INVESTMENT PERSPECTIVE Q4 2025

IN THE FULLNESS OF TIME

In last year's year-end letter, I disparaged the lack of imagination among investors. As an example, I cited a Goldman Sachs investor survey from January 2025 where 58% of respondents expected the U.S. to outperform Europe. Latin America, Japan and Non-Japan Asia. If you assume markets are mostly efficient, you should expect markets to act like random variables (after accounting for systematic risk and other priced risk factors). Therefore, the efficient guess for the U.S. to outperform ought to have been 20%. In same survey, 72% of respondents forecast the U.S. Dollar to outperform the Euro. Again, the unconditional forecast should have been 50%. I expect most people to seek safety in crowds and reinforcement from favorable trends. I would have hoped that professional investors might have been a little more discerning.

Thirty years ago, professional investors comprised a robust cohort of contrarian luminaries. Michael Price, Michael Steinhardt, Seth Klarman and Lee Cooperman regularly espoused beaten-down cyclicals, promoted money center banks in the 1990 crisis and bought awful businesses like USAir when planes were flying virtually empty. What's more, they had the audacity to publicly admit to bottom-fishing. And no-one in the media batted an eye. They even lauded celebrated real estate investor Sam Zell as the 'gravedancer.' Today's investment icons are cut from a different cloth. They are almost all technology specialists whose audacity consists of unabashedly owning expensive stocks and defending a future trajectory unimpeded by competitive disruption, rising capital intensity and declining free cash flow yield on the premise of a promised land of artificial general intelligence. It's definitely imagination, just not of the sort that the great investors used to have. It's prefiguring a continuation rather than a reversal. In his last investor letter, Elliott's Paul Singer observed: "Market efficiency has always been an absurd concept, but now more so. Perhaps FOMO has been become the all-encompassing theory of markets."

What's changed in the last lifespan? I believe the investing profession has lost all concept of patience. That good ideas can endure long periods of underperformance. And great ideas are exclusively the ones that have performed over the last three to five years. It would be tempting to ascribe that mindset to asset managers desperate to window-dress their portfolios, such that their limited partners are always treated to the shiniest new objects. But that view absolves the investors of their culpability too easily. For if there is a perverse behavior among managers, it was surely conditioned. Allocators have also become return chasers, and their charges have learned the hard way.

In my younger and more vulnerable years, one of my colleagues gave me some advice that I've been turning over in my mind ever since. He said, "There is no present progressive tense in the market. Names are not 'working.' They 'have worked' or they will 'work.' But there is no sense of them 'working.'" I have been turning this idea over so much because all experience teaches the opposite. We can clearly see investment themes and individual stocks 'working'—in the sense of outperforming the market month after month, over periods where all positive news one would think would be embedded. But against all efficient markets dogma, they 'work.' Until something comes loose. Then there is all hell to pay. We saw this briefly with Oracle. In early September, Oracle announced a $300 billion contract from OpenAI to purchase compute. The stock promptly added $250 billion of market capitalization on the announcement. Concerns quickly arose over how Oracle would fund the associated capital expenditure. Over the next eight weeks, the company gave back all of the boost of the initial announcement. Likewise, Software-as-a-Service ("SaaS') stocks are currently experiencing a rapid unwind of expectations. At the peak of enthusiasm over their high revenue growth and dominant market positions, the stocks traded at over 10x sales as a group. With the explosion of agentic artificial intelligence-based coding tools, the group went into a tailspin. A final object lesson lies in the abysmal performance of Bitcoin. From the heights of euphoria over the institutionalization and regulatory normalization of the asset class last summer, Bitcoin has declined by a third, while the other real stores of value—precious metals—skyrocketed. These dramatic reversals of fortune demonstrate the bipolar nature of investing. Investing themes build up remarkable inertia—a kind of social meme accelerated juggernaut. This behavior is aided by gamified Robinhood trading, leveraged single name ETFs and institutional crowding. The Gamestop phenomenon has been codified into a playbook. These self-reinforcing feedback loops seem to defy every precept of rational information processing by informed risk takers. But the examples above demonstrate how brittle the constituencies are. When the coalition seems to have saturated every potential source of capital, they simply disintegrate. Then its devil take the hindmost.

The same mentor who despised the present tense also had a familiar turn of phrase. He loved the expression 'in the fullness of time.' By that, he meant, 'in the timeframe I expect my thesis to be realized.' Much later I learned this expression came from the New Testament. In the Gospels, it referred to the divinely appointed time of Jesus' arrival, having fulfilled all of the Old Testament prophecies for His appearance.

Now, this epistemology illustrates the weakness of patience. Even the most patient of investors do not anticipate over Biblical time scales. At the limit, patience becomes obduracy. All the same, I think the central tension of investing revolves around having durable patience counterpoised with flexibility. In a world where the marginal dollar is held to strict stop-loss controls and VAR limits, our competitive edge lies in our joint patience. Most asset classes today seem to be locked in a bargain where the recent past perpetuates. Everything from investment grade corporate credit to leveraged finance to U.S. mega cap technology expected growth rates all seem to hinge heavily on the past years' benign circumstances not just continuing, but getting better. Our portfolios have healthy doses of index exposure. If the best of worlds turns out, we will have enough participation. But we have allocated a substantial amount of capital to less-loved market segments. We continue to overweight Europe relative to the U.S. That decision benefited portfolios last year when Eurozone growth held up surprisingly well. In the U.S., we are underweight mega cap technology, in favor of healthcare, defensives, homebuilders and real estate investment trusts. We view these positions as well-valued with exposure to a broadening growth narrative in the U.S. In Fixed Income, we continue our longer duration positioning and preference for Treasuries over credit. Over the year we have become modestly more active relative to the benchmark, as we perceive the benchmarks as increasingly concentrated on a single narrative driver. All things AI-related are red hot right now and in our view vulnerable to a small change in outlook. In the face of the unremitting hype over artificial intelligence, we are convinced that a little bit of patience will be rewarded.

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