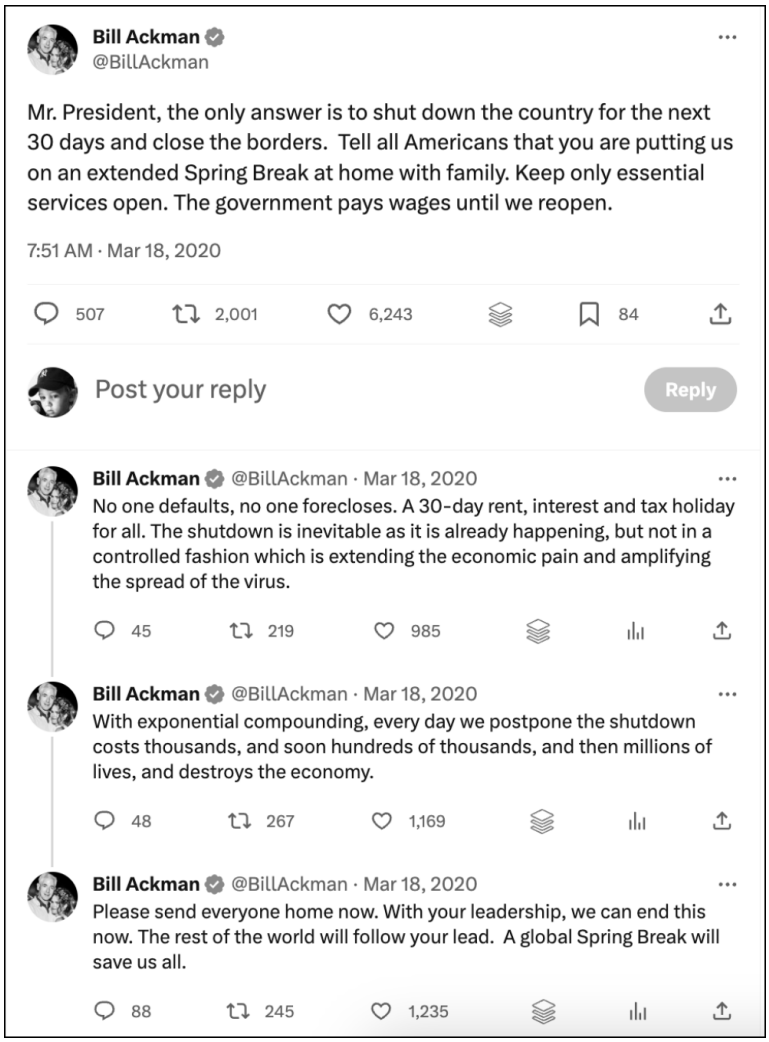
I wrote this at the onset of the Covid-19 panic but, in truth, a lot of what's here could have been posted during any of the corrections the market has gone through since the inception of my blog in the fall of 2008. But by March of 2020, I had gotten extremely good at this sort of post. There are several versions of this sort of sermon from me out there, but we selected this one because it's among the best. In addition, it was also one of the most read posts I had ever done. This is, in part, because of how much attention the stock market was getting all of a sudden. From everyone.

And with good reason.

During a crisis, the stock and bond markets are the first place to look to get a sense of "how bad" everyone else thinks it is. Well, if they were paying attention, they were witnessing one of the fastest, most brutal sell-offs for risk assets of all time. Trillions of dollars were moving as worst-case scenarios began to be priced in.

About a week after I had written this post, famed hedge fund manager William Ackman of Pershing Square decided that he had something to say too. As I was using my platform to soothe investors and give them the context they needed not to make rash decisions, Mr. Ackman had a different idea. He decided to shout from the rooftops in favor of a complete and total government and business shutdown. Not just in the United States but around the world. He pleaded directly with the White House on Twitter,

which, in 2020 logic, made total sense. This was probably the best (only) way to get then-President Trump's attention, short of appearing on one of his favorite Fox News shows during prime time.



And shortly after Ackman tweeted this, he was invited onto my show, CNBC's *The Halftime Report*, to elaborate on the message. I wasn't on the show that day, but I remember watching it from my kitchen along with everyone else in America who had been glued to the markets.

Liz Hoffman wrote about Ackman's CNBC appearance for *Vanity Fair*:

> Soon after he pushed send on his tweet, Ackman's phone rang. It was Scott Wapner, an anchor at the financial news network CNBC. He

wanted Ackman on his show around lunchtime to discuss his call to arms.

It was Ackman's first television appearance in more than two years. Zoom hadn't yet become widespread, so he was calling in rather than appearing on video, and the studio's audio feed was choppy, leaving him unsure at times whether the anchor could hear him. He filled the silences himself, turning in a 29-minute interview that set Wall Street aflame.

"Hell is coming," he told Wapner. America "will end as we know it," he said, "unless we take this option." The Dow Jones Industrial Average was already down more than 1,000 points when he went on the air, and it dropped far enough as he spoke that an automatic trading halt was triggered. "Please get Ackman off CNBC before people start jumping off bridges," hedge fund investor Mike Novogratz wrote on Twitter.

A cynic would surmise that Ackman was spreading this sort of fear for his own purposes, perhaps helping some of his own bets against the stock market by inducing others to sell.

It turns out that he was actually a buyer of stocks that week, and had already begun to close out the hedging positions that had enabled him to reap a fortune as markets tumbled. His firm had "added to its holdings of Hilton and Lowe's and had bought stakes in Park Hotels and Alphabet. In six days, Pershing Square had bought $2.05 billion worth of stocks on the theory that swift, decisive government action was coming. It was classic Ackman, an investment thesis wrapped in public-minded nobility."

His prescience with respect to the virus, while it was still mainly affecting China and Europe, was admirable. He was early and he was right. According to *Forbes* and other publications, Pershing Square had spent approximately $27 million on portfolio protection. The hedge fund acquired far out-of-the-money "insurance" against investment grade and high-yield

bond indexes so that they would make money if a wave of volatility knocked the prices of these bonds down. When the panic began, Ackman's hedge turned into one of his greatest trades of all time. These bets returned 100x on the money he used to buy them. That's not a typo. This $27 million worth of protection became a position worth $2.6 billion to the fund. "As of Wednesday's close, Pershing Square was up 0.2% for the year, versus the 20%-plus plunge of the S&P 500. His hedges shielded his investors against 50%-plus declines in some of his holdings. The maneuvering has protected all of the 58% gain Pershing Square reported to its investors in 2019."

Ackman had protected his highly concentrated $6.5 billion equity portfolio and then had the presence of mind to close these protective trades out while adding risk into the market's turn. This activity was at odds with the rhetoric he was engaged in on television, but you certainly couldn't have accused him of "talking his book." Unless you want to be SUPER-cynical and make the case that he was simply trying to get even more fear into the markets that week to accumulate his favorite stocks at even lower prices. I'm not that cynical. I think he was nervous for America and the economy and society at large and he spoke his mind about what the consequences would be if President Trump failed to act.

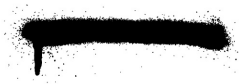
I'm fine with that. I didn't much care for the "Hell is coming" stuff, even if it didn't represent an attempt at market manipulation. Words are powerful, especially in a moment like that. Investors react to them.

Fortunately, the stock market would bottom just six days later after the fastest bear market in history had gone far enough. The S&P 500 hit its pandemic low on March 23, 2020, closing at 2237—a 34% peak-to-trough decline from the prior month. Rough, but that was it. From that point forward, the stock market went almost vertically straight up. The S&P 500, just two years later to the day, was up 99.2%, rivaling the best two-year return in history when the stock market had notched 100.7% during the 24 months ending April 7, 1937. Almost no one alive had ever seen a recovery like this one, at least statistically.

It’s also worth pointing out that very few would have predicted it. The consensus at that time was that there was probably an opportunity in stocks, but only for those who would be patient enough for the pandemic to end. It turns out stocks were bottoming more than a year before the first vaccines would arrive and far in advance of the infections and deaths subsiding. Investors who had awaited the full reopening of the economy—the official, mask-free, full capacity “all clear,” which came at the end of 2021—would have been buying right at the top of the market.

I’m proud of the work I’ve done at *The Reformed Broker* over the years, but rarely more so than I was of the work I’d done that spring. My firm has since more than doubled its AUM from the pandemic days of early 2020. Many of the new clients who’ve come along did so as a result of being referred by an existing client. I’ve made plenty of mistakes in the markets and in life, but this one I got right. When people ask me what I did during the pandemic as a financial advisor, I tell them I held it together and kept my people invested.

I'D LIKE TO SOLVE THE PUZZLE, PAT



If stocks keep going up, why isn't anyone celebrating?

I attempt to solve the biggest puzzle in the investing world these days—the market sets record highs day after day, but the public refuses to get excited about it.

How the hell are we supposed to have a proper bubble if everyone abstains from partying down? Can the market put in a top without there being a cycle-ending, full-on extravaganza? Is the lack of euphoria the only thing keeping this thing climbing?

I have a theory. I'll lay it out below.

I don't know about you, but I don't want to live in a world where you can't unload a $70 million mansion in Greenwich over the course of a weekend. But this is precisely the kind of world we now inhabit.

Michelle Celarier wrote in *Institutional Investor* magazine:

> The status of Greenwich real estate is a window into the current world of hedge funds, one filled with busted dreams, and no small amount of schadenfreude. Multibillion-dollar funds have shut down, $100 million paydays have all but disappeared, and the funds that do survive increasingly employ machines instead of humans…
>
> Greenwich encompasses 62 square miles and has a population of slightly more than 60,000. Today more than 1200 of the town's homes are on the market, according to Sotheby's. More than 250 of those are priced above $5 million and 57 above $10 million.[11]

On a regular basis we're hearing one of two types of announcements from the largest funds in the industry:

a. We are closing down/partially liquidating/fully liquidating.
b. We are going in a new direction and hiring a whole truckload of quants to take over.

They're doing this in response to a few factors. The most notable one is that you've got to sell what people are buying and what people are buying these days is systematic/quant/data-driven/algorithmic. Too many of the swashbucklers have been blown up or have been trailing benchmarks for so long that their pre-Reg FD heyday numbers from the 1990s are no longer keeping track records impressive.

In another story about the quant takeover, a Bloomberg headline reads: "The US Stock Market Belongs to Bots."[12] There are hundreds and hundreds of these piling up in the financial media.

The only hedge funds not shutting down these days are the computer-driven ones. And computers don't throw Hamptons bacchanals or invite Wyclef Jean to perform in their office men's room, just because they can. Computers don't rent out the ice rink at Rockefeller Center for a summer shindig and hand out crates of lobsters as their guests walk in.

More to the point, the types of people who are increasingly being hired by the large funds aren't flamboyant in the traditional Wall Street way in the presence of rising stock prices. They're technical people, building strategies that are devoid of emotion. The analysts driving the returns at a shop like WorldQuant are nameless, faceless and dispersed around the globe, cranking away at their terminals. This is both deliberate and a function of what kind of people they are.

They're not "Look how big my f***ing boat is this summer" people. They're "Look how fast I can run simultaneous regressions on a thousand

data sets while testing for out of sample variants" people. Don't hold your breath expecting to see them stuntin' at Art Basel in a lime-green Murcielago. It's not going to happen.

It's possible that the frat boys and lacrosse bros will find a way to get into the quant hustle and replicate how they used to act back when merger arb, long/short equity or event-driven were a big deal. But it hasn't happened yet.

Even fictional Bobby Axelrod has cooled his jets on Showtime's *Billions*. He opened Season 2 with a sermon to his traders about how replaceable they all are in the modern era. By mid-season, he was skipping a massive party thrown to honor him in his own backyard.

If you're looking for signs of excess and ebullience in the markets, you won't find it in Connecticut or among the hedge fund corridors of Madison and Park Avenues.

In the mutual fund world it's the same, but worse.

Actively managed mutual funds—the ones where managers used to make a lot of money as stock prices rose—can't raise a nickel in the aggregate. Every month it's the same thing—assets leaving full-priced investment management firms and flowing in a torrent to BlackRock and Vanguard and their ilk in the low-cost world.

The brass at an active fund family wouldn't be caught dead throwing an outsized celebration in this particular cycle given the flows and market share situation. The media has tried to adjust by profiling the button-pushers at the indexing and ETF firms, but… let's just say these are not the kind of manager profiles that light up the cover of *Forbes* or *Barron's*.

The 1980s bull market had Peter Lynch and a whole constellation of rain-making stars at all the big fund families. The boldfaced names of the 1990s boom (Munder, Janus, Abby Joseph Cohen, Joe Battapaglia, etc.) have no analogs today. Try and name one contemporary equity fund manager who

has any name recognition on or off The Street. How about one chief strategist? You can't. The dour Bond Kings are still more well known and widely heeded—even the deposed Bond Kings hold more sway than any stock managers.

The year is 1994. There are no ETFs and index funds are borderline irrelevant. The US mutual fund industry manages to raise $119 billion in new money, its second largest total haul ever. *Fortune* sends reporter Joe Nocera to an Investment Company Institute conference the following June to capture the zeitgeist…

> "You are about to go through an extraordinary period of growth," the speaker is telling ICI members. He is a demographer, laden with charts indicating how much longer people are living, how worried they are about their retirement prospects, and, best of all, how much more money boomers will need when they retire. How timely. Because at this very moment in its rather spectacular history, the mutual fund industry's proclaimed goal is to convince aging boomers of exactly that. "This generation is about to migrate to mutual fund country!" the speaker concludes. "Be pleased about it." I can assure you: They are.
>
> At the big cocktail party tonight they're serving Peking duck—enough Peking duck to feed the 400 or so people who show up to drink and eat and schmooze. I'm not surprised. If some annual conventions are designed to grapple with difficult industrywide problems, and others are merely an excuse for a very long party, the ICI convention is, at heart, a chance for the mutual fund industry to remind itself how well it's doing.[13]

Can you imagine anything like that taking place now? Unthinkable. They don't throw fistfuls of Peking duck at people in Valley Forge, PA.

Okay, so there's no joy among the hedge fund set or the mutual fund

complex. What about the investment banks? Surely, they must be overwhelmed with animal spirits in today's environment…

Not quite. The existential pall hanging over the money managers extends right up through the upper echelons of high finance. It's hard to be excited about new highs in the stock market when there are open questions surrounding whether or not you'll have a job next month. This may be the first bull market in history that featured layoffs on Wall Street.

> A few years ago, Goldman Sachs Group Inc.'s leaders took a hard look at how the bank carries out IPOs. They mapped 127 steps in every deal, then set out to see how many could be done by computers instead of people.
>
> The answer so far: about half.[14]

Holy f***ing s**t.

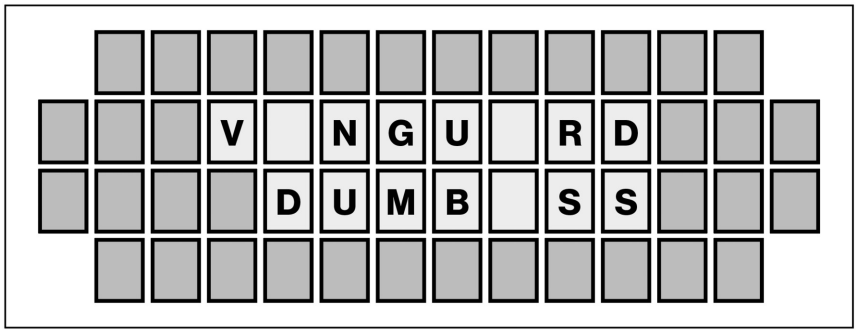
But surely we're talking about basic steps being carried out by low-skilled employees in Jersey City, right?

Maybe—but consider that this is what the "bottom rung" looks like: "Associates working in equity capital markets at top Wall Street banks typically earned about $326,000 last year, according to a survey by recruiter Options Group."[15]

Against this backdrop, it's easy to see why champagne corks aren't ricocheting off the walls. If a $326,000 a year employee is replaceable by software, who isn't? Can IBM's Watson handle an M&A deal, other than the steakhouse lunch over which it's being proposed?

Why can't we get the euphoria that would normally accompany a multi-year bull market of the length and breadth of this one?

I'd like to solve the puzzle, Pat:



There has *never* been an asset bubble in which the industry that catered to that asset didn't participate. Wall Street has *never* had an extended bull market during which everyone spent the entire time worrying.

Can you imagine a real estate boom where the brokers and mortgage people stood on the sidelines, forlorn and only taking part out of obligation? How about a gold boom where the miners told polls every week how bearish they were?

Unheard of.

Until now. Job insecurity will do that to people.

The stock market is now 35% passive and 65% terrified. The bond market is not far behind.

Just 10% of all trades taking place are being guided by fundamental research.[16] Fundamental research is the wellspring of all profitability on The Street; information asymmetry is our chief export to Main Street. We know stuff, therefore, pay us. Warren Buffett once quipped that Wall Street was the only place where millionaires took a Rolls-Royce to get advice from guys who took the subway.

The Rolls-Royces aren't coming by as often as they used to.

Now what are the implications?

One thing worth considering is that the lack of enthusiasm is a primary reason why we're still rallying, for why this thing is still chugging along.

And if the pros aren't enjoying themselves—and they're not—then it's hard

to imagine why we'd expect individual investors to feel any differently, despite the ballooning balances in their 401(k)s.

Josh's Remarks

When I wrote this piece, we were halfway through one of the best years of the past decade and no one seemed to be particularly happy about it. My theory was that Wall Street was watching a parade of interest in the stock market but barely participating in it as they would have in a prior era. The S&P 500 had gained 12% in 2016 and would finish 2017 with a 22% return. This is after having staged an improbable breakout rally dating back to 2013, making a new high above the previous pre-financial crisis peak of 2007.

In olden times (the 1980s or 1990s), a rally like the one continuing through 2017 would have begotten the typical euphoric response from the people working on Wall Street. But it's hard to throw a Roman orgy with investors mostly carrying on in the missionary position. Boring. And Unprofitable. Which is why the expected parade through the Financial District never quite materialized, despite the market's gains all year.

In 2017, Vanguard took in an average of $1 billion per day, every day. According to the *Financial Times*, the mostly passive, low-cost fund company had pulled in $386 billion in net inflows during the course of the year, which was a 14% jump on the $323 billion it had taken in during 2016. This pushed Vanguard's AUM past the $5 trillion mark for the first time.

How extreme was the passive investing boom that year? How about this for a statistic: 90% of the entire fund industry's inflows went to a Vanguard index-tracking fund. That's 90 cents of every dollar being invested in as

unsexy a manner as possible, all put into the coffers of a single fund company based in Malverne, PA.

And it wasn't just Vanguard taking flows. Investors were switching from active (highly profitable) products into passive (barely profitable) products in every category. BlackRock broke above $6 trillion in assets that year, largely riding the passive movement via its foundational iShares index ETF franchise. According to a Morningstar report in early 2018 looking back at the year that was, 2017 was an absolute rout for traditional stock picking on Wall Street:

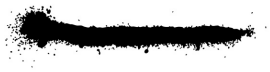
> In 2017, investors placed $220.4 billion into US equity passive funds and pulled $207.5 billion out of US equity active funds. In December 2017, investors saw $22.5 billion of inflows to US equity passive funds, and on the active front, the category had $16.3 billion of outflows.

Traditional money management firms (and the brokerages and investment banks who cater to them) make their profits from the belief of investors that they can do better than just buying an index. That belief went into reverse during the Great Financial Crisis and ten years on it still hadn't recovered. In fact, the disbelief in paying up for performance had only accelerated. And that's why the bull market of the 20-teens, statistically robust relative to other historic bulls, was such a mirthless affair for the industry.

11
Michelle Celarier, *Institutional Investor*.
12 Dani Burger, "The US Stock Market Belongs to Bots," Bloomberg (June 15, 2017).
13
Joe Nocera, *Fortune*.
14 Dakin Campbell, "Goldman Set Out to Automate IPOs and It Has Come Far, Really Fast," Bloomberg (June 13, 2017).
15
Ibid.
16
Evelyn Cheng, "Just 10% of trading is regular stock picking, JPMorgan estimates," CNBC

(June 14, 2017).

MY LITTLE TRICK FOR COPING WITH A CORRECTION



Good morning and welcome to the end of civilization as we knew it. Just kidding, but wow—what a stunning development in Europe. Even some of the people who voted for Brexit are telling reporters it was just to vent, they never thought it would actually happen. Welp…

Anyway, in August 2015, with the markets in freefall after the surprise devaluation of the yuan, I published "My Little Trick for Coping with a Correction" and subsequently received an ocean of feedback from people who were helped by it. I actually did the Facebook and Netflix buys personally, at absurd prices, shortly after.

This time around, and the next time after that, who knows?

I hope this piece helps you any time there's a correction.

It's going to be bad this morning. China was down over 8% last night. Europe is down close to 5% this morning. As of this writing, the Dow Jones looks like it's going to open down another 600 points, after losing 1,000 points last week.

It's official: We're experiencing the 28th 10% correction since World War II.

How do you cope? There are some tricks.

The first is, you remind yourself that this is what diversification and strategy are for. But it's too late to start thinking about this now. If you don't have anything in place to mitigate the volatility of the stock market already, nothing you do today is going to make a difference.

But there is one thing that anyone can do right now that could be very helpful as a coping mechanism to get them through today and whatever is to come. It's a psychological trick I picked up somewhere along the way during my 17 years trading and investing in the markets.

Before I lay this trick out, a standard disclaimer is in order: I do not know you personally, nor do I know anything about your financial situation. I don't dispense personal advice for exactly this reason. I share my thoughts and a bit about my own process, but I never tell strangers what they themselves ought to do. With that in mind, please do not construe what comes next as advice, a solicitation to trade or an offer of any kind.

Okay, with that bit of obviousness out of the way, here's the trick I've used over the years when markets have been in freefall:

I log into a brokerage account and go to the Orders screen.

I pick five or six of the best stocks in America that I've missed out on—the ones that have always bothered me. Everyone has their names. A contemporary list might include Netflix, Amazon, Facebook, Disney, Celgene, Starbucks, Chipotle, Goldman Sachs, etc.

Now I go to my quotes screen to see where they're currently trading and I come up with utterly absurd prices at which I would buy them (all price quotes as of 8:15 am pre-market):

- Facebook: Buy at 65 (now 81 per share)
- Chipotle: Buy at 500 (now 691 per share)
- Disney: Buy at 80 (now 94 per share)
- Goldman Sachs: Buy at 125 (now 180 per share)
- Netflix: Buy at 75 (now 92 per share)

You get the idea. These are discounts of 20% and beyond to the already discounted levels the stocks are going to open at this morning. They're

absurd prices. But that's the whole point. Market panics give you a crack at absurd prices.

Next step—I create GTC Buy Limit orders for a handful of these stocks at the exact absurd prices I've come up with. The Buy Limit order will not allow my trade to get executed until the price I've specified is reached. I won't end up with the long position unless it's on my terms.

The GTC—or Good Til Canceled—part gives me the leeway to watch a correction play out over weeks or months with my absurd buy list still in effect. Check with your broker on this part of it: some have GTC orders requiring manual renewal after 30 days or six months.

The important thing is that I put the orders in and I leave them alone. I don't adjust higher if the sell-off appears to be running its course and reversing. That's what the real portfolio is for.

When you have these absurd limit orders on excellent stocks in place, something wonderful happens to your frame of mind. It is completely rearranged and you find yourself beginning to root for even more downside. It makes no sense, of course, because the rest of your portfolio is declining in value—but your fixation on seeing one or two of these absurd prices hit completely overpowers any concerns you have. You begin rooting for the correction to continue!

It feels a bit like having a bet on against your favorite football team. Your heart wants them to win but your mind wants the money should they lose. It's exciting. It even feels a little bit dirty. But getting into this mindset completely distracts you from the panic going on all around.

And you may even get one or two of them! Imagine telling that story —*"You know who nailed the bottom on Facebook? Me. This guy!"* Then show 'em the confirm to prove it. *"What's up now, partner?"*

Aside from it potentially being a homerun trade, it will also serve as a reminder for the rest of your life that you've gotten through panics before and you've even come out on the other side with a trophy.

I've seen one of the Old Masters I know do this trick and I've adopted it for myself. Sometimes coping is the most important decision you can make.

Josh's Remarks

Read this stupid st:**

> The US stock market suffered its worst drop in ten months Friday as shock over the United Kingdom voters' move to exit the European Union and Prime Minister David Cameron's subsequent resignation announcement sent global markets into a tailspin.
>
> Amid swirling uncertainty over the impact of the 'Brexit,' the Dow Jones Industrial Average tumbled 611 points, or 3.4%, to close at 17,400. The Standard & Poor's 500 fell 3.6%. The losses dropped both stock measures back into negative territory for 2016. The Nasdaq composite, which already had been in the red for the year, fell 4.1%.

It's from *USA Today*, but it could have been published anywhere. This was on the cover of the "Money" section, rolled up into a cylinder of nonsense and hung in plastic bags from the doorknobs of a million Courtyard Marriott hotel rooms that morning. Or slipped underneath the door. Whatever. The point is, as hilarious as it is to read past market reports about events that turned out to have been inconsequential, it's important to remember what this stuff feels like at the time. No one was laughing while the Dow Jones Industrial Average was falling a thousand points. People were genuinely afraid of the uncertainty around the UK cutting some economic ties with the Continent. And whenever there is a fresh wave of headlines creating new uncertainty, there will be stock market volatility. We only know in hindsight that the Dow Jones would eventually double from 17,000 up to 36,000 within a few years. We couldn't have pictured it then.

And in the absence of the false sense of certainly we normally feel, we

follow our imaginations into worst-case scenarios. We do it every time. *What if the rise of populism means more countries leaving the European Union? What if the outcome of the Brexit vote implies that Trump will upset Hilary (it did)? What if there's a financial crash because of this separation? What if there's a crash in corporate profits? What if Spain is next, and then Greece and then there's a currency crisis? What if France and England go to war and only the Scarlet Pimpernel can sneak across enemy lines to save the Queen's honor and win the day?*

All unknowable, so people sell. They remove risk. They lighten up. Some of the sellers are protecting their own money. Some are protecting the money of others, ergo, they are protecting their careers, ergo, they are covering their asses. All perfectly natural and expected. This is what it means to be human during a market shock. Professional or amateur, everyone has more of a reason to get smaller rather than get bigger during these types of events. The sell button is the path of least resistance.

That's why I created the game you're reading about in this chapter. This is a fun game if you're courageous, and you don't necessarily need much skill in order to play. You just need some money and some guts and a little bit of an imagination. And I promise you, if you play it anytime the market finds itself in one of its bitchy moods, you're going to end up in better shape than the people who just sit there doing nothing. It's going to help you stay positive during times of stress. It's going to give you something to root for other than "the rebound." It's going to put you in position to practically steal some prized assets away from those who aren't playing well. It's going to give you something else to talk about, something different to focus on.

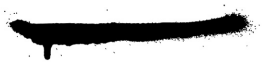
Read and learn all about it. Then put it into practice for yourself. Then show a friend or a neighbor. Tell 'em Downtown Josh Brown taught you.

I wrote this post on June 24, 2016. The Dow Jones bottomed the very next day. Within a month, it was a thousand points higher. If you look at a ten-year chart, with that event occurring somewhere in the middle, you can

barely see it. A blip. On a long enough time horizon, they're all blips. Don't believe me? Pull up a 50-year monthly chart of the S&P 500, remove the X axis with all the dates and try to identify the Crash of 1987. It's not obvious.

Turn your fear and the fear of others during these momentarily messy events into a secret weapon. That's what I do.

THE NEW FEAR AND GREED



> "All through time, people have basically acted and reacted the same way in the market as a result of: greed, fear, ignorance, and hope. That is why the numerical formations and patterns recur on a constant basis."

Jesse Livermore said this 100 years ago. It's still true. But I want to modify it somewhat to account for the things I am seeing on a daily basis out there. I used to think of Fear and Greed as being the fear of losing money and the greed for making more money, but I have come to understand that it is not that simple.

The *Fear* I see these days is a fear of becoming a relic of the past. A fear of seeing your peers catapult themselves ahead of you. A fear of missing out, which has been well documented and has become the spirit of the times we live in. This has come to be as a result of the Nasdaq having gained an average annual 25% between the end of the last real bear market in 2009 and October 2021—a 1500% return. Add on the hundreds of billions of dollars that have been flooding the private markets, creating a new class of mega wealthy while regular folks do not even get to see a ticker symbol or a price quote. Then add on the overnight billion-dollar fortunes for the crypto people as we watch the largest mass wealth creation event in the history of mankind taking place right before our very eyes.

The type of fear that now drives most market activity (because it drives most market participants) is something different than the fear we've been accustomed to from reading about history. I would label this type of fear *Insecurity*. The fear of being left behind and looking like a fool. It's no surprise that *Have Fun Staying Poor* (#HFSP) has become one of the most

enduring memes of the moment we're in now. It's the anti-*Keep Calm and Carry On*. Whenever you see people doing inexplicable things with their capital in the markets these days (public or private), the explanation is not as far from your grasp as you might think. Insecurity is probably the answer.

The other driving force in the markets, traditionally, has been *Greed*. I think we're witnessing a variation on Greed that I would label *Envy*. I spent 15 minutes on Financial Twitter yesterday for the first time since the spring of 2020. It's everywhere. Almost every interaction I saw on my timeline was tinged with it. Just skirmishes and drive-by eggings and curb stompings.

Even the people winning—that's not enough for them. The money is beside the point. They also need others to feel the pain of not having been right. *I told you so, should've listened to me.* The public victory laps and displays of haughtiness seem almost purposely staged to provoke hostile reactions from the crowd. Like it's a sport. And fortunately for the engagement metrics, there is no supply chain shortage of bitterness to bring about this desired reaction. We have an infinite well of it from which to draw. If you're looking for problems in your life, tweeting about your wins is a really convenient way to produce them. It has never been easier to get a thousand strangers to viscerally hate you and wish for your demise. Other than that, it's a lot of fun.

Envy will make you take wild risks with a portfolio. Especially when all you see around you are so many people you have such little regard for profiting off of things you know they themselves barely understand. The more exposure we have to the way others are investing, the more we begin to look at their returns as though that's the appropriate benchmark. All sense of reason and perspective is left behind.

If that asshole is doing it, I can do it better.

We have an entire class of stocks today that are invested in under the premise that the other people involved in them are bad people who don't

deserve to make money on either the long or the short side. It's a Massively Multiplayer Online Role Playing Game (MMORPG) like *World of Warcraft*. That's not investing anymore. It's something else. On the Reddit boards, you can see how much of the emphasis is on *those people* losing as opposed to *our side* winning. It makes no sense until you start thinking about it in video game terms.

Livermore also said, "There is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again."

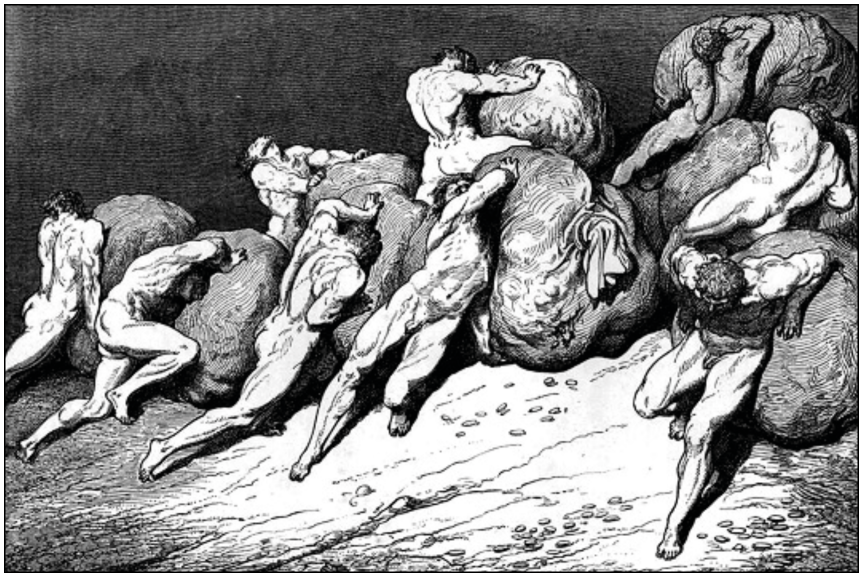
And I think that's still true, but with a twist.

Livermore had a few dozen men playing alongside him in the bucket shops of Boston, or a few hundred men on the stock or commodities exchange, where everyone knew each other and saw each other in person each morning. You had rivals, and counterparties you saw as the enemy, but it was small and it was close quarters. A knife fight. This thing today is nuclear war. No survivors. It's a Squid Game event on a global scale. Millions of nameless, faceless strangers in an online environment that literally knows no spatial or geographic limitations. It's an environment in which the wealthiest, most successful players like Chamath and Steve Cohen can be publicly—*daily*—accosted by the mob throwing fistfuls of horses**t at them from the alleyways. I don't know if the heuristics Livermore played the game by would be so easily applied now.

Bloomberg has an index that calculates the rising and falling wealth of the world's billionaires in real time. Imagine sitting in your truck in the parking lot of a Walmart looking at that on your phone while your wife runs in to get detergent. While Nathan Mayer Rothschild was racking up his fortunes on the bourses of London and Paris in the early 1800s, 99.99% of all people living on Earth were wholly unaware of his existence, let alone the hourly exploits of his market speculations. Today we learn about rappers reaping ten-figure profits on IPOs via text alerts from TMZ.

And in the midst of this miasma, with trillions of dollars being accumulated in full view of everyone, it's no surprise that two feelings consistently bubble up to the surface—Insecurity and Envy—over and over again. *Why am I falling behind? Why is that son of a bitch not?*

You can practically feel it in the air.



In *The Divine Comedy*, Dante and Virgil arrive at the Fourth Circle of Hell and come across the souls who are being punished for their greed. They are broken up into two distinct groups—those who hoarded their fortunes and those who ostentatiously spent too much and lived lavishly. The two sides are engaged in an eternal jousting match. They attack each other with giant weights pushed from their chests, a metaphor for their relentless drive toward wealth while they were alive. These tormented souls are so busy with this activity that the poet and his underworld guide do not even bother attempting to speak with them.

Josh's Remarks

I wrote this piece at the height of one of the greatest speculative manias

the world has ever known. Little did I realize that it was already coming to an end at that very moment. The Nasdaq would top out a month after, heading into Thanksgiving 2021. The S&P 500 would follow suit on the very first day of the following year.

The heroes who had become synonymous with the post-pandemic speculative boom would soon become the financial world's greatest villains, with endless scorn for SPAC Kings like Chamath Palihapitiya taking the place of all the envy and obsequiousness that once held sway. Twitter went from a gilt-edged mirror in which they could admire their own reflection to a haunted house of bitterness and scorn they'd run from in the span of just a couple of months. Jealousy turned to disgust as trillions in losses cascaded across crypto, NFTs, Nasdaq growth stocks, venture-backed startups and all of the areas once considered to be can't-miss opportunities. The recriminations flew from every corner: the halls of Congress during contentious hearings on market manipulation; the echo chambers of social media and message boards; on-air personalities scolding the former darlings for their roles as pied pipers of a mass delusion. No one who had benefited from the prior madness escaped the scrutiny of the crowd once its paper gains turned to bleeding red ink.

One by one, they scrambled away from the spotlight, leaving investors shaking their fists at the promotional activities that had cost them trillions in losses. Shaquille O'Neal was accused of hiding from process servers related to his activities as an FTX proponent when the exchange unraveled in a wave of arrests for theft and fraud. Celebrities like Kim Kardashian and Matt Damon endured suits, censures and fines for promoting tokens and coins, and the kind of reckless gambling their endorsements had encouraged. Kevin O'Leary and Anthony Scaramucci found themselves apologizing for their proximity to one of the worst actors in the crypto space.

Money was returned. Mea culpas were offered. None of this was enough to satiate the bloodthirsty throngs of investors who felt that they had been

wronged by the three-ring circus of charlatanism they had gleefully participated in just a few months prior. The clock struck 12, the coaches turned into pumpkins, the party was over. The hangover still remains.

And as the last of the influencers quietly took down their laser-eyed Twitter avatars and began appearing on CNBC wearing suits and ties, the regulators started asserting themselves with a flurry of charges and allegations. Exchanges, brokerages, promoters and issuers of both legitimate securities and outright Ponzi schemes will be paying the price for their avarice for a long time to come. Millions of investors had a front-row seat for one of the all-time great bubbles and all of the attendant lessons learned in the wake of its bursting.

And we will retain those lessons for a little while.

Until the next episode where we witness our undeserving friends and neighbors getting astonishingly wealthy. We'll forget all about how this one ended and play the game all over again, as though we'd learned absolutely nothing at all. There will be a new *new* Fear and Greed to captivate us and we'll all take the bait once again. The names will change, the investments will be different, but the urges that drive us to madness never deviate a single iota.

Bookmark this chapter—you will see this all happen again someday soon.

I DID EVERYTHING I WAS SUPPOSED TO DO

They called me into the conference room on Friday morning, ahead of Father's Day weekend. "Have a seat, Dave…"

I sit.

The whole thing happens in 15 minutes. I have til the end of the day to say my goodbyes. I have none that I want to say. They tell me to get my stuff together—two framed pictures, one of my kids and one of the four of us at my son's high-school graduation. I don't want any of the rest of it. I don't have a new desk at a new office at a new job to put any of it in. I can't imagine carrying it on the train back to Scarsdale.

I call home from the cell. Voicemail. Thank god, what would I even say?

Trying to imagine my opening line. "I did everything right."

I'm turning 50 and spent my entire adult life doing what they said. Doing what I saw the others doing. Get good grades, get into a good school. Finish college, make connections, get an internship. Caddy at the club all summer. Talk to people.

Apply for jobs on Wall Street, they told me. It's where the money is. Learn the stock market. It's a goldmine. Go back to school and get an MBA. Get my CFA. Make more connections. Go to conferences. Build relationships with the CEOs of the coverage universe. Build relationships with the CFOs of the coverage universe. Focus on TMT—tech, media and telecom. They didn't call it that back then. Now there are 100,000 people following the same 50 stocks.

Leave the sell side, go to the buy side. Get into a good fund. Pay your dues,

move up. Get into a better fund. Work hard. Work all the time.

I did all these things. I did everything I was supposed to do.

Phone buzzes in my pocket. Let it go to voicemail. I don't know what to tell her…

I could explain the active versus passive debate. How people don't care about the opportunity to outperform by 100 basis points every year. How the SPIVA Scorecard calls us assholes every 90 days. So do the bloggers, but they don't wait 90 days. They just go *in*, all day long.

I could tell her how all the brokers that used to sell our funds switched careers, they're all financial advisors now, they don't send client money into anything they might have to defend. Cover your own ass. No one ever has to defend an index. It's an absurd proposition. It's like having to defend the weather. Nobody ever has to answer for the weather. The S&P 500 is the weather.

These last few years, we've been fighting it. We outperformed in 2017, did 3% better than the US market. They pulled 15% of our assets out as our reward. We underperformed in 2018, they took another 20%. Who is they? It's like 20 people acting as CIO at a handful of big RIAs and brokerage firms. One day we were in the model portfolio, the next day they cut us for an iShares ETF. Nobody called or said anything. First the funds stopped coming in and then the outflows started.

We did a few roadshows. Saw clients in office buildings, hotel ballrooms, coffee shops, conference centers and even at a baseball game. "These are some of our highest-conviction ideas…" *That's great Dave*, they said without saying. *We like you. Your internal expense ratio just doesn't work in our allocations.* They didn't say that part either. It's the subtext of every meeting. Fees, fees, fees. And taxes. *We're fiduciaries and you're running up the clients' tax bills, Dave.* I could talk about our research and ideas while standing on my head. It's like a foreign language to them now.

Susan didn't want to let me go. To let any of us go. It wasn't bulls**t. She

was upset about it.

When the cuts started in 2014 or 2015 no one really felt them because it was advertising people and admin people and a handful of 20-year-olds. Didn't even notice they were gone. They weren't touching the CFAs. We didn't even think about it. "It'll come back," I would say, sometimes out loud, to anyone. To no one. I was reassuring myself. How could this not be cyclical?

How can the majority of investors end up deciding they don't give a s**t about anything we're doing and saying? And all our experience and wisdom and knowledge? How can that have no value to people? How can they not care what stocks their money is buying and selling? Or who is doing the buying and selling for them? That's all they want? The weather? All of 'em? Trillions of dollars and no one gives a s**t about anything in their portfolios anymore? How can that be?

Turns out it wasn't cyclical. Never understood how much we needed advisors to bring in capital. Goddamn them all. Take our tickets to the game, take our golf outings, take our US Open box, high fives and s**t. They don't even take our calls now. They're doing outcomes for their clients these days. Some of them couldn't even tell you if the market went up or down that day. They don't sell performance anymore. The asset managers couldn't deliver on it anyway, so they just dropped it from their rap. The Monte Carlos don't require alpha.

Susan said she tried to only cut the fat. There isn't any left. We don't even do conference booths anymore. Now she's gotta cut bone. *Not up to me, Dave. They gave me a number.* I guess I'm the bone.

The only assets that came in last year were from 401(k)s. They're not deliberate inflows, they're just from people who made fund electives a long time ago and never bothered to make any changes. It's a lot of money, coming in from a million accounts, but it's in small increments and definitely leaving after the rollover. Performance won't help. The account

becomes an IRA, the IRA goes to an RIA, the RIA has their own recipe, their own ingredients. We're not part of the recipe. We're not one of the ingredients. We're not Vanguard, we're not an ETF, we're not BlackRock. Might as well be f***ing invisible.

I gotta call her. She'll get it. I'm pedigreed. I'm experienced. I work my ass off. Someone wants what I do. She's gonna cancel Italy though. F***.

I did everything I was supposed to do. What am I supposed to do now?

Phone's buzzing again.

Josh's Remarks

I wrote this piece at the very height of the passive investing movement, at a moment during which it felt like no one would ever give a dollar to an actively managed mutual fund ever again. In 1995, passive mutual funds had just 3% of the industry's AUM. A decade later, passive funds accounted for just 14%. By 2020, that number had grown to 41% of all mutual fund and ETF assets. Today, passively managed funds account for half of all US stock fund assets and one-third of the money in bond funds.

It's not hard to understand why the zeitgeist led to trillions of dollars leaving traditional fund management for the plain-vanilla index side of the business. Dow Jones Indices keeps a record of how actively managed mutual funds are doing against the benchmark indices called the SPIVA Scorecard, which is released as a data series and analyst commentary on a regular basis. At the end of 2019 when this piece was written, SPIVA, which stands for S&P Indices Versus Active, was practically spiking the football when writing about the hapless professional stockpickers and their funds:

> Large-cap fund managers upheld their annual tradition and made it a clean 10-year sweep with 71% underperforming the S&P 500. Their

> consistency in failing to outperform when the Federal Reserve was on hold (2010–2015), raising interest rates (2015–2018), and cutting rates (2019) deserves special note, with 89% of the large-cap funds underperforming the S&P 500 over the past decade.

Brutal.

No matter the size (small, mid or large cap) or the style (growth, value or blend), active managers of every type were losing and the indices were winning. Bloggers like myself were writing about it on a weekly basis. The entire financial advisory business was turning its back on active funds in favor of cheaper, more efficient index products. It was one less thing to get our clients to pay for. It was one less thing for us to have to defend.

If 71% of actively managed funds couldn't beat their index benchmarks over a ten-year period, it's safe to say that the entire industry—in the aggregate—was failing to deliver on the whole premise of its own existence. Imagine 71% of ice cream shops being unable to serve their customers ice cream. A ridiculous thought. If 71% of the cars GM and Ford had sold in a given year couldn't drive, they would be shut down and wound up, an extinction-level event for the auto industry. No other industry can survive this level of failure without repercussions.

The 2010s decade had been horrifically one-sided, with active managers across every category getting their asses kicked, unequivocally. Giant stocks like Apple and Microsoft had become dominant in the index and were running circles around the carefully curated portfolios of the active fund managers. Betting on a fund manager's ability to beat the S&P 500 or the Nasdaq 100 was like placing a wager on the Washington Generals to beat the Harlem Globetrotters. *The Simpsons* did it—recall Krusty the Clown pleading with a mafia bookie, "They were due!" to explain his recent losses.

The asset management industry was struggling to defend its very reason for being. Funds were closing and people were being laid off.

I wrote this piece from the perspective of a middle-aged guy working in asset management, trying his best to perform and losing his job regardless due to these larger forces outside his control. I put myself in the shoes of one of these active managers who had been so thoroughly trounced by the blogger, the SPIVA people and the mainstream media. By 2019, active fund managers were seen as the coal miners of the investment management business, backwards and vestigial, no longer necessary and destined for the dustbin of history. When you're writing about a business trend, it's easy to forget that you're also writing about the people on the wrong side of that trend, whether you mean to or not. I hoped to get this idea across to my fellow bloggers and commentators before the rhetoric went any further.

There was a blip in renewed interest in active strategies during the pandemic stock market bubble, best personified by the cult following created around Cathie Wood and her ARK Investment ETF complex. All six of her funds would post double-digit annual gains between 2020 and 2021, an unheard-of feat for any active manager until then. People piled into these funds, as they are wont to do toward the ending stages of a mania. By 2022, investor enthusiasm for ARK's ETFs and the related growth stocks had led to disaster. Billions of dollars invested in so-called "innovation" strategies would evaporate as valuations came crashing down to Earth and the crypto and VC bubbles collapsed simultaneously. Wood's flagship ARK Innovation Fund would get a bounce along with the rest of the stock market in early 2023, but not before a new generation of investors got their chance to learn something, the hard way, about past performance.

Unfortunately, actively managed funds have not had a comeback in the years since my post was published. In fact, 2022 might have been the worst year on record for the business of picking stocks. One thing you can set your watch by is that in the aftermath of every bear market, the active funds end up losing more ground to the index products, not less. People gave up on their fund managers after big market-wide losses, but they never gave up on the stock market as a concept.

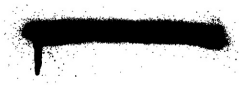
Passive funds felt the most recent bear market but flows had remained positive. Active funds, however, lost almost a trillion dollars to outflows that year, a staggering loss of market share.

According to Morningstar:

> actively managed funds bled an incredible $926 billion in 2022, roughly triple their second-worst calendar-year outflow in 2018. It equated to their worst year on an organic growth basis as they shrank by roughly 6%. Passive funds collected $556 billion in 2022, an impressive total but down about 42% from 2021's record haul of nearly $1 trillion.

As passive funds take more of the market share and active funds continue to shrink, the pressure on the industry's employees and executives will become immense. Headcounts will remain susceptible to these pressures so long as average fees continue to come down and money keeps migrating from active funds toward the lower-cost, more reliable ETFs. It seems inexorable. But I try to remember that every struggling fund family has dozens, hundreds or even thousands of people within it trying their best to succeed for investors and support their families. We can be critical of the industry without forgetting the humanity behind the statistics.

SIMPLE VS. COMPLEX



It’s been said that everyone has the right to have that one topic that they are utterly unreasonable about. That one subject where, no matter what anyone says, they are so sure they’re right that it’s a waste of time even trying to talk them out of it.

You can’t be like that about everything, but you can be like that about one thing. A study of great businesspeople and investors confirms it—not only are you allowed to have that one subject, it turns out that you actually should.

I have mine: No one on Earth will ever convince me that complexity is better than simplicity when it comes to investing. No one.

I’m a zealot about this one thing, and open-minded about everything else. It’s not as a result of an epiphany or because someone smart once told me this. I’ve earned this little bit of elemental conviction the hard way. You can’t take it from me. My grip on it actually tightens when I’m confronted with false or misleading evidence to the contrary. It glows blue like an elven sword in the presence of orcs.

As of this writing, it looks likely that SunEdison will become one of the largest financial bankruptcies in history, with a filing expected imminently. Over the last ten months, shareholders have lost 99% of their money as the stock has dropped from a June 2015 high of $31.56 to just under 25 cents per share.

Bankruptcies happen all the time, but what’s remarkable about the SunEdison situation is how many brilliant investors have been involved in the name over the last year—on both the equity and debt financing side. At

Fortune magazine, Michelle Celarier documents the hedge funds' enthusiasm for the bizarrely structured company:

> By mid-June of last year, eight months after Einhorn's endorsement, the stock had shot up to an all-time high of $33.45, and its market cap hit $10 billion. By that time, hedge funds owned two-thirds of the shares, with shareholders including Dan Loeb's Third Point, Leon Cooperman's Omega Advisors, Steve Mandel's Lone Pine Capital, and Larry Robbins' Glenview Capital. All of those funds had sold out by September 30, 2015. The stock ended 2015 down 85% off highs, closing the year at $5.00. Still, at year-end 54 hedge funds remained in the beaten-down stock, according to Novus Research, including Steve Cohen's Point72 Asset Management, Ken Griffin's Citadel, George Soros's Soros Fund Management and Izzy Englander's Millennium Management.[17]

I've remarked that the list sounds like a conference agenda. *Anyone who's anyone* is on this roster. These are people with the ability to do levels of due diligence and research that are far beyond the capabilities of 99.99% of all market participants.

The exposure of these funds to SunEdison's fallout is varied, and, in some cases, these managers ended up getting out. But the issues now plaguing the company are not new. The $8 billion debt load, the labyrinthine financial engineering model involving "YieldCo" spin-offs, the accounting questions—it was always out there. No one running real money buys into something they know is disastrous because they think they'll get bailed out of it before the chickens come home to roost. It's safe to say the SunEdison story fooled everyone involved, to varying degrees, for a while.

The obvious question is *How?* Aren't these the smartest investors in the game?

The answer is yes, and their innate intelligence sometimes leads them into phenomenal investment opportunities that the market doesn't recognize as

quickly. It is complexity that masks the opportunity from everyone else and offers the alpha up to those who are willing to do the deciphering and deduction.

Unfortunately, this same willingness and ability comes with an Achilles heel: a love of complexity for complexity's sake. Sophisticated minds are often drawn to unsolvable puzzles. Organizations that pride themselves on intellectual capital can be easily tempted into overly complicated investments when a tantalizing riddle presents itself. This is doubly the case when other firms are in the hunt and the idea becomes popular among rarified circles.

This is one of the perils of attending the famed "Ideas Dinners" that are formally and informally organized among portfolio managers at top funds. A dazzling dissection of an investment idea, delivered by an articulate analyst, can become somewhat infectious. The desire to not miss the boat doesn't go away just because a firm has already had success. If anything, it can become amplified as a winning firm grows larger and encompasses more talent to support and more mouths to feed.

The competitive instinct among top-tier firms is every bit as potent as it is among elite athletes. "I'm just as good as those other guys, they're not going to make money without me." This is why we repeatedly see so much "herding" among savvy investors who, deep down, probably know better.

Look no further than two of the biggest stock market calamities in recent history, Ocwen Financial and Valeant Pharmaceuticals, to see this process play out. Both were highly complex stories with layers of financial engineering and the perception that management was too smart for the room. Both served up billions in investment losses for some of the most revered fund managers of our era when it turned out that the complexity was deliberate on the part of management rather than incidental to the story.

And while piles of money are burning in the Valeants and Ocwens and SunEdisons, very quietly, the S&P 500 Low Volatility Index makes record

highs. It is an index comprised of companies making cookies for a nickel and selling them for a dime. Treasury bond indexes steadily grind higher as well. Investment grade corporate bonds and US blue chips shake off recent volatility and stake out higher ground for their simplicity-oriented investors.

It should not come as any surprise that a sophisticated investment thesis will appeal to funds whose reputations are steeped in the aura of being able to solve market puzzles before the crowd. Sometimes it works beautifully but sometimes the consequences are disastrous. I've come to learn that, for most investors, the entire enterprise is completely unnecessary. Year after year, decade after decade, portfolios with simple building blocks and transparent mechanics get the job done. A bet that this will not be the case in the future because of [name your reason] is a low probability one.

Many intermediaries sell funds that traffic in complexity because they position it as their value-add. "There are things you cannot understand going on in these funds, but I am managing and monitoring it for you." It's a barrier to entry and a justification for above-average fees. It also gives the advisor or family office person interesting things to discuss at quarterly reviews or in newsletters. It's a signifier that the fees are being earned. Ben Carlson points to this "agency" problem as one of the main reasons so many institutions order from a menu of convoluted solutions—it's the menu they've been brought by their waiter. And if something gets too simple, the intermediary can begin to feel his or her own place in the process becoming more vulnerable—*What do we need you for?*

And of course, the world itself is complex, as are the investment markets. So the first notion that many investors begin with is that they need something equally complex to protect them or help them win. This is a logical fallacy, but a widely held one. I've come to believe that getting better as an investor is a *reductive* process rather than a contest to see who can add the most bells and whistles. I've been led down this path by evidence. The journey has forced me to let go of a lot more than I've been able to add.

A few years ago, my colleague Michael Batnick and I were in the midst of an immense research project in assembling one of our in-house strategies. Halfway through, I became amazed by how many variables and factors we'd been able to eliminate from our decision-making process as a result of their unreliability and inefficacy.

"None of this stuff matters? Really?" I asked him.

"Take a look for yourself, it's pretty clear," he showed me, across an ocean of Excel tables.

"So why doesn't everyone do this?" I asked, thinking about all the other firms managing a similar strategy.

"I don't know. Probably because it's not bulls**tty enough. You could never sell this to most people, it's too simple."

If you opt for the simplicity path on your journey toward better investing, know that you are not alone. You are on the side of some of history's greatest investment successes—people who've been able to reduce their process and strategy down to just a handful of important truths. And *simple* need not be conflated with *easy* or *stupid*. Albert Einstein said that "everything should be made as simple as possible, but no simpler." Everyone can have a different place to draw the line, and still be in fidelity to the general concept.

The hard part about being in the simplicity game instead of the complexity game is all mental. At any given moment, there will always be a complex solution gaining adherents around The Street and making outsiders look as though "they just don't get it." Financial engineering plays like SunEdison and Valeant are only the latest examples in a constellation of intricate stories twinkling at the investor class from just beyond our grasp. Those beckoning lights in the night sky have sent generations of little boys off to bed, dreaming about being astronauts. Their pull is visceral, even into adulthood when there's real money on the line.

1802: Emperor Napoleon sits in state at the Chateau de Malmaison, ready to receive the mathematical physicist Pierre Laplace and his just completed *Celestial Mechanics*. In this book, Laplace has explained the formation of the solar system for the first time and has modeled exactly how the planets and stars work. For all his brutality and battlefield expedience, Napoleon is a sophisticate and an enthusiast of the arts and sciences. He is intellectually curious.

“Tell me, Monsieur Laplace, how did the solar system come about?”

“A chain of natural causes would account for the construction and preservation of the celestial system,” Laplace explains.

“But you don’t mention God or his intervention even once, as Newton did?”

“I had no need of that hypothesis.”

One hundred years earlier, Sir Isaac Newton had created a celestial model of his own. In it, he surmised that the planetary orbits were out of control and not stable, and that a God was needed to explain their course. Laplace went further than Newton, showing “it works without that, too.”

Josh’s Remarks

In 2022, the S&P 500 plunged by almost 18%. The Nasdaq was an even bigger trainwreck. And, somehow, Treasury bonds were even worse. The 10-year Treasury fell over 17%, the worst year in all of recorded history. Literally, ever.

There was nowhere to hide in a traditional 60/40 portfolio in 2022. This classic mix of stocks and bonds lost you 18%, the biggest drop for a 60/40 portfolio since 1937. No one actively investing had ever experienced anything like it. Consider that in 2008, one of the all-time worst years for investors, a 60/40 portfolio *only* declined by 14.2%, despite the fact that the stock market was down 37%. How? Bonds to the rescue: The 10-year

Treasury did positive 20.1% and saved everyone's asses from a much more significant decline. In 2022, there was no such safe haven.

Bonds are supposed to be the asset class that hedges the volatility of stocks in most environments. This is the theory behind why a diversified portfolio works. The asset classes are not meant to move higher or lower in lockstep for extended periods of time. In theory, one should offset the other, giving the investor an opportunity to take capital from the winners and rebalance into the losers, thus offsetting the dispersion in returns and positioning for the eventual flip-flop. In 2022, it didn't happen.

In fact, it was the sell-off in the bond market that introduced so much fear into the stock market. Stock prices and bond prices dropping together, for months on end, proved to be both financially and psychologically traumatic.

So you know what happens next, right?

You guessed it. "The 60/40 is dead" articles began to surface at the start of 2023, just as they always do after a year in which portfolios decline. That train's never late. And into the breach of uncertainty created by portfolio losses, we get "the solution." It's always a little different. Some variation on the idea that bonds and stocks aren't enough. That something else is necessary.

In the aftermath of the Great Financial Crisis, the solution took the form of having a commodities sleeve (the 50/40/10 portfolio that would include a managed futures fund as the 10). Trend-following strategies became popular too. And all manner of tactical funds. Asset class rotation funds. Sector rotation funds. Wall Street went combing the wreckage for strategies that "got out of the way" of the crisis and replicated them, repackaged them or acquired them from college kids who had built elaborate backtests in their dorm rooms. From 2009 through about 2015, almost every portfolio conversation with a prospective investor I had included some question like "How did it do in '08?" Advisors and consultants and portfolio managers needed an answer to this question. They found it.

They pitched investors “Black Swan” funds too—a strategy where small dollar amounts are lost each month buying far out-of-the-money put options betting on huge market declines. Think of these little lost payments into the options market like you would an insurance premium. “Just because your house didn’t burn down, doesn’t mean you stop making the payments.” You lose, you lose, you lose, you lose; and then, all of a sudden, there’s a huge crash and those put options skyrocket in value, hopefully making up for all the lost premiums you’ve paid out all the way, and then some.

Advisor-sold annuities also exploded in popularity in the wake of 2008. A guaranteed return of 7% sure sounds good to an investor who’s just witnessed the stock market collapse by 50% twice in a five-year period. “Why take risk?” Investors locked in lower but reliable returns in exchange for certainty, leading to a bonanza for insurance companies and financial advisors who were selling these contracts. Of course, this happened just as the stock market was about to go on a historic run, generating 12% plus annual returns for a decade. But again, it was an answer to the question on everyone’s mind: “Surely there must be a better way, right?”

All of these solutions had one thing in common: They were being presented to investors right at the moment where simplicity would have been just fine. The 60/40 portfolio, coming out of the Great Financial Crisis, would go on to produce incredible returns as bonds rallied, stocks rallied, corporate earnings grew and inflation remained subdued. This simple strategy would outperform hedge funds, tactical funds, Black Swan funds and pretty much any other idea you could introduce into the conversation. Which is consistent with history. My colleague Ben Carlson calculated that, up until now, there has *never* been a ten-year period during which 60/40 portfolios have posted a negative return. Not even once.

In the table, you’ll see that the worst an investor would have fared over ten years holding this asset class mix is a gain of 19.5%.

The Worst Ten-Year Returns for a 60/40 Portfolio

Decade Ending	60/40 Portfolio
1938	19.5%
1939	25.0%
1937	26.9%
1974	27.3%
2008	31.3%
2009	33.5%
1940	38.0%
1946	45.5%
1975	46.1%
2010	48.1%
1978	50.9%

Source: NYU; Ben Carlson.

In the aftermath of 2022's market debacle, The Street has gone back to the old playbook. By convincing investors that they could have (should have) avoided the double-digit decline, everyone working in asset management makes a lot more money and sounds much smarter. The people want a solution, so that's exactly what the people will be sold. Why fight the tide? It's so much more profitable to give in to the demands of the crowd. So much more profitable.

These days everyone is pushing an alternative to stocks and bonds. Funds with an answer to 2022's huge drawdown are finding a receptive audience and the inbound fund flows are pouring in. The buzzword du jour is "liquid alternatives." These are mutual fund wrappers containing hedge fund-like strategies. We're seeing a wave of ETFs offering a "buffer" wherein the

investor gets some of the market's upside—but not all of it—in exchange for "protection" against drawdowns built in.

Used appropriately, there is nothing wrong with employing an alternative or some sort of principal protection. So long as the investor understands the trade-off. By avoiding risk, they must accept lower returns. It cannot be otherwise. This is one of the iron laws of finance. Somewhere along the line, all hedges against volatility must reduce potential returns. Which, again, is perfectly fine, so long as this is being explained.

That's the thing, though. How well is this all being explained? How much complexity is being employed to talk people out of earning a higher rate of return over the long term by bearing vanilla market risk in the short term? I would guess a lot. I've seen and heard it all. I know what's being said and what isn't. The proof shows up every day when disillusioned investors arrive on our doorstep telling us tales of lost opportunity. We see a torrent of stagnant portfolios with hedges so convoluted and contrived that the results are inexplicable. "They told me to buy this."

Stock portfolios are supposed to be volatile, to some extent, and ought not be "fully hedged" if they are to produce the returns inherent to the asset class. There is such a thing as too little risk. You'll know it when a decade goes by, the market has rallied to new heights, and you're going nowhere. It's entirely possible to "protect" a portfolio so much that you turn it into a bank savings account. That's not investing. That's fooling yourself.

The eminent advisor coach Nick Murray poses the following question to all those who would seek to reduce volatility in their investment portfolio: "When do you want your risk, now or later?" The implication being that risk is unavoidable.

The obvious answer is now, while you still have time to recover, while you're still earning and able to bear that risk. Protecting a portfolio today by reducing volatility virtually guarantees that you'll have less potential upside, resulting in a smaller account balance many years from now, when

you're older. The risk—the real risk—is running out of money later in life. Everything you need to spend money on will cost more then. Better to take the risk now.

A good financial advisor doesn't play games or sell people on the idea that they can skip over all the volatility and still get the upside of investing. It's a lie. A good advisor tells the truth and helps clients to identify the right amount of risk to take commensurate with how much money the investor needs to end up with decades into the future. What's the truth? Plain and simple, you must accept some risk now in order to eliminate risk down the road.

Simple, but not easy.

Jason Zweig has been covering Wall Street and the investment business since the 1980s, first for *Forbes* and then at the *Wall Street Journal*. He literally wrote the book on behavioral investing, *Your Money and Brain*, back in 2007, years before it became fashionable to discuss the research of Thaler, Kahneman and Tversky et al. I'm going to leave you with something he said in 2018…

> My father, who died in 1981, was an inexhaustible font of wisdom and wit. I don't know when he told me this particular three-part rule, but I've never forgotten it.
>
> There are three ways to make a living:
>
> 1) Lie to people who want to be lied to, and you'll get rich.
>
> 2) Tell the truth to those who want the truth, and you'll make a living.
>
> 3) Tell the truth to those who want to be lied to, and you'll go broke.
>
> The rest is commentary.

People want to be lied to. They want to believe that there is some way they can make a lot of money without the possibility of downside. Complexity is how financial salespeople tell these lies, whether they mean to or not. They get so wrapped up in the fantasy they practically convince themselves.

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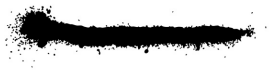
Michelle Celarier, “SunEdison Is Hurting Hedge Funds as Badly as Valeant Did,” *Fortune* (March 31, 2016).

NINE SURPRISING THINGS JESSE LIVERMORE SAID



There are those who would convince you that it is somehow smart or in your best interest to be manically switching your investments around, back and forth, long and short, on a daily basis. To pay attention to this kind of overstimulation is the height of madness, even for professional traders.

The most storied and important trader who ever lived, Jesse Livermore, would be tuning these daily buy and sell calls out were he alive and operating today. Because while he was a trader, he was not of the mindset that there was always some kind of action to be taking.

Jesse Livermore's legacy is a bit of a double-edged sword…

On the one hand, he was the first to codify the ancient language of supply and demand that is every bit as relevant 100 years later as it was when he first relayed it to biographer Edwin Lefèvre. Livermore himself sums it up thusly: "I learned early that there is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again. I've never forgotten that."

On the other hand, Livermore's undoing came at precisely the moments in which he ignored his own advice. After repeated admonitions about tipsters, for example, Jesse allowed a tip on cotton to lead to a massive loss which grew even larger as he sat on it—violating yet another of his own cardinal rules.

And of course, other than for a few moments of temporary triumph in the trading pits and bucket shops of the era, Jesse Livermore was not a happy

man. “Things haven’t gone well with me,” he informed one of his many wives by handwritten note, before putting a bullet through his own head in the cloakroom of the Sherry-Netherland Hotel.

But he did leave behind a wealth of knowledge about the art of speculation. His exploits (and cautionary tales of woe) have educated, influenced and inspired every generation of trader since *Reminiscences of a Stock Operator* was first published in 1923.

In my opinion, some of the most useful bits of knowledge we get from the book concern Jesse’s discussion of timeframes and patience. Many traders, particularly rookies, approach the game with the idea that they’re supposed to be constantly doing *something*—in and out, with a trembling finger poised to click the mouse again and again. Consequently, they get on the treadmill of booking wins and losses without ever really moving the needle. They end up with tons of brokerage commissions and taxes to show for their efforts, but not much else.

Being a trader doesn’t mean one must always be executing a trade, just as being a house painter doesn’t mean that every surface needs an endless series of coats.

Many rookies are surprised to learn that Livermore, the idol of so many great traders, advocated a lower-maintenance, higher-patience approach as he matured. In his early days, Livermore was dependent on the short-term funding and scalping activity of the bucket shops. Once he graduated and had his own capital, he was able to lengthen position holding times and could even afford to do nothing for extended periods.

Here are nine surprising things Jesse Livermore said regarding excessive trading:

1. “Money is made by sitting, not trading.”
2. “It takes time to make money.”
3. “It was never my thinking that made the big money for me, it always

was sitting."

4. "Nobody can catch all the fluctuations."
5. "The desire for constant action irrespective of underlying conditions is responsible for many losses in Wall Street even among the professionals, who feel that they must take home some money everyday, as though they were working for regular wages."
6. "Buy right, sit tight."
7. "Men who can both be right and sit tight are uncommon."
8. "Don't give me timing, give me time."

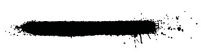
And finally, the most important thing:

9. "There is a time for all things, but I didn't know it. And that is precisely what beats so many men in Wall Street who are very far from being in the main sucker class. There is the plain fool, who does the wrong thing at all times everywhere, but there is the Wall Street fool, who thinks he must trade all the time. Not many can always have adequate reasons for buying and selling stocks daily—or sufficient knowledge to make his play an intelligent play."

Jesse was a trader but he knew the value of staying with positions and sometimes not trading at all. Once he began to follow tips from others or trade when he should have abstained, all of his progress had come undone, and with it, his sanity.

We are fortunate to be able to learn from his mistakes and to sidestep the errors that eventually cost him everything.

Josh's Remarks



Jesse Livermore, according to contemporaneous reports, had become the wealthiest man in the world for a brief moment. His bets on or against the market, leveraged to the hilt and almost perfectly timed, are among the most amazing exploits ever achieved by anyone in the stock and commodity markets. Unfortunately, the booms and busts Livermore experienced in his trading activities were echoed in his professional and personal life. Alcoholism, gambling, affairs, unpaid taxes, divorce, bouts of mental illness, irreconcilable disagreements with business partners, family strife, bankruptcies, scandals and investigations were the rule, not the exception. There were times during which he was fighting on all fronts, deeply in debt and without a friend in the world. The highs were as high as highs could be, but the lows were even lower. The wheel of fortune seemed to have turned faster and more violently for Jesse Livermore than it did for everyone else.

In 1934, Jesse Livermore filed for bankruptcy for the second time in his life. His debts at the time were said to total $2.25 million, an unheard-of sum for an individual at that time. His assets were just $184,000. It's important to keep in mind that this was a man who had just recently reaped a $100 million fortune from his trading during the Crash of 1929. Divorced (on grounds of desertion), his family was celebrating Thanksgiving without him in the tony suburbs of Montecito in 1935 when tragedy struck. His ex-wife, Dorothy Fox-Wednt Livermore, watched as her 16-year-old son, Jesse Livermore Jr., imbibed copious amounts of alcohol til late into the night. She is said to have remarked that she'd rather see him dead than become a drunk. She was drinking heavily herself that night. Jesse Jr. called her bluff, walking out and then back into the living room with a shotgun, which he handed over, daring her to pull the trigger. It's unclear what happened next but somehow the shotgun was out of the picture while a .22 caliber rifle was produced. Police were called to the home sometime around 1:30 in the morning with the former Mrs. Livermore saying, "I shot my boy." Jesse Livermore Jr. had been shot through the lung, with the bullet then lodging in his liver. "It was an accident," he managed to utter. A few hours later,

Jesse Livermore was leaving St. Louis by plane upon hearing the news. He had spent the week trading on the local exchange while his family was in utter disarray on the West Coast.

The attempted murder of Jesse Livermore's eldest son became one of the premier news stories of the day. The *New York Times* somehow managed to print the story on the front page the very next day. Reporters swarmed the hospital and Americans followed the trial in their local newspapers for months. The son eventually recovered and demanded that his mother not be prosecuted. The prosecutors were left with no choice but to drop the charges. The medical bills became grounds for another fight between Livermore and his ex-wife, which resulted in more legal action and subsequent court cases. Jesse Jr. pulled through by New Year's Eve and managed a full recovery as the bullet fragments could finally be removed without killing him. He ended up living back at home with mom, both of them drinking as much as before.

Decades later, after a series of professional failures and one attempted suicide, Jesse Jr. ended up living on New York City's Upper East Side in a four-story townhouse with his mother occupying the top floor. He was married but following in his father's footsteps, carrying on affairs on one floor of his home with his wife occupying another. His drinking intensified until things came to a head in the mid-1970s. One night police were called to the residence after he shot and killed his own dog with a revolver. There was a scuffle and in the process, Jesse Jr. shot one of the officers. A newly passed law by New York State Governor Nelson Rockefeller made the attempted murder of a police officer a guaranteed life sentence with no possibility of parole.

Jesse Jr. ended up at a friend's home in Palm Beach, Florida, awaiting trial. He went into the kitchen, shut the door, turned on the oven and left it open, hoping to asphyxiate. For good measure, he swallowed a bottle of barbiturates. It wasn't necessary. The gas would do the trick. His mother Dorothy managed to live another 20 years, dying of natural causes in 1995.

Livermore's youngest son, Paul, lived a significantly better life, despite having endured the same tumultuous early years as his ill-fated older brother. He served in the US Air Force, flying jets in the Pacific theater of World War II. He ended up married in Honolulu, spending his adult years as the owner of a popular nightclub. Paul made it into his late 70s, passing away in 2002.

The tragedy of Jesse Livermore's legacy followed into the third generation. Jesse Livermore III, born a year after his grandfather's death, was 34 years old when his father, Jesse Jr., committed suicide. He was three times married with two children and five grandchildren. It looked as though he would be the scion to break the family's dark cycle of depression, desperation and untimely death. It was not to be so.

According to author Tom Rubython, in his excellent Livermore biography, *Jesse Livermore: Boy Plunger*:

> on February 26, 2006, the unfathomable happened and Jesse Livermore III, at the age of 65, turned a room of his house into a gas chamber. He sealed the room and turned on the gas and lay down. The next day, the newspapers carried the news in a few words, seemingly not realizing who he was. It was the third suicide of the eldest male of the Livermore clan in a period spanning 66 years. Jesse Livermore, his son and his grandson all took their own lives in their 60s, seemingly unable to cope.

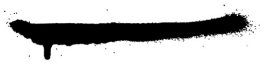
Some say this was a family living under a black cloud, blessed with enormous prosperity but then cursed by fate. As though the astonishing riches, won and lost several times over, must have come with some sort of perverse cosmic price to be paid. Others would chalk up their intergenerational misfortune to a combustible mix of alcoholism, gambling addiction and mental illness. Several of Livermore's biographers believe that he'd probably have been diagnosed with manic depression or bipolar disorder in modern times.

Regardless of what we believe, it should be obvious to anyone that scaling such dizzying heights of success followed by sinking to incredible depths of failure is probably going to be enough to shatter anyone's psyche if it happens only once. Repeating this pattern over and over again could only result in breaking a man.

Jesse Livermore died broke and left behind an inheritance of madness and despair for his descendents, despite his incredible skill at trading and riding the markets to unimaginable wealth several times throughout his career.

The takeaway for any sane investor is to view his undeniable wit and wisdom in this context. We should be careful about whom we choose as our idols—in the investing realm and in life.

AMERICAN GODS



You have questions…

You're wondering how it could be possible that the S&P 500, the Nasdaq 100 and the Dow Jones Industrial Average could be climbing to record highs day after day, given, well, *everything*.

How is it that stocks can break through to new heights while the country at large seemingly sinks to new depths?

And about those new depths…

What happened to the instruments of American Exceptionalism? Are they dead? Did we kill them?

If we did, the murder weapon was *disbelief.*

And in the place of the pillars that once upheld everything we held dear, we're putting our trust and faith in something else… something that seems invincible right now: Technology. Systems. Data. Innovation.

As our belief in the old thing dies, our belief in *the new thing* grows ever stronger.

1100s: A Viking ship makes landfall in the New World, carrying Scandinavians and, with them, the one-eyed god, Woden. They've brought him to North America, hundreds of years before there even is such a place on any map.

1600s: A slave ship traverses the Atlantic with a cargo hold full of Africans. And hitching a ride with them, their mischievous spider-god, Anansi.

1800s: Eastern Europeans begin settling in Chicago. Poles and Russians,

Czechs and Bulgarians. They bring their ancient Slavic “black god,” Czernobog, with them.

1900s: A young girl arrives at Ellis Island with a stowaway in tow—“Mad Sweeney” Suibhne, a sort of cursed leprechaun who roamed the Irish countryside for hundreds of years.

It’s a New World but the people carry their totems and tokens along as they come.

But something happens over the ensuing decades and centuries. These deities from the Old World begin to lose their hold over the émigrés they came here with. Their influence fades as new gods—*American Gods*—hold sway over ensuing generations: Radio, television, the automobile, the airplane, electricity itself, the telephone, the assembly line, the internet.

These are the new deities.

The Old Gods lose their place as modernity answers more and more of the questions and prayers of the people, and fills more of their lives.

> “The TV’s the altar. I’m what people are sacrificing to.”
> “What do they sacrifice?” asked Shadow.
> “Their time, mostly,” said Lucy. “Sometimes each other.”[18]

This is the plot of Neil Gaiman’s 2001 novel, *American Gods*. His story is playing out in the real world today.

The country feels like it’s being torn apart.

A half-hour of cable news delivers enough psychic trauma for a whole year. The newspapers are talking of nothing but treason, espionage, investigations, protests. Video clips of townhall meetings flood the internet, little shoebox dioramas of unbridled rage.

Creatures who haven’t braved the light of day in decades are crawling out from under their rocks—unapologetic male chauvinists, racists and bigots, defenders of the Confederacy, white supremacists, apologists for dictators,

fascists—the type of monsters who used to dwell only in the darkest places, at the fringes of society, are now inking book deals and collecting likes on their Facebook pages. Out in the open.

There's an advisor in the White House who once publicly professed his desire to wreck our society. "I want to bring everything crashing down, and destroy all of today's establishment." The person who said this, less than five years ago, now *is the establishment*. Let that sink in, if it hasn't already.

All of the things we once held sacred are being chipped away at and destroyed. Sometimes purposefully and sometimes just out of spite or for fun.

The Republican Senator from Nebraska, Ben Sasse, told *Face the Nation* that: "The U.S. is in the midst of a civilization-warping crisis of public trust… And we need to talk honestly about our institutions that need to be restored and need to have the ability for people in five and eight and ten years to trust these institutions."

These institutions he is referring to—that were once thought of as non-partisan and trusted equally by men and women, Democrats and Republicans, young and old—are becoming more politicized and mistrusted by the day.

The FBI, the Senate, the House of Representatives, the Electoral College, the mainstream news media, the Congressional Budget Office, the Federal Reserve, the intelligence community, the judicial branch, the office of the President, the White House Press Corps, the Department of Defense, the US Constitution.

These Older Gods, once venerated, are now fading in influence, in confidence and in the public trust. We no longer take a single word any of these organizations say at face value; we're questioning their motives and communiqués before they're even finished speaking. Fingers pointing from every direction.

Our faith in the conventions of American government and these institutions isn't *just* fading away. As in the Gaiman story, it is being *transferred*. We still have faith, that part of human nature doesn't go away.

> People believe, thought Shadow. It's what people do. They believe, and then they do not take responsibility for their beliefs; they conjure things, and do not trust the conjuration. People populate the darkness; with ghosts, with gods, with electrons, with tales. People imagine, and people believe; and it is that rock solid belief, that makes things happen.[19]

Our new beliefs are making one thing happen, relentlessly—we've selected a new Pantheon. We have more faith in their ability, their capacity to learn and improve, their adaptability, than we have in the President or in Congress or in the courts.

Here are a handful of the very large stocks making new 52-week (and, in many cases, all-time) highs right now: Amazon, Apple, Alphabet (Google), Marriott, McDonald's, Netflix, Salesforce, Visa.

These are not brand-new companies, and in many cases they are not selling a brand new product. Rather, they are institutions that have earned the trust and devotion of millions of customers, shareholders, employees and managers. We believe in their products and services, we have faith in their durability, their competitive advantages, their vision of what the future looks like and how they'll fit into it.

En masse, we have decided that, come what may in Washington, these are the entities that will find a way to thrive. They will not merely survive the future, they will be responsible for shaping it.

There's an element of blind faith at work here, and of self-fulfilling prophecy. Because the larger these stocks become, the larger their weight in the index funds that investors have taken to deifying. Vanguard is a Mecca for money, and as it draws in more adherents, by extension the market caps of these companies draw in more invested dollars.

There’s a man out in the desert who is preaching.

He is telling fabulous tales and winning new converts to his cult every day. He has his detractors, sure, but with every successive miracle he pulls off, his apotheosis grows in the imagination of the flock. Their faith becomes unshakeable with every new all-time high in his church’s share price.

When outsiders dare to ask questions of a more terrestrial nature, about boring things like cash flows and valuation, he dazzles his believers with spectacles—*a battery-powered car that can drive and park itself, a factory staffed entirely by automatons, a solar-powered roof of magical shingles, a rocket that he launches into the heavens and then lands on a platform as though it were merely a helicopter.*

And, when he’s done performing these feats, who wants to talk about accounting?

In October 2011, Saint Steve died, but he left behind the plans for what would someday be his final masterwork—a circular corporate headquarters, 12.8 million square feet in total, designed to hold 12,000 of Apple’s very luckiest corporate employees. It is nearing completion and is the closest thing to Mount Olympus or Asgard ever constructed on planet Earth.

It may not be floating in the clouds, but it certainly appears to be levitating above the scrub hills of Cupertino from virtually any angle it can be viewed from. All that’s missing is the rainbow bridge to connect this new temple of innovation and shrine to technological dominance to the real world.

The stories about the quarrying of “just the right stone” and the assembly of custom-created glass and metal material are so absurd that they defy even mythological comparison.

Apple is the first publicly traded company in history to be worth in excess of $800 billion. Some context about how large this number is:

1. By itself, Apple's market capitalization exceeds the combined market values of the 102 smallest companies on the S&P 500, according to FactSet.
2. Apple's market cap is more than 220 times larger than Ryder System, Inc., a transportation logistics company that is currently the smallest member of the S&P 500, with a market cap of $3.6 billion.
3. Apple's market cap is more than the 2015 GDPs of 183 out of the 199 countries tracked by the World Bank. It's approximately the same size as the combined GDPs of Iran and Austria.

Don't tell me we stopped believing.

Apple has sold over a billion iPhones and the iOS user base is now rivaling all of the world's major religions, combined. Poor comparison, you say? We check our iPhones 2,600 times a day.[20] If that's not ritualistic devotion, I don't know what is.

The comical thing about the whole "Trump Rally" conceit is that while people have the effect right, they have the cause precisely backwards. Stocks are rallying because of *how little* faith we have in the government. *The Mega Blue Chip Corporation is the new Sovereign.* This applies in Europe and Japan just as neatly as it applies here at home—go ahead and look at their indices, this belief transference I describe is going global. Shareholders around the world are waking up to the idea that, despite the many and prominent failings of their respective governments, the universal "profit motive" has not let them down.

Our new gods—our American Gods—are the only thing left worthy of our love and attention in the current moment. And the saints who guide us—Dimon, Zuckerberg, Cook, Fink, Page, Bezos, Musk, Bogle—have shown themselves to be far more worthy of investor adulation than Congress or the

White House. For the 20% of Americans who own 80% of America's wealth, these companies are the objects of worship.

The old objects of worship, and those who attend to them, have lost their power or their sanity.

Sam Clay, the eponymous comic book creator protagonist in Michael Chabon's 2000 novel, *The Amazing Adventures of Kavalier and Clay*, tells a story:

> Guy lands on a planet. Exploring the galaxy. Mapping the far fringes…
>
> He finds a vast golden city. Like nothing he's ever seen. And he's seen it all. The beehive cities of Deneba. The lily-pad cities of Lyra. The people here are ten feet tall, beautiful golden humanoids. Let's say they have big wings. They welcome Spaceman Jones. They show him around. But something is on their minds. They're worried. They're afraid. There's one building, one immense palace he isn't allowed to see. One night our guy wakes up in his nice big bed, the entire city is shaking. He hears this terrible bellowing, raging like some immense monstrous beast. Screams. Strange electric flashes. It's all coming from the palace…
>
> The next day everybody acts like nothing happened. They tell him he must have been dreaming. Naturally our guy has to find out. He's an explorer. It's his job. So he sneaks into this one huge, deserted palace and looks around. In the highest tower, a mile above the planet, he comes upon a giant. Twenty feet tall, huge wings, golden like the others but with ragged hair, big long beard. In chains. Giant atomic chains…
>
> We're in heaven, this planet…
>
> It's God…
>
> God is a madman. He lost his mind, like, a billion years ago. Just

before He, you know. Created the universe.[21]

Let the Old Gods bellow and rage in the distance.

There are likes to like and pages to page-view. Swipes to swipe. Items to be ordered and thought-leaders to be thought-followed. We've got our own temples, up in The Cloud, to be decorated with selfies and festooned with a million paeans to ourselves, our *personal brands* and our experiences. Our chauffeured chariots to be summoned, literally, on-demand. *The app as finger-snap.* People are favoriting us as we sleep. At least, they'd better be.

Google is doing the work that priests and rabbis used to do. It has answers. Curious children are learning to consult with Alexa and Siri in kindergarten.

And our New Gods have found a way to extract tribute from each and every one of these activities.

We're carrying their altars in our pockets.

Josh's Remarks

Everything I said in 2017 is the same, except more so. Bigger. Increasingly obvious to larger amounts of people.

Here's a run-down of the market capitalization gains for the new American Gods in the years since that post. I'm writing circa the summer of 2023—I had to draw the line somewhere.

Microsoft's stock price is up a previously unthinkable 468% since then; its market capitalization an astonishing $2.6 trillion. Netflix has tripled in size and is now worth over $200 billion, which is a larger valuation than Disney, a century-old global media and entertainment giant with a streaming service all its own.

New to the list of American Gods is the semiconductor phenom Nvidia,

which is now worth over $1 trillion and has seen its share price rise by more than 1,700%. It is the lone company in this category of stocks that does not sell the majority of its products and services directly to the consumer. Nvidia's GPUs and related software offerings have emerged as the lynchpin of humanity's 2020s AI quest, which erupted at the start of 2023 with the worldwide spread of large language models like ChatGPT. Suddenly, everyone needed advanced chips for this sort of AI endeavor and Nvidia had laid the groundwork to position itself as the only game in town. While he may not have attained godlike status just yet, CEO Jensen Huang's words are now accorded at least the weight of a prophet's.

Tesla has since become an S&P 500 stock and its visionary founder, Elon Musk, has become the world's wealthiest man. Ever. He's still preaching but he's moved from industrial California to the libertarian shoals of coastal Texas. Oh, and he bought Twitter, having accidentally bid an astronomical $44 billion (it's a long story).

Anyway, from the day of my post in May of 2017 through July of 2023, Tesla's stock price has gained 1,260% and its market capitalization is up a whopping 1,680%. The difference in these two return figures is because they've sold more stock on the way up. This is unlike the other large cap tech giants, who are always buying back their own stock, thereby shrinking their outstanding share counts. Tesla is now a trillion-dollar company, dwarfing all of the other publicly traded auto manufacturers. Tesla's stock has become one of the biggest winners of all time and, in having done so, has also become the most controversial stock ever listed. Its founder is alternately worshiped as a godlike figure or reviled as one of the devil's own, depending on whom you're talking to.

Another of the companies I had written about in the piece has gone on to even more glory and renown in the eyes of investors around the world. Apple, at a $3 trillion market capitalization, has become the most widely held, well-known and highly valued company in the history of the world. It is worth the entire Russell 2000 index of small cap stocks combined. It has

become the largest holding of the greatest investor in history, comprising half of Warren Buffett's equity portfolio and a full quarter of Berkshire Hathaway's total market capitalization. And because Apple is constantly buying back stock, Berkshire's share of the company's earnings and distributable profit (in the form of dividends and share repurchases) continues to grow the longer they hold onto it. As of today, it sells at a 30-multiple of earnings, which is a 50% premium to the S&P 500's earnings multiple, and yet some of the most well-known value investors in the business can't seem to part with it.

Apple is held by value investors, growth investors, sector investors, index investors, innovation investors and dividend investors alike. It appears in large proportions within the Dow Jones Industrial Average, the S&P 500 and the Nasdaq 100. In all of these indices, its price swings are highly influential, both mathematically and psychologically. The stock can be considered *Quality, Momentum, Growth at a Reasonable Price* or almost any other "smart beta" factor you'd like to associate it with (save for *Small*, it most definitely cannot be that.) It's a CapEx King, a Dividend Dutchess, a Growth Goliath and a Buyback Brawler all at once. Apple, like the multitude of deities from days of old, can be anything to anyone, depending on what they'd like to see when they gaze upon its countenance. It is not merely just another American God, it is perhaps the King of them.

In April of 2023, Warren Buffett was asked about the risks of owning Apple shares, given the significant rise in the stock's valuation, and the risks associated with chip supply in Taiwan and US tensions with China. He'd considered these risks, but then stuck with his holdings in the stock regardless. During this interview with CNBC's *Squawk Box*, he explained the following:

> If you're an Apple user and somebody offers you $10,000, with the only proviso that they'll take away your iPhone and you'll never be able to buy another, you're not going to take it. If they tell you that if

you buy another Ford motor car, they'll give you $10,000 not to do that, you'll take the $10,000 and buy a Chevy instead.

Buffett finished by remarking, "I mean, it's a wonderful business. We can't develop a business like that, and so we own a lot of it. And our ownership goes up over time."

Tesla and Apple and the other American Gods of the Nasdaq have outlasted the Trump presidency and they look highly likely to remain dominant through the Biden one as well. Their hegemony over the world and its population of users has only grown as the years have gone by.

Our worship of these businesses—and the charioteers who guide them across the sky each day—looks increasingly justified with the benefit of hindsight. All of them have rewarded their shareholders. All of them have wrapped us, the consumer, ever more tightly in their WiFi-enabled, Cloud-powered embrace. As they continue to upgrade their offerings and solve more of our problems, only the obsequiousness with which we love them can keep pace with the growth of their valuations.

The American Gods continue to command our respect, our attention and our dollars, regardless of anything happening geopolitically, meteorologically, societally or otherwise.

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18 Neil Gaiman, *American Gods* (William Morrow, 2001).
19 Ibid.
20
Patrick Nelson, "We touch our phones 2,617 times a day, says study," *Network World* (July 7, 2016).
21 Michael Chabon, *The Amazing Adventures of Kavalier and Clay* (Random House, 2000).

EVERYONE IS A CLOSET TECHNICIAN

This will be fairly controversial, but I'm going to say it anyway.

Everyone is a closet technician. *Everyone*. And in a panic or a market correction, this truism is even more, um, *truistic*.

First, what is a technician? Here's my own handy definition, I think you'll like it: A technician is someone who cuts right to the chase and studies *actual* prices and behavior instead of puzzling over *the causes* of prices and behavior like everyone else.

Discussing causes is a much more interesting conversation and it gets you on all the talk shows. Discussing price—the sum total of all investor fear and greed, both historical and real-time—tells you the truth about what's actually going on; it does not offer an opinion.

Besides, price dictates what the news is, not the other way around. Consider:

If the price of Yahoo common stock was higher today than it was when Marissa Mayer first joined, she'd be hailed as the second coming of Lou Gerstner or Steve Jobs, not a punching bag whose business initiatives and party-throwing receipts are dissected in the tech press each week.

If the S&P had rallied throughout 2015 instead of flatlined, we'd be throwing a parade for the plunging oil price, not freaking out over it.

When Apple shares trade higher over the course of a given quarter, it is the highest-quality stock in the world, with a vast opportunity ahead to take on automobiles, TV, virtual reality and the Internet of Things. When Apple falls over the course of a quarter, Apple is a Too Big to Sail rotting old

galleon, with a caretaker captain who can't turn it and a crew who can't innovate in time to save the ship from capsizing.

When a social media startup prices a financing round at a higher level than the previous one, it is heralded as The Next Big Thing—a disruptor on its way to riches and glory. If that same startup does a down-round, it's already dead; all that's left to happen is the exodus of the talent and the selling off of the servers.

Price creates the reality for investors, because investors take their behavioral cues from price and the media fashions its headlines from it.

Technicians believe that there is wisdom in price. That *price has memory*. That people who were inclined to buy at a certain price are somewhat likely to buy there again. Unless something's changed, in which case their failure to re-buy (or buy more) at that formerly significant price level can be interpreted in an entirely new way—what was once an area of *support* on a chart becomes an area of *resistance*.

Technicians believe that trends persist, in both directions, because market participants act on "news" at different speeds and act more boldly (or fearfully) the longer a particular movement in the markets goes on. This is why bull markets often end with a buying crescendo in the riskiest securities. Risk appetites grow as an uptrend persists—the desperation to participate gets stronger, it does not fade gently.

This is also why selling becomes more fierce when the market is at a 20% discount to its previous high than when it is at a 10% discount. *"How could it be even more urgent to sell down 20% than it is down 10%?"* someone might ask. Going by fundamentals, it isn't. But investors only pay lip service to fundamentals. What they are more concerned with is owning less of the thing that looks stupid to own—and the lower it goes, the stupider it looks.

Unless you buy into the idea that rational behavior rules the investment markets. In which case, you're reading the wrong writer.

Technicians find truth in price, rather than attempting to parse the impossibly conflicted and intentionally obscured opinions of the commentariat. Technicians find meaning in the actual buying and selling activity happening today, not in the dusty old 10Qs of 90 days ago or in the projected estimates being bandied about among the discounted cash-flow analysis crowd on the sell-side.

But above all, technicians respect the power of sentiment more than their fundamentalist counterparts. And sentiment, after all, is how valuations actually come to be—the P in the PE Ratio or the PEG Ratio or the P/B calculation. In the real equation— the only one that counts—the P is what pays; not the E, not the EG and certainly not the B. Buffett would tell you the B (book value) is what pays over time (the market going from a voting machine to a weighing machine). But Buffett can afford to ride it out, having permanent capital under management and an ocean of insurance premiums sloshing in over the transom every hour of the day. Most market players do not.

What I am not saying is that *price is truth*.

Price lies all the time. Facebook can be valued at $40 billion and then $20 billion and then $200 billion inside of a four-year period. Which of these prices is the truth? None of them. But all of them were momentarily true, until they were rendered a lie, and a new truth was forged in the fires of the marketplace. Sunrise, sunset. Prices change and, with them, the truth itself.

Everyone knows this, but many have not come to terms with it yet. Or it would hurt their career to admit that buyers and sellers will pretty much lead the way and our opinions will closely follow behind.

This is how you get a chief investment strategist whose year-end price target is raised and lowered throughout the course of the year as the stock market rises and falls. The strategist starts out with a view, and then tailors her view to match the reality being generated by price. Or fails to do so and is eventually fired.

Have a look at the commentary surrounding oil. It falls from 80 to 70, and Wall Street's seers say 65 is possible. It falls to 60 and then the downside target is lowered to 40. Over the last 30 days (leading up to January 18, 2016), we've seen Goldman Sachs and Morgan Stanley take their oil price targets down to 30 and 20 respectively, just as its price was slicing through the 30s on its way to the 20s.

If it continues to fall, you will hear calls for oil priced in the teens! If it stabilizes and trades higher, you will see targets lifted. I ask you—which is the truth, then? Price itself or the commentary around why price should be at this level or that?

When analysts and strategists adjust their views, they couch their targets in the language of fundamental developments, potential events and the news of the moment.

But in truth, what they are really doing is extrapolating what's happening today into the fog of tomorrow. Another way of saying "extrapolation" is to say that they are betting on a continuation or a reversal of *trend*. Trend is a technical concept, hence, they are dressing up technical calls in the wardrobe of fundamentals, and speaking in the language of the high priests of finance: profits, revenues, cash flows, capacity, demand, market share.

In the midst of the October 2014 correction, I said that the fundamentally inclined start looking at charts and "levels" when uncertainty strikes:

> **Fundamentalists will believe in technical analysis.** But only temporarily. You'll hear people who analyze balance sheets and income statements start to use the term "oversold" not understanding that they're accidentally referring to RSI data, something you couldn't pay them to pay attention to during a market uptrend. There are no atheists in a foxhole and there are no pure fundamentals guys in a correction. Believe me, they're all looking at the charts. Even Bruce Berkowitz.

It happens each time and it is always hilarious. They'll deny it: "The market

is wrong," or, "These are mispriced securities."

The technician is one step ahead: "The market is not wrong, it has a current set of collective beliefs that are subject to change. Price will tell us when there is a likelihood that this change is at hand."

Let's get back to the "Why?" question and the fact that technicians don't waste their time with it.

There's a cognitive foible common to human beings known as the hindsight bias. As investors, there's nothing we like to do more than looking back at an event that's just taken place and reciting the reasons for what caused it as though they were obvious to us in advance. "I knew it all along! It was China, Greece, the Fed, that magazine cover, Obama, the rate hike."

The hindsight bias is a strong tendency in humans because it helped our ancestors survive on the Savannah—telling stories of cause and effect to the next generation so no one gets themselves killed trying to harvest a wasps' nest full of honey or having intercourse with a saber-toothed tiger. Early humans who did not carry the trait to tell these stories did not pass their genes on, they were stung to death or had their genitals ripped off.

We, on the other hand, *did* have ancestors who concerned themselves with explaining recent events. They survived and passed these tendencies down to us. And after a million years of bee stings and foiled tiger rape, we carry on the same tradition.

But it's all made up.

No one knows why a million market participants thought one thing on a Monday and something completely different on the following Thursday. The fundamentalists will share their explanations and guesses with anyone willing to listen. The technicians will take these reasons in stride and focus on what is happening, not why. The why will always be much more apparent after the fact, after it no longer matters. We still don't have the agreed-upon why nailed down for the Crash of '29, the Crash of '87 or even

the Great Financial Crisis. We have theories and arguments and half-truths and politically charged polemics.

But price did its thing regardless.

It always will.

Your favorite fundamentalist is adjusting his insights accordingly.

Josh's Remarks

Re-reading this piece for the first time since it was originally written, I couldn't help but notice how many events have happened since that I could have slotted in as examples to prove the premise. Tesla is an obvious one. While the stock was falling, the narrative was that the company was surely running out of capital and going out of business. Once it began to rise, the narrative became how unstoppable Elon Musk was, and why the bears were doomed to cover their shorts hundreds of percentage points higher. The crowd is most likely to believe in the story that most closely aligns with the recent price action until there is some sort of turning point. Until that moment, rallies will be amplified by increased buying and sell-offs will be met with increased selling.

We tell the stories that explain the phenomena—this is human. On Wall Street, we take this stuff a little further—we vote on the veracity of these stories with our own money by adding to positions that are "working" or taking profits or cutting our losses. This is where trends come from: The creation and proliferation of a story. Once that story is known by everyone —the rise of Tesla, for instance—it requires new plot lines to perpetuate itself and continue to bring in new buyers. Should the plot stall or the story take a dark turn, this will end the trend and potentially reverse it. Then everyone will learn the new story and share the reasons for why the stock is

going down. Once the story becomes commonly understood, a new wrinkle, which leads to a new trend.

In the social media age, we've sped this process up but it's the same process that's always taken place. Investors listen to other investors, whether they mean to or not. Stories take root, they are shared, embellished upon, broadcast by the media and then take flight.

Now, there are those of us who think we have a pretty good grasp on the story of a given stock and where the plot is going next. You'll see us in *Barron's* or watch us on CNBC retelling that story, hopefully at a point in time where it is not a fully understood story and there's still money to be made in hearing it for the first time.

But there are others who have (probably correctly) concluded that stories and their ability to persist are too unreliable as a means of determining where a stock is headed. These are people who have been burned by stories or have seen how quickly a story can change, and how unpredictably. They've taken the pragmatic step of removing themselves from storytime and focusing instead on the only thing that pays—price itself.

Once focused on price, the technical analyst (or "technician," as they prefer to be referred to these days) will utilize the various inputs and derivatives of price that either confirm an existing trend or diverge from it. This is the evidence of what people are actually doing with their buying and selling, far removed sometimes from what various analysts, fund managers and insiders are saying publicly. To be a technician is to be skeptical of talk and observant of action.

Money talks—what are you actually buying and selling with yours?

Technicians do not spend their time trying to understand the story and predict the next scene in the play. They do not concern themselves with the characters, the setting, the dialog or who's screwing whose husband in Act III. The mentality of the technician is that the buyers and sellers will come to a determination based on all of these story elements and act accordingly.

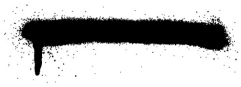
The sum total of these actions will bring about a tradeable trend, or a mess worth exiting and watching from the sideline. It's not the only investing approach that works, but for a certain personality type, it might be the only approach they can live with.

My own personal belief?

I think you can say "Price is Truth" without implying that the price is always right. Participants in the stock market get things wrong all the time. They overestimate a potential negative or underestimate a future positive and as the degree of this over- or under-estimation becomes apparent, prices will adjust.

The technician doesn't attempt to guess at which is more likely in advance. The technician will take the crowd's word for it once it seems to have made up its mind.

I GOT A STORY TO TELL



2011.

I'm in a brownstone converted into an office somewhere in Manhattan. There's a random dog walking around. Everyone who works there is under 30 except for the woman who founded the "wealth management" firm. She is over 60, having spent her career as a financial advisor. I met her filming something at the Nasdaq for the *Wall Street Journal.* "Come by my office, let's talk shop," she tells me. So I come, and the dog sniffs me.

"What's your strategy?" I ask her. I'm truly curious.

This is the period between establishing my own practice and launching our own firm. I am open to new ideas from everywhere.

She goes into this whole story about how she gets involved with charities in Connecticut or Westchester and shows up with the hors d'oeuvres, which she makes herself. And I'm like, *"What the hell are you talking about?"* Then I realize as she answers me. She's talking about her marketing strategy, not her investment strategy. She doesn't have an investment strategy, yet there are hundreds of millions invested with her. Because she's great at showing up at charity events with pigs in a blanket and talking her nonsense.

I realize she is just faking it. All of it. Meeting people, sizing them up and telling them what they want to hear.

A young man pops into the conference room and says, "Market closes in five minutes, what do you want to do with this TZA?" He is asking about an ETF that trades at a 3× inverse to the Russell 2000 index intraday. It's 2011, so it's not so strange that I know what this is. Everyone still thinks the

market is headed to zero and trades accordingly. Still, it seems like a ludicrous position for an alleged wealth manager.

“Hold onto it overnight,” she tells the kid. I don’t quite remember but I think his name was Glen.

She didn’t look at a TZA quote or a news report or anything. This is clearly a 100% feel thing. She is managing money by making it up as she goes along. The goddamn dog is roaming around under the table brushing up against me. I think I’m hallucinating as I hear this exchange. The lady who makes the hors d’oeuvres to prospect for clients is daytrading 3× leveraged ETFs on the Russell 2000 off the top of her head. She probably has a whole spiel with her clients about how she is hedging positions.

She explains how her firm operates. “We don’t pitch asset management, we pitch the financial plan, which costs $5,000 for us to execute. Then we hand them this book. Takes forever for the printer to spit out,” she laughs.

The book looks like an encyclopedia, hard bound and four inches thick.

“Once we hand it to them, they don’t know what to do with it. But they’ve already paid us, so…”

The dog runs to the window as a horn blasts outside. Her hustle is that a giant, printed financial plan doesn’t do the customer any good without someone to do the trades and the investing, so she basically gets $5,000 to hand them an advertisement for her investment management. “I get paid upfront no matter what, and then I get the account anyway 99 percent of the time.”

Glen is bringing us bottled water from the fridge. He looks weirded out by her willingness to say this out loud to a visitor.

“Listen Josh,” she says. “I’ve heard you on NPR and Bloomberg Radio. I do a lot of Fox Business on TV. I’ll tell you what. You give me your producer’s contact info and I’ll give you mine. I’d love to be on NPR and you would love doing Fox.”

“You don’t understand,” I tell her. “They only call me for the radio when I write a blog post about something and it’s really good. I don’t just go on to talk about anything.”

“Blogposts?” she says. “What?”

“I write about investing and do a lot of research while I write to try to get smarter and better at this. Sometimes I write it up on my blog.”

“Let me tell you something kid. Rich people don’t read blog posts, they watch me on Fox. Don’t waste your time with that.”

“I hear ya. But what you need to understand is that I would be writing the same posts even if no one was reading them. I’m obsessed with becoming a better investor and helping people. I don’t need a return on that investment, I just need to enjoy the process.”

“Okay Josh, thanks for stopping by. Definitely email me your NPR contact when you get a chance.”

“Okay, thanks. No, I’m not going to do that.”

“Why not?”

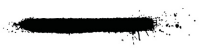
“Because I think people need to hear more from me and less from you in order to retire and achieve their goals. No offense, but I think I am the opposite of you.”

“Glen, show Josh out.”

The dog follows me to the door. I rub him behind the ears. I love dogs. It’s not his fault he lives with a charlatan. I want to rub Glen behind the ears too.

“Get out while you can,” I tell him.

Josh’s Remarks



I really don’t have any respect for the financial advisors who operate this

way and how they manage money. I respect them as people, but as professionals they make me sick. This is an industry-wide phenomenon.

It's mostly a big bulls**t show where they earn the confidence of people they meet on the golf course by telling them what they want to hear, like, "Sure, we can beat the market. It's not easy, but we're very good at this." The relationship starts off on a lie and then the job of the fake financial advisor is to keep the smoke and mirrors going until either the client leaves or—as happens in most cases—the inertia becomes too powerful for them to do anything but stay put.

There's a certain generation of advisor, mostly they're in their 50s and 60s now, who came of age working at a wirehouse firm like Merrill Lynch, Smith Barney, Wachovia, A.G. Edwards, PaineWebber, Prudential, Dean Witter, or Raymond James. These are (or were) large, storied firms where millions of stockbrokers had been trained and sent out into the world ready to sell product or pitch the stock du jour. They came up in the 1980s or 1990s when this was standard; the state of the industry. Stockbroking was an honorable profession and the world needed financial salespeople.

This is pre-internet, so the stupidity of it all is understandable. Clients had to take the word of the professional they were talking to. There was nowhere and no way to look anything up. These were the cavemen (and cavewomen) who were a generation or two ahead of me in the business. They called themselves "financial advisors," but there was no advice being given. This was really just hardcore product sales.

They were the best salespeople in the world. Selling *intangibles*. Anyone can sell a car. The car is right in front of you. You can see it on the road, smell the leather, sit yourself in the driver's seat, grip the wheel. Easy. I could sell 50 Jeep Grand Cherokees this month without even learning a single thing about the truck. With my eyes closed.

Now imagine selling the future hypothetical profits from holding a mutual fund. You can't touch it. There's nothing to see. You just have to make them

believe. You can't guarantee anything. You can strongly imply. You're selling air. Potential gains that may or may not materialize amid the possibility of losses. How do you do that? It's hard. You must first sell the prospective buyer on your own ability to predict the future. Then you have to engender a certain level of confidence in the product itself as well as the firm you work for. This takes chutzpah, sure, but it also takes a lot of skill. The stockbrokers of the 1980s and 1990s may have been primitive, but it would be wrong to suggest that they weren't talented because they were. They were absolute killers.

On the brokerage side, the conflicts between what was best for the salesperson and her firm were not meant to be minimized. The conflicts were meant to be *monetized*. The conflicts were the whole point of the endeavor—that's where the compensation came from. *Mutual fund company ABC is willing to pay the brokerage firm that employs me X dollars which means I will earn Y dollars from every share of Z fund that I sell. The client pays my firm a commission, a piece of which is going to me, then the fund company also pays my firm a selling concession or "shelf space" fees just to get access to me, the brilliant salesman masquerading as a financial advisor.*

There are layers of conflict on top of layers of conflict. What's in the clients' best interest is fine, so long as the firm gets taken care of and the salespeople are maxing out their own opportunity.

A general rule of thumb on Wall Street is that the higher the commission a product is paying the advisor to place with his or her clients, the worse that product is. That's why it has to pay the most to the advisor. That's why a standard stock trade is worth a few pennies per share to the broker who sells it, but a non-traded real estate investment trust with a five-year lock-up and lightly audited financials will pay the broker up to 10% just for ramming it down people's throats. The broker needs to move the money around in the clients' accounts to get paid; this is how the compensation system works. So they'll gladly take lower comp for liquid stocks and bonds they can buy

and sell simply. That's a lot of opportunity for movement, and movement creates gross commission dollars. An illiquid investment, however, means the broker can't turn it over for a while. This means they won't be able to earn commissions on the resulting activity, so you're going to have to pay them more to "lock themselves up" in your fund.

You probably think I'm messing with you but I swear on the graves of Tupac *and* Biggie that this is really how it worked. For decades.

And then these people stopped referring to themselves as brokers and began to position what they did as "financial advice." But they didn't want to be regulated like financial advisors and subject to a fiduciary standard. They wanted to call themselves advisors for marketing purposes, but they also wanted to keep getting paid for selling products and rolling around in the mud with all their conflicts—disclosed and undisclosed—completely intact. You can look it up on Google; the industry's lobbyists spent 15 years fighting tooth and nail to preserve this system because the system was lucrative. They finally settled on some laughably obtuse nonsense called "Regulation BI" or Best Interests, which is basically like, "I am sort of a fiduciary to clients but not always because money."

And then you have creatures like the woman I describe above, who represents the absolute worst of both worlds. She's "managing their money" by buying and selling whatever pops into her head at any given time. No commissions, fine, but also no clue. Maybe she watched CNBC that morning and heard about a midcap technology fund that sounded good. Maybe she went out to lunch with an old colleague who mentioned a muni bond fund he was looking at. Maybe she woke up nervous about something she saw on the news and proceeded to liquidate 10% of all her clients' equity exposure on a random Thursday morning. How many of her accounts understand the degree to which happenstance and serendipity play into what she's doing with their life savings? I would guess none. They probably assume there is some sort of process at work. Some kind of professional decision-making after copious amounts of research and in-

depth analytics. Not: “Whatever, I’ll hold the TZA overnight, maybe the market will bounce on the open...”

Imagine if doctors and lawyers and architects and engineers were serving their patients and patrons in this way? The whole world would fall apart.

Anyway, this is my impression of what that generation of financial advisors were and are mostly doing. Earning trust through country club memberships and then throwing darts. I know one guy who is the CEO of a $7 billion RIA who once told me he has three golf club memberships. *Three*. It’s his job to take clients out to play at courses they’ve never been to. “When I take a guy to Winged Foot, he’s pretty much a done deal.” And then these civilians watch the advisor call in stock and bond trades from the back nine and they actually think that’s investing.

> “Sell Qualcomm, I have a bad feeling about their next earnings report. Okay, thanks I’ll call you later.”
>
> (click)
>
> “That was my trading desk. Anyway, how’s Meredith doing at college? And Christian, did he make the varsity lacrosse team?”

Literally. These are the advisors I am taking accounts away from, one by one, all over the country. There are hundreds of billions of dollars invested this way. It’s amazing.

I have found that the younger generation of advisors are significantly more sophisticated about their profession. They weren’t trained in the same sales-obsessed brokerage fever swamps as the younger Boomers and older Xers were. Many of them studied financial planning in college, something that didn’t really exist 20 years ago. They take the work seriously. They’re not roaming around on a golf course shaking hands and playing grabass with the neighborhood rich dudes. They are educated and continuously strive to become more knowledgeable.

This is part of the problem, however. They haven’t really learned to sell

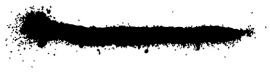
hard enough to build large practices for themselves. Which is why there are so many broke Gen Y financial planners charging their fellow broke millennials hourly or monthly retainer rates to manage small dollar amounts for them. I meet 29-year-old financial advisors everywhere I go who are so excited to be independent and “focused on planning” that they don’t seem to be worried about the fact that they’re only managing $8 million and barely running a real business. The pendulum may have swung too far.

What if you could take the salesmanship of one of these 1990s era Professional Golfing Advisors (I call them PGAs) and marry it with the sophistication of the younger planners with all the certifications and acronyms on their LinkedIn bios? I think that’s the answer. Easier said than done.

When my generation was in high school, we had to actually pick up the phone to call a girl we liked. There were no cell phones. We had to call the house! And then the dad would answer and you just wanted to die. But you persevered and got him to hand the phone to his daughter and then you would have to risk the rejection to get her to want to grab a slice of pizza or go to the movies. I have two teenagers at home. I’ll tell you right now, neither they nor their friends are able to do any of this. It’s all DMs and private chats. The rejection is diluted by user interfaces. Softened by the detached nature of these interactions. The intensity of the situation is substantially ratcheted down. The stakes are lower. How are you going to teach the kids who grew up this way to sell anything the way we were taught to? They have no experience with face-to-face rejection. They’ll f***ing faint from the pressure.

Maybe that’s why the old-timers are still useful. Young planners are back at the office crunching numbers and cranking out proposals while the senior guys and gals are on the links closing business. This is what most wealth management practices look like today. It’s not inspiring.

OPTIMISM AS A DEFAULT SETTING



"The man who is a bear on the future of the United States will always go broke."

– J.P. Morgan

We begin with a story from 100 years ago…

From *My Favorite J.P. Morgan Story* by Mark Skousen:

In the early days of the Twentieth Century, when J.P. Morgan ruled Wall Street, a visitor came to the City. He was a long-time friend of Morgan, a commodity trader from Chicago. He was what might be called a "perma bear" following the Panic of 1907. No matter how high or low the stock market went, his outlook was pessimistic. Another crash, panic and depression were just around the corner.

This was his first visit to the world's greatest city. He arrived at 23 Wall Street, and was ushered into J.P.'s spacious office overlooking the Exchange on one side and George Washington's statue on the other.

They immediately began talking about the markets, Morgan being bullish as ever, and his commodity friend being as bearish as ever. "J.P.," he said, "the news overseas doesn't look too good."

"A buying opportunity!" responded Morgan.

After an hour of friendly disputing about the markets, Morgan invited his guest to join him for lunch. They walked outside and started

> moving up toward Broadway. As they did so, his friend couldn't help but admire the skyscrapers that dotted the Manhattan horizon. Morgan gave him a tour of the giant buildings, pointing out the Singer Building, the Woolworth Building across from City Hall, the famous three-sided Flatiron Building, and the recently completed Met Life Tower, rising 50 stories high, the tallest skyscraper in the world at the time.
>
> His friend was duly impressed. He said he had never seen anything like it, not even in Chicago.
>
> Finally, J.P. Morgan stopped his friend and said, "Funny thing about these skyscrapers—not a single one was built by a bear!"

Josh here—count the perma bears on the Forbes 400 list or the amount of pessimists who run companies in the Fortune 500. You will find none.

Six years before the above anecdote took place, J.P. Morgan had completed his purchase of Andrew Carnegie's entire steel operation for the unheard-of sum of $480 million—hundreds of billions in today's dollars. You don't do that deal and amass that kind of wealth with a persistently negative outlook. Winners and men and women of foresight and ambition do monumental things, while pessimists watch them from the sidelines, making a list of all the reasons things won't work out.

The losers do get to win sometimes, too. But their victories tend to be Pyrrhic, as every calamity ultimately leads to opportunity when the dust clears.

I saw Sam Zell speak to an audience of real estate investors and developers in Manhattan sometime in 2009. He told us that "kings will be made" in this moment. He had nothing left to sell anyone, having blown out of his massive real estate holdings just three years earlier in a time of optimism. Old Sam's seen too many of these cycles, he knows that you always bet on positive outcomes and you bet heavily when you're alone on that side of the trade. It doesn't always work but it mostly does.

Pessimism is intellectually seductive and the arguments always sound smarter, especially when they dovetail with our own worries. You think this period is more frightening than the 16-month recession between July 1981 and November 1982 only because you weren't there and you haven't studied history. Your frame of reference is here and now, not then—with a 14% unemployment rate and 15% inflation. As Peter Lynch reminds us about that era:

> Sensible professionals wondered if they should take up hunting and fishing, because soon we'd all be living in the woods, gathering acorns. Then the moment of greatest pessimism, when eight out of ten swore we were heading into the 1930s, the stock market rebounded with a vengeance and suddenly all was right with the world.

That's what usually happens.

Nobody should be a "perma" anything. But if you must err to one side or the other, as a default setting of sorts, the right way to lean is obvious.

Josh's Remarks

I'm writing this commentary ten years later. I can barely remember why optimism was so risky back then, but I remember distinctly how hesitant investors were to think positively about the future. On financial social media, saying things might work out okay was practically an invitation to be mercilessly ridiculed.

In April of 2013 we were just five years removed from the Great Financial Crisis and the stock market had just finally gotten above its 2007 high for the first time. A new all-time high for the first time since the crash. Not everyone was enthusiastic. There were all sorts of reasons for why we should not have trusted it. If you know anything about the media, then you know they had been relaying these reasons to us morning, noon and night,

repeatedly admonishing us lest we get too optimistic. Valuations were high, they said, while earnings would surely disappoint. Interest rates would rise. Various debt crises would ensue. Demographics were unfavorable. Obama's healthcare plan surely meant the end of America. A looming government shutdown that fall would surely be the nail in the coffin.

And yet, somehow, none of those things would sink us. 2013 turned out to be the best year for stocks since the halcyon days of the late 1990s. The Dow Jones Industrial Average finished the year up 26.5%, its best finish in 18 years. The S&P 500 had its best annual return in 16 years, capping out the year with an almost 30% return, ending December at a new record level. The Nasdaq soared 38.2%, led by an emerging group of biotechnology and solar stocks that put on an extraordinary show for a new generation of growth stock enthusiasts.

According to S&P Dow Jones Indices, 457 of the S&P 500's large cap stock—roughly 90% of the index components—were up on the year. More than two-thirds of them had gains of 20% or more.

A new car company came out of the woodwork that year and its relatively unknown CEO, Elon Musk, appeared on the cover of *Fortune* magazine as "Businessperson of the Year" in December. Tesla's stock was up over 350% in 2013, kicking down the door to a new era while clearing the cobwebs of the aught's decade crisis away. Tesla's rise and Musk's wholly unorthodox approach to building his business represented the start of something entirely different from what we were accustomed to. This brought out as many haters and doubters as it did fans and acolytes. What was clear to both sides, however, was that something was changing.

Netflix had made its transformation from the company that mailed you physical DVDs to a streaming platform that changed the way we watched television and movies forever. Its stock rose 300% that year, becoming one of the hottest growth stories in the market. Best Buy mounted a notable comeback that year, notching a 240% return for investors who hadn't given

up on the company. BlackRock shares returned more than 50% as the stock market recovered and the company surpassed all others in terms of AUM, with the ETF giant breaking above $4 trillion.

For every negative you could have cited about the environment of 2013 as stocks reached new heights and smashed through a wall of skepticism, there were plenty of reasons for optimism. You just had to work a little harder to find them. This was true then and it is true now. It will always be true. And despite all that we were worried about, and all of the unimaginable things that have befallen us since then, the stock market has been just fine. Over the ten years since this post went up, the S&P 500, assuming the reinvestment of dividends, has returned over 230%, or roughly 12% per year.

As I write my remarks here, a decade later, we are contending with all sorts of other threats to our future wellbeing. Earnings expectations, we are told, must ultimately revert lower once companies run out of price hikes they can put forth, while the cost of employing people and running a business will surely increase. Profits are too high and must come down.

There's the 2024 presidential election to be fearful of, too. As of this writing, the contest features an unhinged insurrectionist criminal-tyrant who wants to wipe his ass with the Constitution. The other guy is a clumsy, brain-fogged octogenarian who can barely remember what day of the week it is while bumbling his way through non sequitur speeches before tripping back up the stairs to Air Force One for his nap. Surely a nation of 350 million people can do better than these two. And yet, here we are.

And if that's not concerning enough, we're surely on the precipice of World War III with China, Iran and Russia allying themselves against Ukraine, Israel and the rest of the free world, which the United States represents (and supports, both financially and militarily). We've got thousands of gaslit students (and their mendacious professors) openly supporting terrorism, kidnapping, mutilation, rape and murder on college campuses across

America. TikTok's China-controlled algorithms gleefully pump the most divisive content they can surface directly into the national bloodstream.

Higher interest rates have put the housing market into a deep freeze. You can't buy and you most certainly can't sell, risking a 100% increase in your mortgage rate. The national debt is ballooning by trillions of dollars as the cost of servicing it all threatens to become our budget's single biggest annual line item, potentially supplanting Social Security and defense spending. Gas prices are high, rents are even higher, food prices are outrageous, hotel rooms and flights are egregious and, despite the fact that nearly everyone has gotten a wage hike in recent years, the cost of living still seems to have outpaced it.

Talk to the average person on the street and there's almost nothing good worth saying. The polls are nearly unanimously negative.

"It's bad and likely to get worse."

What is bad? What is likely to get worse?

"I don't know. *It.* Everything."

Okay, nice talking to you.

It's easy to make lists of the problems. Of everything that could go wrong or get worse. I could do it with my eyes closed and so could you.

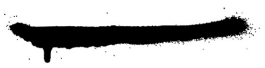
It's much harder to have the imagination and the courage to talk openly about what might go right. What might improve. What unexpected thing could have a remarkable impact on how we work and live and change things for the better. Paradoxically, these types of improvements come along all the time. Given the long-term trend toward progress and convenience and lengthening lifespans, we ought to be more comfortable discussing the positives than we are.

But the bad stuff lands like a thud, generating headlines and invoking worst-case scenarios that drown out the sound of anything else. The good stuff creeps up on us, occurring slowly and quietly in the background as we

gradually (and unobservantly) grow acclimated to it without even realizing. It’s rare for us to feel it or remark upon it in real-time. The media has no vested interest in reminding us of it.

But the optimists are eventually proven right. Not every day, but always and eventually. Indisputably. It just takes a while to be able to see it play out. Even if you don’t believe me, make your investment in the future anyway, just in case I end up being right again. Plant your seed regardless. If you end up being right in your pessimism many years from now, we will all have bigger problems than what our investments are worth. Being optimistic all the time is difficult. But having any other disposition as a default setting makes little sense when you’re investing for a future far out in front of us.

THE STUFF THEY DON'T TEACH YOU IN BOOKS



Once upon a time, when I knew nothing, I called myself a financial advisor. It's true, I was giving financial advice. But when I look back to the caliber and quality of that advice from then and compare it to now, it's astonishing how much I didn't know.

I was raised in this business to believe that stock and bond and fund selection was the most important aspect of helping investors succeed. We weren't given a benchmark in terms of what a client succeeding even meant. Was it beating the S&P 500? Looking smarter than the client's other broker? Hitting a grand slam in a technology stock? Generating the highest interest and dividend income? I don't know. The client doesn't know. "Let's emphasize whichever of these things went well in the next conversation."

Twenty years have gone by and now I know a lot. At least compared to the original version of me as a financial advisor. I've surrounded myself with Certified Financial Planners. I've attended hundreds of industry conferences. I've written three books and ten thousand blog posts. I've done 1,500 hours of financial television. I've read a million words on the profession. I've sat in a thousand client meetings. Drank coffee, wine, beer and tequila with hundreds of financial advisors when their guards were down. I've been in the green rooms at all the events. I've seen the notes from the pre-interviews with producers. The private parties. The dinners (so many dinners). I've met the chief marketing officers and the PR people for every trillion-dollar asset manager in America. I've been there for the bell ringings, the product pushes, the service launches, the beta tests, the branding exercises.

I know some s**t.

Like finding my way up in the clocktower behind Big Ben, watching the gears turn. Everyone in London can look up and observe time going by from the outside. I can see how the big hand and the little hand got that way from the inside.

And some of the things I've come to learn have never been taught in any textbook or on any exam given industry-wide. These unwritten things are the key to everything.

I'll share a few today…

1. Every thousand dollars you help a client **save on taxes** is the equivalent of earning that client ten thousand dollars in returns, based on how grateful people are. I don't know why it is that way. There's something about "I saved you money" that's ten times more emotionally satisfying than "I made you some money." Probably because money made in the market usually continues to remain at risk in a portfolio, while money saved on taxes feels more kept and permanent.

2. The converse of this is also true: No matter how much money you make for someone, the worst thing you could do is surprise them (and their CPA) with **a tax bill** at the end. The profits become beside the point. They will not be pleased. This is why financial advisors who focus on long-term gains and tax sensitivity always win. More importantly, it's why financial advisors who emphasize alpha or beating the market or frequently generated trading ideas will always end up losing. They cannot do any of these things with enough consistency to keep clients happy for long—and even when they do manage to crush it, short-term capital gains taxes spoil the party.

3. There's no such thing as people buying **"wealth management"** from anyone. No one is selling "wealth management" either. Say the phrase out loud and think about how ridiculous it sounds: "Hi, I'd like to buy some wealth management, please. Yes, I'll hold." So what is it that people are

buying? Answers to their questions and solutions to their problems. On-demand assistance with financial matters, expertise in managing the money they've accumulated, guidance on how new developments might affect the plans they have made for their lives, affirmation and emotional support—for some clients it's some specific combination of these things and for others it's the whole package.

I have learned that, in most cases, people don't know what they want until you show them what's possible. They might think they want stock picks, but that's only because no one has ever asked them about their lives before, and gotten to what's truly important to them. For half a century, Wall Street trained its financial salespeople to find clients a product based on what they thought they wanted. It's only in the last ten years that the entire industry has shifted to focus on the real questions they have, not "What small cap value fund should I buy?"

Well, not quite the entire industry—the insurance guys will never change.

4. When you see a **famous fund manager** who is normally press shy start doing a whole bunch of interviews, it can only mean one of two things—client redemptions and underperformance, or someone owes someone a favor. Nobody who doesn't speak all year just wakes up one day and says, "I think I'll give the *New York Times* a call…" I admire the folks who stay silent but then come out once a year and speak somewhere to help raise money for a charity.

5. When someone gives you two reasons or **excuses** for not doing something, neither one of them is true and both are invalid. You haven't gotten to the truth yet. Imagine asking a friend to go to a baseball game and he says, "I can't, my in-laws are coming over tonight." Then you tell him it's actually a day game. "Oh, I'm also sick. Not feeling well." His in-laws aren't coming over and he's not sick either. There's something else going on. If you understand this aspect of human nature, you are equipped to talk to investors. You cannot invest properly for someone until you understand

what they are really trying to tell you, and, in some cases, trying *not* to tell you. A good advisor can get to this information early, before a single dollar gets invested into anything. A s**tty advisor checks boxes on a risk tolerance questionnaire and just gives the client whatever they say they want.

6. The top ten percent of **mutual fund and ETF wholesalers** are worth their weight in gold to the advisors they work with—given how tough their job is and how few of them are actually any good at it, they are probably underpaid by half. When advisors find a useful wholesaler who helps them become better at serving their clients, a true bond is formed. The bottom 90% of wholesalers are worth nothing. It's usually not their fault. It's hard to sell something you don't believe in—to people who already know they don't need it.

7. Who you take money from has a huge impact on your ability to invest successfully. Everyone learned this from Warren and Charlie, who invest rolling insurance premiums and have no need to worry about fund flows coming or going. They don't have clients, they have shareholders. And whether or not the shareholders stay or leave doesn't change the relentless insurance premiums that continue to roll in, rain or shine. Dimensional Fund Advisors carefully selected the advisors they allowed to use their institutional share class mutual funds. Starting with this ingredient—a patient, disciplined investor base—helped improve the real returns of end clients during both the dot-com crash and the Great Financial Crisis relative to the experience of investors in other funds.

Not being forced to sell because of redemptions during a panic is very helpful for an asset manager. Hedge funds have figured this out too. That's why they're all launching SPACs and reinsurance subsidiaries in the Caymans or public companies in Holland. The quest for permanent, market-insensitive capital. The stickier the money, the more freedom they have to make what they believe to be wise investing decisions—especially contrarian ones. If the money is capricious and can come and go without

friction, they can't make the tough trades. You know how you know when a hedge fund is really hitting its stride? When they start firing their clients and managing the money for themselves. "Get rid of the investor relations girl too, we won't be needing her anymore." The most successful financial advisors I've met have been those who could say "No." Most people working in our industry can't say it—at least, not at the beginning of their careers. So they spend a lot of time consoling mismatched clients whose objectives are not a fit with what can actually be delivered. The sooner you can get out of this situation, the better… but there are quotas to meet and bills to pay and the neighbors just built an extension onto their house. You know how it goes.

8. Analysts are often hilariously disgruntled because they know they're smarter than their bosses. The externality of this is a lot of startup hedge funds (sorry, emerging *emerging* managers) and pseudonymous bitter Twitterers. And because of the same power law governing virtually everything, most of the startup funds aren't going to make it, thus increasing the bitterness on Twitter(ness… I like things that rhyme). Nothing makes a smart person angrier than the perceived success of those they know to be of inferior intelligence. It feels like they're being cursed by the gods, to have to watch a complete moron making millions of dollars. When a moron makes a lot of money in stocks or real estate or startup investing, the most obvious accomplice to point to is the Federal Reserve: Riser of tides, floater of boats. I believe this is one of the root causes of a lot of day-to-day Fed criticism. It's not completely unfounded. I kind of get it. My friend the bankruptcy attorney is sitting at his desk playing with a Rubik's Cube right now because nobody's filed Chapter 11 in 16 months. Meanwhile, you could probably sell a talking horse on Broad Street this afternoon. Intelligence is overrated in this game, mostly because there's too much of it to begin with. It's a baseline in this business, not a road to riches. *You're smart? Great, everybody's smart. What else ya got?*

9. Nobody is happy with what they have and nobody can sit still. If there's

one human constant you could use, this is it. Ennui is an energy source that never runs out; it can power a thousand years of market activity and be harnessed on a daily basis. Get this right, and learn to turn it in your favor, and you will indeed become wealthy. The best part is, it will never change and we will never run out of this fuel.

10. Small talk is underrated. All things being equal (and they frequently are), people do business with people they like. Affability is more important than expertise, because expertise can be borrowed or rented for cheap and the internet has become an information equalizer. Relationships, in contrast to expertise, are expensive to build and maintain. Hard to fake and almost impossible to repair. That's what gives them value. That's what makes them a currency. Relationships are built on small talk. Remembering people's names and their kids' interests. Where they grew up and where they go on vacation. It matters. If this all sounds trivial to you, then you haven't learned anything about this business yet. There are probably like 100 people on Wall Street who are so brilliant and talented that they can skip this whole thing and be complete assholes. You probably aren't one of them. Just in case, best to act as though you're not. Read the Jim Simons book about the most successful hedge fund in human history. It's not about math. The whole story is Jim building relationships with the people he needed to build Renaissance into what it became. Math was just the bonding agent. The relationships and personality management were the real secret. The code, sure… but the code had to change. You needed to be able to recruit from within the code community to do what Jim did. No one else could have done it. No one else had earned the trust.

Okay, ten is a good place to stop for now. I have more. We'll pick up the rest some other time.

Josh's Remarks

I have built a reputation for saying the things that other people in the industry are thinking but wouldn't dare say out loud. This post was an example of me doing my thing. I did a lot of these posts, but this one was particularly well received. I'm not sure why. I think people like numbered lists and I happened to have numbered my list of truths here. Okay, so that helps. I also think I managed to touch on a very wide range of topics here, from media to money management to client development to behavior and psychology. That helps too—a little something for everyone.

If a situation ever arose in which everything I had ever written on *The Reformed Broker* were to disappear, completely from the Earth, and then someone asked what the site was all about, I would probably say, "I told the truth."

Here's the funny part about success. When I started the blog I had nothing so, therefore, I had nothing to lose. And I knew nobody so, therefore, I could write about anybody I wanted.

But the blog took off and became the basis for a business, and then the business took off; and now, with more power than I had ever possessed before, I find myself completely paralyzed while sitting in front of a blank document ready to write. I have power and prestige and a huge audience ready to read, but I can't say anything. I have partners and vendors all over Wall Street I can't afford to offend. We work with investment banks, commercial banks, software providers, trading firms, asset management companies, advertisers, sponsors, potential colleagues, podcast guests, conference attendees, co-investors in venture deals, etc. I can't say anything because all I see in front of me these days are potential bridges to burn.

That would be fine if I were close to retirement. But I'm in my mid-40s, with 60 employees and 4,000 clients counting on me not to fumble the bag. Their families are counting on me. Their descendants! That's like 100,000 people. I can't just walk around popping off anymore. Just rolling grenades

down random hallways, listening for the bang. That’s just not how it is now. I can’t carry on like I used to.

Every time I go to write something, I have to run through a mental checklist to make sure I don’t screw something up with my big mouth. Ten years ago I’d just hit <Publish> without even thinking twice.

This paralysis came on gradually at first and I hadn’t really noticed it until recently. My freedom to tell the unvarnished truth began to dissipate; but in its place was money and fame and, without ever making a conscious choice, I just sort of chose. I didn’t mean to sell out. I don’t remember signing any particular document to that effect or checking that box. I think it just kind of happened.

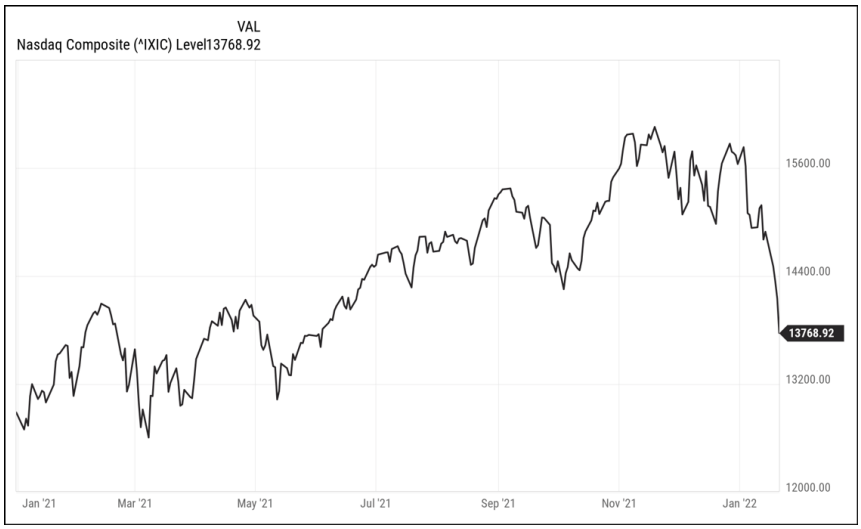
And that sucks a little, because if I weren’t so professionally hamstrung by the circumstances of my present situation, I might be inclined to tell even more of these truths. The ones I used to tell all the time. The stuff I used to write that got me to where I am today. But alas, I cannot. At least, not now.

It’s funny, when I started the blog, I used to dream about owning my own firm and having a career exactly like the one I have today. Now, having done it, I sometimes find myself wishing I could go back to saying whatever I want.

I’ve learned that restraint is a superpower. Someday, my tongue will be untied. There are a lot of people out there who should hope that day never comes.

THE RULES

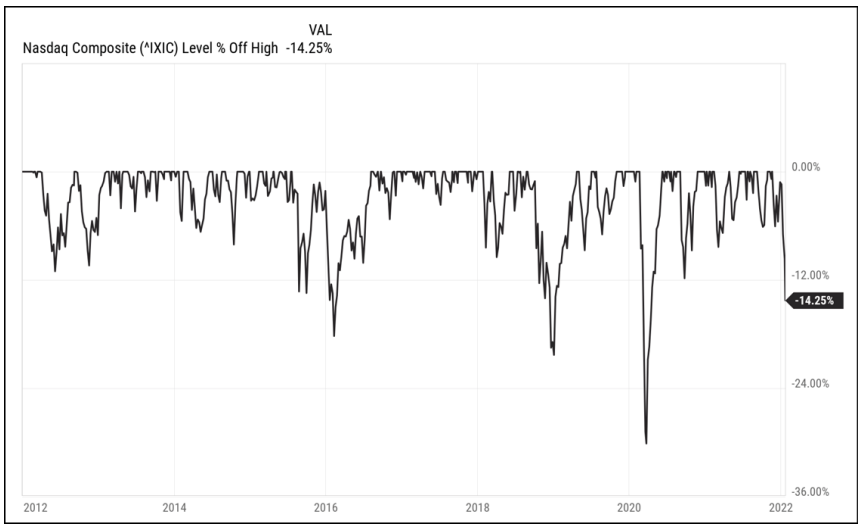
As I write this on January 21, 2022, the Nasdaq Composite is undergoing its 66th correction since its inception in 1971. A "correction" is a drawdown of greater than 10% from a high. In this case, the Nasdaq peaked the week before Thanksgiving and is now almost 15% lower.



The question on everyone's mind after today's disgusting close is whether or not the correction will turn into a full-blown bear market—meaning a drawdown of 20% or worse. Mark DeCambre has written about the historical probabilities of this happening.[22] According to Dow Jones data, during 24 of the previous 65 times the Nasdaq has corrected, a bear market has followed. That's 37% of the time. But in 41 instances, or two-thirds of the time, the Nasdaq's correction did not turn into a full-blown bear market and the correction represented a swiftly rewarded buying opportunity.

My best guess is that, yes, we will go past the 20% threshold into a bear market for the Nasdaq. But in a 14 and change percent drawdown already, that extra 6% or so won't make much of a difference at this point.

And you should know that we've been here before. Here are some of the biggest Nasdaq drawdowns of the last decade.



So this one's bad, not the worst. At least not yet.

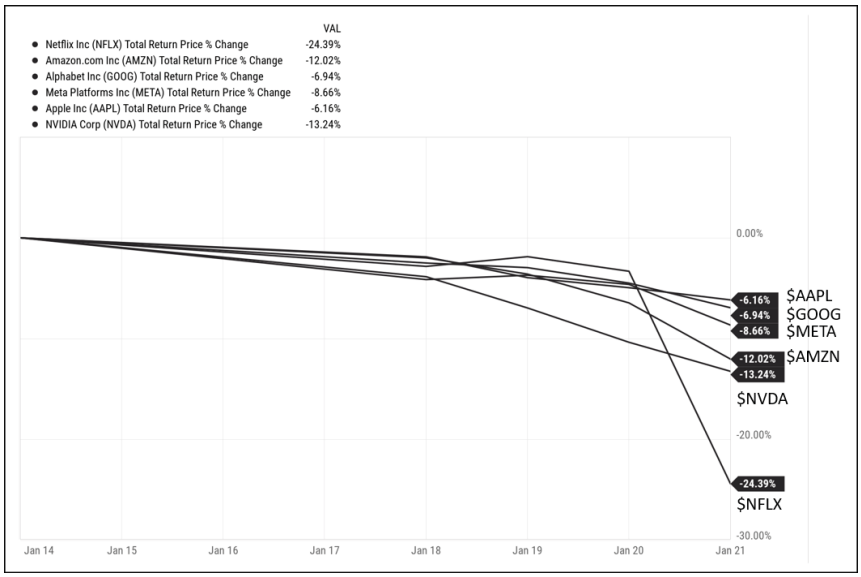
I would also add that an enormous percentage of Nasdaq Composite stocks have already been in bear markets of their own for quite some time.

There's also a big list of Nasdaq Composite stocks that have already been cut in half from their highs over the last year. This list includes meme stocks, recent IPOs, SPACs, biotechs, electric vehicles, alternative energy, and on and on. As JC Parets pointed out in August 2021, the stock market —as in "the market of stocks"—actually peaked in February of 2021 during the mania phase.[23] Large caps kept making new highs which pushed the indices up, but a thousand smaller stocks have spent most of the last 11 months selling off beneath the surface. The Russell 2000 in total is worth close to $3 trillion, or roughly one Apple (two Amazons). It didn't matter.

What's different now is that the largest names in the Nasdaq are starting to get sold. Netflix, Amazon, Alphabet, Facebook, Apple, Nvidia. They're "catching down" with the rest of the stocks in the market now. It's not pretty. Virtually every investor in America has exposure to these gigantic stocks because of how large they are in the indices. Apple is in the Dow Jones, Nasdaq 100 and S&P 500. It's an important weighting in all three.

It’s also in dividend ETFs, tech ETFs, thematic ETFs, growth ETFs, value ETFs, quality ETFs, momentum ETFs—you get the idea. Microsoft too.

And now they’re hitting these stocks at last. Here’s what this past week looked like for these six formerly untouchable companies:



Again, my best guess is that we’re not done yet. It would be great to be wrong.

My colleague Ben Carlson has looked at the likelihood that this gets much worse.[24] He used S&P 500 data from the last century to calculate the frequency of market drops of various magnitudes, just to give you an idea of what’s “normal.” As you can see, 10% corrections for the S&P 500 have happened in *SIXTY THREE PERCENT OF ALL YEARS*:

Stock Market Losses: 1928–2021

Losses	% of years
5% or worse	95%
10% or worse	63%
20% or worse	26%
30% or worse	10%
40% or worse	5%

These averages are skewed a little higher because of all of the crashes throughout the 1930s; but even in more modern times, stock market losses are a regular occurrence.

Since 1950, the S&P 500 has had an average drawdown of 13.6% over the course of a calendar year.

Over this 72-year period, based on my calculations, there have been 36 double-digit corrections, ten bear markets and six crashes.

This means, on average, the S&P 500 has experienced:

- a correction once every two years (10%+)
- a bear market once every seven years (20%+)
- a crash once every 12 years (30%+)

These things don’t occur on a set schedule but you get the idea.

Okay, so far, the S&P isn’t even there yet, even if the Nasdaq is. And this is totally par for the course. Even though, of course, it absolutely sucks as you’re living through it.

So what do you do now? How do you get through this thing?

There are rules. I have written them down on multiple occasions. Here’s a new version.

If you've been around awhile, a lot of this material will be familiar to you. You may even find yourself nodding along because these philosophies have become your philosophies. That's cool. I didn't invent any of this stuff—I just know it works.

1. Shut the f* up.** No one wants to hear you complain about having stocks that are down. They also have stocks that are down. Commiserating with humor is allowed. Memes about losses are great, everyone can relate. Here's the deal: Everyone has stocks that are down, at all times. And at a time like this, everyone has stocks that are down *big*. If they don't, they're not really investors, they're just playing make-believe on social media. People are especially irritable when stocks are falling and brokerage account values are declining. Try not to get on everyone's nerves. Don't beat your chest for having taken money off the table. Don't "told you so" your friends. Just grit your teeth and get through it. Say less.

2. Comportment. This is one of the all-time great words in the English language. I think the British use it but Americans generally don't. Maybe at boarding schools in the Northeast they do. It's a shame. This is a lost art. The art of comporting oneself in the face of adversity. Act like an adult. Go about your business. You have no control of what the markets will do, only your own reactions. Don't whine and cry to influencers on TikTok or Instagram or Twitter or Reddit. Don't blame Jim Cramer for your own decisions. Comport yourself! This is going to become a very valuable ability as you get older and the assets (and dependants) you're responsible for grow. A lot is going to be riding on your comportment during some of the worst of times. Your sons and daughters will be watching how you act. Comport accordingly.

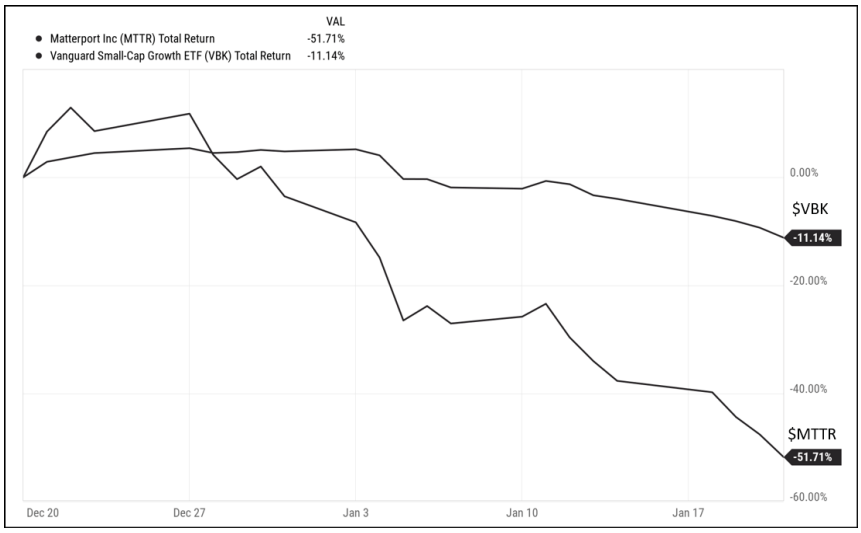
3. My psychological trick. Put in some absolutely absurd GTC buy limit orders on the stocks you had always wished that you owned—at prices so far below their highs, it would be miraculous to ever buy them down there again. Make sure there is enough cash in your account to cover these orders should you get hit on a few of them. This is my very best trick for surviving

corrections. I did it during the Chinese yuan panic of August 2015 (remember that? Of course you don't). And again during the Brexit/Trump panic of summer 2016. It always works for me. I start subconsciously rooting for sell-offs to get hit on my buy limits for the best stocks in the market. And sometimes I actually get them! I bought Starbucks in the 60s in the spring of 2020. It subsequently ran to 120. I didn't know it would ever get down to the 60s. I just knew that if it did, I wanted to own it there. And then one morning I got filled. Boom! I am currently setting up bids at ridiculously low prices for a handful of names—all limit orders, all GTC. We'll see what happens.

4. It's not about you. And your regrets. And the fact that the last three stocks you bought went straight down. Don't be in people's mentions asking about individual names: *"So… you still like this Cisco?"* Come on. Every stock is down, it's not about that. In a market-wide correction with the VIX headed to 30, it doesn't matter what people liked before or why they liked it. Stocks temporarily become commodities as funds and traders sell what they can, when they can, to meet redemptions, reorganize themselves for the eventual rebound, or make margin calls. Indiscriminate selling is a good thing. It means we could be getting close to the end. So try to remember that this isn't about you and your problems. It's bigger than that. The market isn't watching you. Your actions and emotions are not a signal of anything.

5. Newer companies have less long-term institutional support and, as such, they will be absolutely thrashed. This isn't true in every single case under the sun (I am sure you can find examples to refute me), but it's mostly true. I would bet if someone ran the numbers, they'd find what I already have learned with my own eyes. I just know this intuitively. The most recently public stocks are going to get sold off the hardest, all things being equal. They just don't have the shareholder support; the muscle memory that lets a fund manager say, "This always comes back, I'm keeping it." And if it's a *smaller* recently public company, *lights out*. This is just an unavoidable risk

you're assuming when you're playing in these names. Take a look at my beloved Matterport, a stock which has had zero news come out over the last 30 days and has still managed to get cut in half, quite inexplicably:



I'm showing it versus the small cap growth index ETF from Vanguard which is made up of stocks in the same peer group, but stocks that have been around long enough to have been included in the index. Matterport is months old as a public company and isn't in any index ETFs worth mentioning. I'm in this stock and it sucks because prior to this correction it was doing incredibly well. I have now given up all my gains and I have unrealized losses. It happened virtually overnight. This sort of thing does not happen with more established, longer-tenured stocks, for all of the reasons we discussed above. Matterport's been orphaned. I'm sticking with it as an investment—it was never a trade—but I am not happy. Outside of this post, however, you won't hear me pissing and moaning about it. Won't be the first bag I ever held. Won't be the last.

6. Remind yourself that, unless you are in your 70s, chances are **you are still a forced buyer of stocks** for the time being. Retirement investing requires you to accumulate assets that have the potential to out-earn the longer-term inflation situation and, at today's yields, bonds and cash just can't. Only stocks and real estate have been proven over the last 100 years

as viable long-term inflation hedges. The volatility you get from stocks and the illiquidity you get from real estate are the prices you pay for the high returns they offer. It's not free. The Nasdaq has been compounding at 18% a year for the last five years. I'd like to see Treasury bills do that. They cannot. So as you continue to earn and put money away, you will be buying equities with some of your savings. The younger you are, the more this is an absolute. No choice. Your 401(k) demands this of you.

So the question is: Do you want to pay all-time high prices for these purchases or are you better off buying lower? I know *you know* the answer is buying lower. But you forget. I'm here to remind you. If you're a buyer, not a Boomer, corrections work in your favor. In February 2018, I took this concept to the *Los Angeles Times* and they put me on the cover of the business section.[25] Stocks had just begun the year with a violent correction —so I decided to correct some people's misperceptions.

7. Find something else to focus on. So, if you've committed to riding this out rather than panicking, good for you. You've made the right choice. Now what? Try to make this decision easier to live with. Shut off the "news alerts" that are only designed to earn money for someone else's advertisers. Close your laptop. Stop checking prices. Log out of that f***ing brokerage app. You're not doing yourself any good watching tick by tick if you're not a full-time professional trader (and you're not). If the TV is on, remember everyone you see on there is doing their best but making guesses. No one can know what's going to happen next for certain. I'm pretty certain of that. I've met everyone you could possibly meet at the highest levels of the money management profession. I can assure you it's not a science. So why fixate? Read books, comb your horses, work on that old Corvette out in the garage, maybe have an affair with your neighbor's wife—anything but this. I'm trapped in the middle of all this s**t, 24/7. You aren't. Remember that.

8. Don't cap your upside at the bottom. There are going to be people out there selling hedging solutions against losses now that everyone has just experienced losses. This works every time. If only you had listened to them

before! Christmas would have been saved! I'm not anti-hedging, I just know that the more you try to suppress risk, the more you are sacrificing in potential return. So do you want to do that *now*? I prefer to calculate the correct amount of equity risk to take in the first place rather than taking too much and then trying to hedge some of it away. But hey, that's just me.

In 2002 we were selling a UIT (basically a fund you lock yourself up in for like five years in exchange for downside protection) to clients who had just been shell-shocked by the dot-com bubble bursting. Here was the pitch: "We're buying you the biggest names on the Nasdaq—Microsoft, Cisco, Oracle, EMC, Intel, Dell, etc. They're sure to recover! You hold the trust for seven years. You are guaranteed against any losses on the downside. You get the upside." In the fine print, it says, "Actually, you get the upside of the portfolio but capped at one percent per month." I'm paraphrasing. But basically they took almost all of the upside as those blue chip tech stocks recovered. If this portfolio of stocks ran up 5% during the course of one month, my clients only got 1% of that. Terrible deal but they all wanted it. Because that feature—*guaranteed return of principal*—was all they could think about. Those stocks did recover. Holders of the UIT didn't get the benefit the way they would have had they owned them outright, accepting the potential downside risk.

9. Swinging to cash is crazy. Even if it works once, it's not going to work twice. You can't do this reliably. No one has ever demonstrated the ability to be all-out and then all-in and then all-out again without churning themselves into a massive loss. It's simply not possible. If that's what you think you're going to do, then think about the implications of this mindset: You're basically saying you have a magical ability to predict what 100 million *other* investors are going to do, when they're going to start selling and when they'll stop. Around the world. It's beyond farce. You have to stop believing in magic. Warren Buffett said the most important trait to have as an investor is not intelligence. Everyone's smart. No, it's temperament. *"Investing is not a game where the guy with the 160 IQ beats the guy with*

the 130 IQ. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing." Warren is right. I know people with high IQs who literally cannot deal. I know many regular folks who do just fine through all sorts of volatility. You cannot allow yourself to get too bullish at record highs and then fall into utter despair or abject fear in a correction. You will definitely lose *permanently* if this is your temperament.

10. The basics still work. Diversification. A year ago you might have been tempted to go all growth, lose the value, and load up on the momentum names that everybody loved—DraftKings, Tesla, Moderna, you know the rest. The stuff that wasn't hot then—energy, utilities, REITs, banks—that's what's saving your ass right now. Bonds too. You know what else was a good decision? When your "wealth manager" at the wirehouse called you to pitch a million-dollar portfolio loan for "general purposes" against your brokerage account, you said, "No thanks, I don't need the cash right now." Then he said, "Well, we should just set it up in case you ever want to use it. You gotta unlock both sides of your balance sheet!" And you were like, "Seriously, Ethan, I'm good, call the next schmuck on the 'opportunity list' they handed you." If you did that, you're fine now. Keeping leverage low is working. You can sit tight. Nobody is making you do anything now. There's going to be a big opportunity to rebalance out of fixed income, into stocks, the longer this keeps up. Rebalancing *opportunistically* into a correction is great. We did it in early 2020. Would love to do it again. Tax loss harvesting—this is what every financial advisory firm ought to be doing for its clients right now. It's meaningful. It's a productive activity in a storm. Remember: Saving someone a dollar on taxes gets you the same positive reaction as you get from making them *ten dollars* with an investment. It's weird but it's true, ask any advisor. The Basics!

OK, so these are ten of my rules. I could probably do 20, but I imagine you probably want to check on your family at this point, maybe get up and stretch your legs a bit. I am passionate about helping investors become

better versions of themselves and my writing on these topics is a true labor of love. If you get something out of these rules and they help you get through a tough time in the market, that brings a smile to my face.

Stay cool. This too shall pass. It always has.

Josh's Remarks

I am at my very best as a financial writer whenever we're going through a highly volatile market environment with big, nasty drops in stocks. Something about that moment just sends me into another gear as a communicator.

Why? I'm glad you asked.

My friend Dr. Phil Pearlman likes to say: "The higher the VIX, the higher the clicks." Phil managed the trader community on StockTwits.com followed by a stretch at Yahoo Finance, one of the largest investing websites in the world. Phil has been both a trader and a psychologist and has a unique perspective on the intersection of markets and behavior.

This is something he taught me a long time ago, in the early days of *The Reformed Broker* blog (I'm paraphrasing here): Make sure you have your best stuff up on the blog after the worst days in the stock market. Because those are the days the civilians are clicking. People who would normally never think to start reading financial blogs are all of a sudden on a mission for information. "Why did this happen?" they ask themselves as they push further onto the web in a search for answers. This is when they find sites like mine. As a stock market writer, you build your audience and your reputation as a result of the things you say on the way down. So say them loud and say them well when the spotlight's on you.

If the VIX is *VIXing*, then the clicks will be *clicksing* that night. You can set your watch by it. So now, if you're in a position of experience and wisdom,

you get to be a hero. You can say the kind of things I've said in this chapter, giving people the straight dope without pulling any punches, but also giving them the courage to carry on. That's my speciality. I do this in real life with actual clients. That's much harder because in the midst of a correction or a bear market, you can see the actual dollar losses in their accounts. They're mostly paper losses, not locked in, but it's still ugly. Your job, as the financial advisor, is to keep it that way. Your mission is to make sure a temporary moment of weakness doesn't become a permanent mistake. Translating this from client phone calls to a written blog post has always come easy to me. And when the storm has passed (as it inevitably does), I end up feeling really good about what I've helped people endure.

I consider this my life's work. I take it as seriously as you take anything you spend your days doing. I can't save every retiree in America or teach every millennial how to accumulate their wealth. But I can save and teach those who choose to follow. And I will.

Of course, the world is also filled with scoundrels who love nothing more than to profit from the panic of others. They come out of their sewers or crawl out from under their rocks just as the stock market begins to find itself under duress from this particular development or that. The proximate cause of the day's selling isn't important to this cohort. They only need to grasp the fearful ideas of the moment as a means to their ends—convincing the public to do expensive, ill-advised s**t with their portfolios. Like "putting on hedges" they don't need anymore (the damage has already been done), or trading options strategies they don't understand.

One of the grosser things you will witness during a bout of market volatility is the way in which the economic charlatans will mix political rhetoric in with their usual stew, creating urgency for retirees to liquidate their stock funds to get their assets into gold. Investing in gold is, apparently, the only answer to immigrants taking all the jobs and New York bankers (they never say "Jews" but this is implied) crashing the economy as part of a larger conspiracy. "Protect yourself now!"

There’s a percentage of the population who feel left behind by the modern world and they despise the aspects of society that “ain’t what they used to be.” You can sell these people anything if you pose it as the answer to their problem. Certain news stations fill their airtime with advertisements for gold IRAs (as dumb as it sounds), egregiously marked-up silver coins or gold bars, and other counterproductive substitutes for normal stocks and bonds. Once people believe the world is coming to an end, it’s not hard to take their money from them. They tell their viewers nightly that America is on the decline, which is what they want to hear anyway, and from there they are predisposed to buy whatever looks like a hedge or a “safe asset.”

Of course, in the fullness of time, these people see their wealth destroyed as prices in the real economy trend higher and the values of their investments do not keep pace. In the modern era, gold has not worked as an inflation hedge, a deflation hedge, protection from a weak dollar, shelter from a strong dollar, a haven from market volatility, a safety trade during times of political instability, or anything else useful for that matter. During 2022 and most of 2023, we battled some of highest inflation rates this country has seen in half a century. The price of gold responded with a yawn. It’s gone nowhere. The promoters of this precious metal fantasy, who had been screaming about inflation for decades, took to knife-fighting with the Bitcoin crowd on Twitter without even the slightest hint of apology or shame. No one said, “I was wrong,” or, “My theories are crackpot,” or, “Maybe the world doesn’t work the way I thought it did.” They pivoted to, “Well, at least it’s better than crypto,” along with the usual, “You’ll see—it’s only going to get worse out there.”

I despise these people. I fight them in the streets for you. I’ve been escorted out of their fear festivals for getting on stage and performatively dismantling their lies and distortions. I’ve wrecked them live on television. I’ve beaten them to a pulp on Twitter. I find them to be among the most revolting people in the world. Parasites. Gorging on the panic of regular, everyday investors who are simply trying to save and provide for their

families. Frightening the uninformed and the infirm into doing the worst possible things with their money at the worst possible times.

This is why I cape up when I am called by a rising VIX and a heightened decibel level in the media. It's like a Bat Signal in the night sky for me. The louder these vampires shout their poison into the ears of the unsuspecting, the more intense my writing becomes to counter it. I have been doing this publicly for 15 years. Every correction has ultimately resolved higher in that time. Every bear market has come to an end. Every time I've told you to hang in there and stay the course it has proven to be sound advice. Not right away. But in time. And time is going to go by, that much I can guarantee you. For most of the history of the United States, watching that time go by from the sidelines has not been a good bet.

Trading your exposure to the S&P 500 for a handful of counterfeit coins with the graven image of Bill O'Reilly on one side and a bald eagle humping a Ford F-150 on the other has never been the right move. I won't let you do it. I don't care what's in the news or how the markets are roiling themselves. During the next panic and the next one, the usual suspects will be arrayed on one side, goading you into jeopardizing your future by making the pain go away in the present. And I will be on the other side of these ghouls, fighting back with everything I have. For you.

In lieu of thank-you cards or gifts, just pass my message on to the ones in your life who need to hear it.

It'll happen again. Natural disasters. Wars. Bubbles bursting. Panics. You can count on it. But you can also count on me.

I'm not going anywhere.

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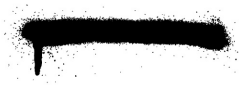
22 Mark DeCambre, "The Nasdaq Composite just logged its 66th correction since 1971. Here's what history says happens next to the stock market," *MarketWatch* (January 19, 2022).
23 Michael Batnick, "When Did Stocks Peak?" *The Irrelevant Investor* (November 30, 2021).
24 Ben Carlson, "How Often Should You Expect a Stock Market Correction?" *A Wealth of*

Common Sense (January 20, 2022).

25

James F. Peltz, “Q&A: If you’re under 40 you should be hoping for another stock plunge, says pundit Josh Brown,” *Los Angeles Times* (February 14, 2018).

THE BUTCHER OF PARK AVENUE



I don’t look the part.

I never did. Neither does my crew. It wasn’t always so.

Once upon a time, working at a series of third-tier brokerage firms, I was trained to always be the best-dressed person in any setting. It was a broker thing. Armani suits, thick and lustrous Canali ties, Gucci belts, Ferragamo shoes, Rolex watches and, believe it or not, *literally* cufflinks. Guys were walking around these cold-calling offices wearing pinstripes as wide as highway dividers and some even wore suspenders. *Suspenders!*

It was the late 1990s and early 2000s. The bosses of these firms were raised on *Wall Street* and Gordon Gekko. *Go get yourself a decent tailor, kid.* One firm even had a bathroom attendant handing towels and mints out to brokers in the middle of the day.

One of the few useful things I learned from these monsters was that style over substance can actually work. “You’re selling the sizzle, not the steak,” we were told whenever one of us had a question about the investment product du jour we were expected to promote.

The thing is, this approach of looking the part only works for a little while. Eventually clients figure it out. So do employees. Image is worth nothing and people won’t pay for it forever. At a certain point, there’s got to be something of substance backing it up.

I like my suits. I’m a Joseph Abboud guy. He just gets me (seriously, I’ve met him). His stuff just fits my retired-offensive-lineman’s frame. But I’m much more likely to be in jeans and sneakers than in a suit most days.

Because I’m here to work and get stuff done, not to impress people who ought to know better.

And if someone chooses a different wealth management firm because this whole squad’s rockin’ Nikes and New Balance, then frankly, we’ve dodged a bullet. That’s the wrong client for us. We want to work with people who are talking to us for the right reason—wealth management, investing expertise and true financial advice.

My office is a sublease on Park Avenue in the 40s. We moved in here when we first launched the firm and it was a stretch to afford it. We’ve quintupled our AUM from this space. We’re bursting out of it in terms of size needs at this point, but it was the right place for us as a startup. I’m sure we’ve had people see it over the years and judge us for it. “They don’t even have their own space!” I felt a little bit self-conscious about it. Until this morning.

The *New York Times* featured our firm on the first page of their business section today. The story is about how enterprising advisors like us are able to leverage technology and support in order to build the firm of their dreams.

From the article:

> When it comes to traditional financial advisers, Josh Brown of Ritholtz Wealth Management does not quite play to type.
>
> Instead of schmoozing with clients over lunch, Mr. Brown brings in business via a storm of tweets and posts on his blog, *The Reformed Broker*, that he generates from a cramped, sublet office space in Midtown Manhattan.
>
> As for Mr. Brown’s back office—the swarm of lawyers and compliance professionals that is the backbone of financial firms large and small—it, too, is virtual. Just a click on any type of screen connects a Ritholtz adviser to Charles Schwab or TD Ameritrade, where a team of operations experts keeps a hawk’s eye on the rapidly

> growing $532 million in client assets managed by Ritholtz Wealth, an independent financial adviser.
>
> Much as Amazon has disrupted the retail industry by revolutionizing shopping habits, Schwab and firms like it have empowered a fast-growing vanguard of wealth advisers who offer independent and conflict-free financial advice by relying on easy-to-use technology.

We could never do what we do without our partnerships and vendor relationships. Working with Schwab, TD, Orion, Vanguard, Dimensional, Riskalyze and all of the others is what allows us to focus on what we do best. We leave the rest to the experts that we've built up trust with. Putting the whole package together into a great client experience is the magic.

We're trying to improve and find that magic all the time. Looks and appearances and $150 per square foot office space is not part of that quest. The *Times* article calls our space "a cramped, sublet in Midtown Manhattan." They're right. We are unapologetic, although stay tuned because we're moving in October to something that will be bigger. And it will still be cramped.

I'm proud of what we've been able to accomplish here. It's an affirmation that clients who have begun a relationship with us have done so for the right reasons.

There's a wirehouse brokerage firm a few blocks away from here that has an art museum in the branch. The prospective clients who are given a tour are essentially visiting with their own money, staring back out at them from behind the display cases. We have no museum.

In 2010, I drove to a prospective client's home to meet his wife for the first time in a tony section of Long Island. I had a Jeep Grand Cherokee with two car seats for my babies in the back. He didn't like my car and said so. He then became the first client I ever turned down in my career. These days, I can afford to drive whatever car I want. Guess what—I have a 2015 Jeep Grand Cherokee. I'll probably get another one. It sits at the train station all

day anyway and I’m not trying to project anything to the world. My friend Michael Kitces drives a Kia Spectra. If you think your wealth manager knows more about financial advice than Michael Kitces, you’re smoking crack.

One of my favorite authors and thinkers, Nassim Nicholas Taleb, wrote something the day before my 40th birthday this past February that almost had me in tears. I was definitely on the verge. It grabbed me because for the first time I felt like someone was describing exactly the way I’ve always thought about myself and what I’ve been trying to do. I could never quite put it into words but Taleb is a better writer than I am.

From “Surgeons Should Not Look Like Surgeons”:

> Say you had the choice between two surgeons of similar rank in the same department in some hospital. The first is highly refined in appearance; he wears silver-rimmed glasses, has a thin build, delicate hands, a measured speech, and elegant gestures. His hair is silver and well combed. He is the person you would put in a movie if you needed to impersonate a surgeon. His office prominently boasts an Ivy League diploma, both for his undergraduate and medical schools.
>
> The second one looks like a butcher; he is overweight, with large hands, uncouth speech and an unkempt appearance. His shirt is dangling from the back. No known tailor in the East Coast of the US is capable of making his shirt button at the neck. He speaks unapologetically with a strong New Yawk accent, as if he wasn’t aware of it. He even has a gold tooth showing when he opens his mouth. The absence of a diploma on the wall hints at the lack of pride in his education: he perhaps went to some local college. In a movie, you would expect him to impersonate a retired bodyguard for a junior congressman, or a third-generation cook in a New Jersey cafeteria.
>
> Now if I had to pick, I would overcome my suckerproneness and take the butcher any minute. Even more: I would seek the butcher as a third

> option if my choice was between two doctors who looked like doctors. Why? Simply the one who doesn't look the part, conditional of having made a (sort of) successful career in his profession, had to have much to overcome in terms of perception. And if we are lucky enough to have people who do not look the part, it is thanks to the presence of some skin in the game, the contact with reality that filters out incompetence, as reality is blind to looks.

Do I look like Taleb's butcher archetype? Or "a third-generation cook in a New Jersey cafeteria"? Probably not quite to that extreme, but his point is a powerful one. No one who works at Ritholtz Wealth got in the door on pedigree or sartorial splendor. When you see us on the firm's Instagram feed being normal people, it's not shtick, it's reality.

In my experience, the people in this industry who are most concerned with how everything looks are compensating for something else. Most likely, an inner realization that they are selling a service that they cannot actually provide.

Our clients get it. Our fans get it. It's not for everyone. There's no sizzle here. We're doing our best, however, to do good steak.

Josh's Remarks

I dropped out of college in the late 1990s and got my Series 7 brokerage license instead of finishing school and getting a degree. My parents were in the midst of a divorce and what I was doing (or not doing) at school wasn't the focus for them at that time. Even before our family fell apart, neither of them had particularly cared about the meaning of getting a formal education. They didn't come from families that emphasized higher education or attached any particular importance to it.

My father was drafted into the army during the Vietnam War, came home

and started working in the Garment Center in New York City. Apparel was one of the more realistic routes into the middle class for a young Jewish guy from the Bronx in the 1960s and 1970s. He met my mother at Burlington, the textile giant, where she answered the phones. Eventually he pivoted to healthcare products sold in catalogs and built a successful business. I was raised comfortably middle class in the suburbs of New York. My mom joined the PTA and my father commuted on the Belt Parkway to his office in Brooklyn. All my dad's friends were self-made men and entrepreneurs. He didn't hang out with professionals like doctors and lawyers. There weren't many corporate executives in our lives. His golf buddies, business acquaintances and workout partners were merchandisers, mail order marketers, alarm system salesmen, guys in the "*schmata* business" who were selling dresses and socks to department stores. They were warehouse owners and 1-800 number impresarios.

They were business guys, my friends' dads. They sold stuff. Import-export. Knock-offs. Items. *Tchotchkes*. A bunch of stuff came in a box from Asia and was put into smaller boxes and sold for higher prices. It was all hustle all the time. You had to have ideas and then you had to turn those ideas into something you could sell and then you had to fucking sell it. No matter what, or the bills didn't get paid.

This was the lifestyle I saw all around me. Long Islanders are often seen as bridge-and-tunnel folks to those living in Manhattan. That's how we get to where they already are—the Triborough Bridge or the GW, the Midtown Tunnel or the 59th Street Bridge, the Holland or the Lincoln. And then we go back out that way when the day is done. They charitably refer to us as "strivers." We're on the outside of the bubble, but looking in from a front-row seat. We want it so bad we'll do anything to get it, but we still don't belong. This was what it meant to be a Long Islander in the 1980s. It's what I took in as I was growing up. But there's a further distinction I need to draw here to give you the full picture.

The North Shore of Long Island includes towns like Great Neck,

Manhasset, Roslyn, Port Washington and Oyster Bay. These are the towns with waterfront on the Long Island Sound, facing the Manhattan skyline to the west and the southern shore of Connecticut to the north. If you have a lot of money and you move out to Long Island, this is where you live. Better schools, higher-end restaurants, larger plots of land, trees and seclusion, a short commute into the city. This is the famed Gold Coast where *The Great Gatsby* was set and all the robber barons of the early 20th century built their mansions. We talked about Jesse Livermore earlier in the book—Jesse built his palace in Great Neck. The North Shore is the s**t. When people who live there tell others where they're from, they never say, "Long Island." They say, "I'm from the North Shore of Long Island."

I'm from the other part. The infamous South Shore of Long Island. I'm not just from there geographically—I think it would be accurate to say that I literally embody the essence of the South Shore of Long Island in every conceivable way. I take the Babylon line of the Long Island Railroad into Penn Station. I can close my eyes and describe the inside of every bagel store or pizzeria south of Jericho Turnpike—and what you should order there. We eat family-style Italian every week, devouring bathtub-sized platters of shrimp scampi and rigatoni bolognese, chicken sorrentino and veal parmigiana with my guys and their wives and children. Table for 24 on a Saturday night, *no problem*, fuhgeddaboudit. I spend the summers racing a jet ski across the Great South Bay, on a mission to Fire Island for the crumb cake at Rachel's or to Island Park for the lobster roll at Jordan's. I rode the original carousel at Nunley's on Sunrise Highway in Baldwin and grabbed the brass ring every time. When people ask me where I'm from, I proudly tell them I'm from the town of Merrick, just like Ben & Jerry the ice cream men, just like Debbie Gibson the singer or Lindsay Lohan the actress or Amy Fisher the attempted murderess.

"Where is Merrick?" they might ask. "Oh, it's just east of the Five Towns. Or west of Massapequa, where Jerry Seinfeld, Rosie O'Donnell and all four

Baldwin brothers grew up. Take the Meadowbrook Parkway south until you can't go any further. If you've hit Jones Beach, you went too far."

Coming from this place, without pedigree or prestige or family connections or a tolerable accent, you had no choice but to be a striver. We wore that label like a badge of honor. Ambition would have to substitute for everything we lacked. It would have to overwhelm the rest and crowd any doubt out of the room. I like to think that when people meet me in a business context, they understand the relentlessness with which I will pursue whatever it is we're talking about. They see that I surround myself with people who are ready to rock at a moment's notice. Do yourself a favor—don't ever find yourself standing between a South Shore kid in a suit and tie and whatever he's currently pursuing. You will be steamrolled.

Growing up, nobody had a diploma on their wall anywhere in my vicinity, but everyone had money. My friends' dads chauffeured us to Mets games at Shea Stadium in Mercedes-Benzes, BMWs, Jaguars and Range Rovers. Despite the fact that most of them weren't exactly white-collar workers, we didn't lack for anything the snobs up in Westchester or the North Shore of Long Island had. Their dads were managing partners at law firms or senior administrators at hospitals or investment bankers or whatever, and our dads weren't. Our dads were hustling. Moms too, if they weren't lucky enough to have been teachers with a healthcare plan to extend to the rest of the household. It's just what it was. This is the world I grew up in.

So when I was screwing up in college, no one was particularly alarmed. I bombed the first semester—not because the work was hard but because I just didn't care about it at all. I was too immature to be on my own, left to my own supervision. Instead of going to class, I would sit in the library reading thousands of pages a day, but I was reading books no one had assigned me. I would write other kids' papers for them for 20 bucks each without even considering whether or not I should be writing my own. To this day, I can't explain why.

That Christmas, my mother got a letter in the mail from the school saying that I had zeros in my courses and had failed out. They were willing to give me another chance because clearly something must have been very wrong. I went back for the second semester and did even less. I couldn't have even told you where the classes I wasn't attending were being held. I did manage to go on spring break in Cancun that April. I wasn't sure what I was taking a break from. I was spending my days reading for pleasure and my nights partying, turning in no assignments and attending no classes, and nobody seemed to care. I had hundreds of friends on campus and none of them seemed to notice how I was spending my time. My parents hadn't asked a single question or said a word to me about my schoolwork. There was no internet and no cell phones and no email and I just kind of fell through the cracks.

So I had failed out of the University of Maryland again, this time permanently. Rather than enroll me in a community college to make sure I had gotten my life back on track, my parents basically said I could do whatever I wanted. To this day I am still surprised that this was their response. We still don't have a great relationship because of that period in my life. I've never gotten over it.

In a million years this would never happen to my own children. You would have to kill me to get me to stop caring about what happens to them. I will do anything and pay anything to ensure that they have the best possible education available to them. I will sacrifice my health, my relationships, my free time, my hobbies, whatever the cost, whatever the price. They will graduate from top-tier universities and, in their 20s, the world will be their oyster. They're not selling *schmatas* or hustling the way I had to. My children will not be told to "go figure it out" if they mess up in their early 20s. I will not let the cycle repeat.

Anyway, I got a job that first summer after blowing up my freshman year as a cold caller at one of the most infamous boiler room brokerages in New York City, the notorious Duke & Company. My dad had a friend he played

golf with who had a son who was a broker and the next thing I knew I was wearing a $50 suit from Syms, headed to the Lipstick Building on Third Avenue. I took the train five days a week that summer and fought for a desk with a telephone on it so I could generate leads for the senior broker. It was my first exposure to the stock market and I loved it. I was great on the phone and fascinated by the process of telling stories and selling investments to people who really wanted to buy them. I overheard the brokers selling IPO shares of Snapple and Calloway Golf and Boston Chicken and I knew I could do that too. At the end of the day the senior brokers would come back to the bullpen where all the cold callers sat and they would lecture us on the value of hard work. The sermons included lots of details about the Porsches they were driving and the strippers they were having sex with and the Harley-Davidsons and other toys they were accumulating. In that world, it didn't matter if you went to college or knew anything; it was all work ethic, hustle and desire. I said to myself, "Okay, I don't have anything else going on or anything else I'm good at, maybe I can do this…?"

That was the summer of 1996. I got Series 7 licensed a year later at some other pirate ship of a firm in Garden City on Long Island. And then another. It was downright Dickensian. I was a Street kid learning the tricks of the trade, the means of survival. The first three people I worked for at the Long Island brokerage firms—one fled to Israel after the firm was slapped with a record-breaking sexual harrasment judgment, one died of a cocaine overdose in Las Vegas, and the other killed himself with pain pills. My early mentors. You can read all about my adventures at these brokerage firms in my first book, *Backstage Wall Street*.

It was a better education than I could have gotten at any school because it taught me the human condition and the way incentives drive pretty much everything that happens in the world. The School of Hard Knocks. I didn't appreciate the education I was getting at the time. My 20s were an unbearable, Sisyphean struggle almost entirely without reward. I started

working at 19 years old and never stopped. In the last 28 years I have never gone even a single day without having a job. I jumped from one firm to another until eventually founding my own. There was no Plan B because I had nothing and no one to fall back on. My resume was basically, “High-school graduate, cold caller, stockbroker.”

I was too scared to stop working, too insecure to pause and think things through. Especially once I got married. I just kept going, no matter what. When you’re on a high wire and there’s no net beneath your feet, what choice do you have?

I tell you this story so that you have the full context of who I am, where I come from and what I have done. I’ve accomplished a lot but the price I paid was very real. I could have made things easier for myself and the people in my life but I never did. I didn’t know better and certain doors had been closed to me before I even realized it. The sole good decision I made before the age of 30 was to get engaged and marry the only person who ever believed in me up until that point, my high-school sweetheart and forever girlfriend Shari. If it weren’t for her and her parents, I might have ended up dead. They never gave up on me even when everyone else had. They saw promise in me while no one else did and that gave me the motivation to prove them right.

Other than that, every other thing I did was a mistake. I have the scars to prove it, both mental and physical. My life had been one wrong step after the next. No guidance, no advice, no way home.

Until I decided to make a change. That change was writing. Sharing my world with all of you. Telling the unvarnished truth about my profession and bleeding out all over the page. Saying the things no one else wanted to say.

I once wrote a blog post that got a mutual fund shut down. The manager was a professor of finance at MIT Sloan and one of the brightest minds working in the industry. The fund he was managing was a piece of s**t with

high fees, poor performance and little transparency and I said so, publicly and emphatically. What really offended me about it, however, was not the fund itself but the way in which it was being marketed to advisors and investors. I pulled no punches in my exposition of the pitch. People were shocked not just at what I was saying but at the candor with which I was saying it. And a month or two later, the fund company quietly announced that they were liquidating the product. Jason Zweig of the *Wall Street Journal* sent me the link via email and said, "You did this." He was proud of me. I was more nervous than proud. Holy s**t. People are reading this stuff I'm saying. Like, people who make big decisions. I had influence and that influence gave me power.

I used that power to advocate on behalf of the everyday investor and to offer up what we were doing as an alternative to the status quo. It worked. I get emails every week thanking me for the education I've spent 15 years providing—for free—to whoever wanted to listen. I hear from people who tell me I've changed the course of their lives or their careers because of these writings.

I was saved by the essays you've been reading in this book. They found an audience on the web and that audience resurrected my career. The popularity of these posts set off a chain reaction whereby I regained everything I'd lost and created a lane for myself. I built a wall of content and I climbed up it, out of the abyss, into the sunlight. Looking back from the vantage point I have now, it was nothing short of miraculous.

My situation has improved from when I wrote "The Butcher of Park Avenue," but I'm still the same person who wrote it. The Jeep Grand Cherokee is now a Chevy Tahoe. The suits have been upgraded from Abboud to custom tailoring, but I'm still shaped like one of those cardboard boxes they ship refrigerators in. The office got an upgrade too, from a sublease on Park Avenue to a full floor overlooking Bryant Park and the New York Public Library. Since the pandemic, I've been recording some of my TV appearances from an abandoned hair salon in a strip mall my friend

owns. There’s an eyebrow place next door and a nail salon. My friends call me “Better Call Saul” and ask if they can come in for a manicure when I’m off the air.

Everything’s changed but nothing has changed. I’m still fighting uphill. I’m still silencing naysayers. Still defying the doubters and stunning the critics, breaking all the narratives about what a financial advisor should be saying and doing. The plan is to continue delighting the fans and followers while kicking ass for our clients. That’s both the original plan and the new plan going forward.

Unlike when I started the blog, I’m not alone in this. Now I have an army behind me and we’re all loyal to a philosophy. The organizing principle around the firm is that there is a quality standard of advice-giving we all believe in and want to live up to. We won’t compromise and we won’t slow down. We won’t do it anyone else’s way but our way. We look like what we look like, talk like what we talk like, and it’s all a bit non-traditional but it doesn’t matter. In the end, we deliver.

The proof is the proof, and all that image stuff just fades away once you understand this. I’m still the Butcher and I always will be.

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If that's you, then this is your book.

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