Published Date: February 27, 2021

What Ted's Thinking

I Told You So

Amidst the chorus of bugles playing during this bull market, I'm hearing the not-so-faint sound of contrarian skeptics.

Elaine Garzarelli called the 1987 crash, Jeremy Grantham nailed the dot.com bubble, and John Paulson, Michael Burry, and a dozen others minted money in the housing crisis. I was fortunate to listen to Chicken Little in 2007 and act. We were the largest day one investors at my old fund in Paulson's subprime mortgage strategy, which became "The Greatest Trade Ever." Since then, I've paid attention to those warning of doomsday.

The calls for the end of the bull market are building from those who might say "I told you so" down the road. Value investing isn't dead and we are in another historic bubble, says Jeremy and Ben Inker at GMO. Hyperinflation is coming, according to Michael Burry. High yield defaults will soar, says Jeffrey Gundlach. Crypto is trading like a bubble warns Mark Cuban.

While I listen, I rarely act on these warnings. The opportunity cost of positioning for a collapse can dwarf the savings during it more often than not. We remember "I told you so" because of hindsight bias, and we tend to forget those who sounded false alarms or the opportunity cost of those too early. I met Jeremy Grantham in 1992 at one of the first manager meetings of my career. He was bearish and so compelling that I ignored the lesson of compounding for the long-term at age 22. Julian Robertson had it right on value's reversion in the years leading up to the dot com bubble, but he closed Tiger in 2000 shortly before it played out. Heck, I was right about the lofty price of the market in January of 2008 and bet on hedge funds. The timing was spot on, the market crashed, and ten years later, the bet didn't look so good.

The "I told you so" crowd is binary. Annie Duke teaches us to think in probabilities, and I'd love to know the other nodes and probabilities they asses to different outcomes. Absent that, we have to interpret the probability of outcomes from market pricing. The rare time to act is when markets are not paying attention, and the cost of insurance is cheap. In 2007 subprime shorts offered such a compelling risk-reward that it didn't matter if we were wrong. My fund expected to lose 0.25% per year on the subprime short position if markets continued to hum along. In 2007-2008, we made approximately 20% on that position. That 80:1 asymmetry was a once-in-a-lifetime opportunity. Setting that extreme aside, I still have not (yet) found bearish positions without large opportunity costs today. Crypto is intriguing to hedge monetary debasement (I own about 3% in BTC and ETH), but it's entirely unclear how it will behave should fiat money have its day of reckoning.

David Swensen taught me that market timing is a fool's errand. It took me years to internalize that lesson. The siren's song to be bearish sounds alluring today, but I've tied myself to the masthead. I'm not suggesting the naysayers are wrong, nor am I a bull. I just believe deeply that I don't know what will happen, so I stay the course. In James Aitken's words, I'd like to be less wrong.

Someone down the road will say "I told you so," and they will be right. The next time you hear it, remember to ask how much it cost them to get there, and how many others didn't join them on the medal stand.