

Howard Marks and Chris Goulakos on Tech Disruption and Value Investing

Chris Goulakos, Managing Partner of Balius Partners, and Howard Marks, Co-Chairman of Oaktree Capital Management, joined members for a fireside chat at Latticework on December 15, 2021. Chris and Howard explored the topic, “Tech Disruption and Value Investing in the Digital Age”.

This conversation is available as an episode of Invest Intelligently, a member podcast of MOI Global. (Learn [how to access](#) member podcasts.)

The following transcript has been edited for space and clarity.

John Mihaljevic: It is a great pleasure to welcome everyone to this fully online version of Latticework. Normally, we hold this event at The Yale Club of New York City every year, and we hope to be back next December in person. For now, this format allows us to continue having fascinating conversations with thought leaders in the business and some of the best investors in the world, including some of our MOI members.

Chris Goulakos is someone who has given back generously to the community, and he also has a great relationship and rapport with Howard Marks. Thank you both for doing this.

Chris is the founder and managing partner of Balius Partners, an alternative asset manager applying value investing principles in the digital economy. He’s also a board observer and investor or advisor at several companies and specializes in M&A, capital allocation, and capital markets policy. Prior to starting Balius Partners, Chris worked at MidOcean Partners, a \$9-billion alternative asset manager in New York. He’s also the co-chair of the Hellenic Initiative’s New Leaders Group and a member of the Milken Institute Young Leaders Circle. He is a graduate of the value investing program at the Ivey School of Business and lives in Washington, DC.

The theme of this year’s Latticework is intelligent investing on the right side of change, specifically tech disruption and what it means for value investing in the digital age. Chris, I’ll turn it to you to introduce Howard properly and get us started.

Chris Goulakos: Thanks, John. It’s truly an honor to be opening this conference, especially alongside Howard, who hardly needs an introduction. Howard is the co-founder of Oaktree, a legendary investor, and author of the famous memos that have taught and provided inspiration to all of us.

The idea for this fireside came together a couple of weeks ago when I was catching up with Howard in Los Angeles at another conference. We observed there was a particularly pronounced difference as far as the content themes went, moving away from value towards growth and different topics around innovation, entrepreneurship, and disruption. Building on some of the latest memos that Harold put together, we thought it could be fun to share that conversation with the community at large.

Before we get into that, Howard, it’s 5:00 am on the West Coast, and we have the Fed’s open market last meeting of the year. Is that keeping you up at night? What are your thoughts on the market of late?

Howard Marks: First of all, Chris, I want to thank you for doing this with me. You and I have been discussing these things for maybe 15 years. You have a great understanding of investing, especially value, and you’ve integrated it with your investment practice, which is based on technology. I think

you're the perfect person to lead this discussion.

As for the Fed, first of all, I sleep like a baby. I don't believe in forecasts and don't have expectations for what the Fed is going to do. I have an opinion, but I don't bet my life on it. Whether they're going to do it or not doesn't keep me up. They'll do what they're going to do, then the economy will react, the market will react, and we will react.

One of my favorite sayings is from Einstein – "I don't worry about the future. It'll come soon enough." I pretty much tend to focus on the present and not worry too much about the future.

Goulakos: As for the present and some of the events moving the markets of late, we've seen a resurgence of Omicron; there are geopolitical flashpoints, with Russia, Ukraine, and NATO; employment numbers and inflation numbers are moving in interesting directions. How are you thinking about 2022? You recently raised your largest fund. What should that signal as far as where we are in the cycle?

Marks: There are several moving pieces for 2022. The main ones are the disease, our progress against it versus the evolution of new variants, and how these things will affect primarily the economy and our daily lives. Then we will worry about inflation.

I would imagine we're largely over with big giveaways of money, but you never know. The government has done a huge amount. There have been four, five to six billion of spending bills – depending on how you count them – to combat the voluntarily induced economic downturn. They wanted to be very generous, to really kickstart the economy. I say that because up to 20% of people were probably directly affected economically by the pandemic. In the later rounds, up to 80% of the population got checks. The government giveaways were not merely to make up for the economic consequences, but they went far beyond that.

For that reason, 2020 was the best year for disposable income in two decades. It was estimated that roughly \$2 trillion of money was piled up because (a) the government gave out money, and (b) most people couldn't spend it because they couldn't go to stores, go on vacations, or hold events. I would hope we're finished with that because those four or five or six trillion of spending bills added to the liquidity injected by the Fed's bond buying and the treasuries and activities, contributing to inflation that is running close to 7%, the highest we've seen in many years.

I lived through the 1970s. They were an unpleasant period because of persistent inflation and our uncertainty as to how to fight it until Volcker came along and raised rates. You have to raise rates higher than the rate of inflation to choke it off, and he did, which is why he was a hero. If inflation stays high, they'll have to do that again. It will probably bring on a recession as it did in the early 1980s.

Inflation is uncertain. Disease is uncertain. Geopolitics is always uncertain. I think the economy will continue to be good unless there's a massive shutdown again, which I doubt will happen, especially because Omicron doesn't seem to be as serious in terms of hospitalizations and death. Still, as I end most of my writing these days, there's only one thing I'm sure of – we'll see.

Goulakos: Speaking of what we'll see, do you worry at all about a hard landing or a soft landing, and where are you looking for opportunities across this broader range of potential outcomes?

Marks: As of now, I'd say we'll have a soft landing. By the way, we may not have a landing at all. If Omicron becomes the dominant strain, if it is less serious in terms of hospitalizations and death, and if we don't have a full close – and I assume we won't because there are fewer patients infected with it – then I think the growth will slow, but it won't turn negative negative. When you talk about a landing,

you're mostly talking about negative growth in the economy. I don't think we're going to have a hard landing, but it's one thing to have an opinion and quite another to believe it's right and act on it strongly.

At Oaktree, one of the six tenets of our investment philosophy is that our investment decisions are not driven by macro forecasts. Thus, no matter what I think about the landing, we are unlikely to do much about it in investment portfolios. We had the final close for our fund a month or so ago, so I can talk about it. It's \$15.9 billion, our largest fund ever. These funds used to be called distressed-debt funds. We've broadened our charter to the effect that we'll do anything we consider opportunistic, so we now call them global opportunities funds.

Roughly 70% of that \$15 billion has been invested so far. The fund is only about a year and a half old, and we'll continue to invest. We hope to get to finance some companies that made it through the pandemic thus far through bailouts and the capital market's unstoppable demand for paper, which made large sums of money available and reduced the likelihood of default. We imagine that if we have a slowing of the economy and a cessation of government check writing, we will get some more companies in need of financing. You might call it rescue financing. It will have more to do quantitatively, and it'll be better in terms of quality and, in particular, expected return, but that's just a hope.

Goulakos: So, 70% deployed, or \$10 billion in a year. One thing getting a lot of conversation in my world is the pace of deal flow. We have seen a two-standard deviation jump as far as the pace of private equity exits since 2001. Does that signal anything to you or remind you of past periods or past cycles?

Marks: I don't think we've ever had money spent at this pace. People spent frenetically in the 1980s, but in much smaller deals. In those days, a billion-dollar deal was considered huge. What you've seen in the past 20 years is the result of the fact that stocks did so badly in 2001 and 2002 with the bursting of the tech bubble, a serious recession, the downgrade of telecoms, and the Enron scandal, among other things. It was the first three-year decline for the S&P since the days of the Great Depression.

A lot of people got turned off to stocks, saying we need an alternative. Maybe that's where the term "alternative investing" came from. In 2003 and 2004, many turned to hedge funds. Hedge funds that used to be \$100 million became a few billion. In my opinion, that onrush of capital and the changed behavior it brought signaled the end of hedge funds as a big thing. There are still many hedge funds, and there's trillions in them, but nobody talks about hedge funds anymore. They're not the magic they were 20 years ago.

If you need alternatives and can't count on hedge funds to give you high returns, the next best candidate seems to be private equity. Private equity is probably the biggest alternative asset class and has been around the longest. KKR, Apax, and one or two others started doing what we would call buyouts on leverage using other people's money to buy companies or parts thereof. This started around 1974 with KKR, as I recall. It's been around almost 50 years, which is interesting. Of course, it's not necessarily a household word.

By the way, there was no such term as private equity in the 1970s or 1980s. It was called leveraged buyouts, and we used to talk about LBOs all the time. You don't see LBOs in the press anymore. I think the main reason for that is they did so horribly. The leveraged buyouts in the 1980s in particular brought in some large companies - Federated Department Stores, Macy's, Campo up at Canada, National Gypsum, US Gypsum. These were roughly billion-dollar companies, which was considered a lot of money in the 1980s. I think all the ones I named went bankrupt.

RJR Nabisco, which was a \$27-billion transaction at a time of billion-dollar transactions, almost went under and scared the heck out of many people, probably including the owners over at KKR. So, they had to change the name, and in the 1990s, they invented the term “private equity.” LBO used to be ubiquitous, but you don’t hear it anymore.

The great thing about the private equity business is they can create their own deal flow. If you’re an opportunistic lender or a distressed-debt investor like us, you can’t create deal flow in that you can only lend money to the companies that default, those in bankruptcy, or those in extremis. The private equity industry can create its own deal flow because it can go to any company in the world and try to buy it. They’re getting much larger quantities of money now. In 2005, we started seeing \$5-billion buyout funds. In September 2006, I wrote a memo called “The New Paradigm.” They’re investing large quantities of money, and they’ll keep doing so.

Goulakos: In what ways has the disruption and the accelerated pace of technological innovation sped up the pace of disruption and the opportunity set for you? Are you seeing incumbents struggling and requiring incremental capital, or is it risk that you’re not prepared to assume given the technology? How do you incorporate that into your process?

Marks: First of all, we’re not tech investors. During lockdown, my son and his family lived with us for three months, and Andrew and I discussed tech growth and crypto ad nauseam. In a way, I think tech is harder now in the sense that you have to know more about it. You need to have more subject matter expertise. Tech began to be an important part of investing in the 1960s. In those days, we called it growth investing. Of course, there were other aspects to growth than just tech, but tech meant Xerox, IBM, Hewlett Packard, PerkinElmer, and Texas Instruments – those companies were part of the NIFTY 50 which got its start back in the 1960s. I studied Xerox in those days. I felt I knew enough to do so.

Today, you need to have more technological expertise to know which companies will succeed, which will fail, and which will thrive. That’s a change.

Number two, we used to talk about companies that were either stable or defensible, consumer staples, and we talked about moats. I think it was Warren Buffett who coined the term “moat,” but I may be wrong on that one. In my second book, *Mastering the Market Cycle*, I talk about the newspaper industry. It was the perfect thing to invest in. It had the world’s greatest moats. If you had the newspaper in your town, you owned it. You didn’t worry about competition from the newspaper in the next town because you gave the want and the used car ads for your town – maybe legal notices and stuff like that – and the person in the next town did the used car ads and the notices for that town. There wasn’t much crossover because why would somebody in that town advertise in your paper and vice versa?

The other thing is that everybody bought the paper. My dad used to read two papers a day – one on the commute to work and one on the commute back. The paper was a dime, which didn’t strike us as a lot of money at the time, like pennies today. The great thing about the newspaper from the point of view of the publisher is that if you buy it today, you have to buy it again tomorrow. There’s no shelf life. It doesn’t continue to be relevant. There was no worry about TV – it was national, so it didn’t handle local things, so there were lots of reasons why a newspaper had great moats.

Warren invested extensively in newspapers. He’s famous for his investment in The Washington Post, but he did a lot of other papers. Today, most newspapers are fighting for their lives. If it wasn’t for the fact that the political arena has turned into some cross between national emergency and entertainment, I think many more newspapers would be out of business.

We don’t invest much in technology. About 20 years ago, we did a tech investment in the distressed-

debt funds. We found a distressed tech company, and we got our heads handed to us because of the ephemeral nature of the value of tech, especially if you don't feed it money to keep developing it. By the way, 20, 30, or 40 years ago, it was a steady mantra that you don't put leverage on tech companies because the underlying businesses are unstable. If you lever them up, they become highly volatile. In the search for investment opportunities, the buyout industry has gotten away from that rule.

What's my answer, Chris? We'll see.

Goulakos: Specialized tech, private equity funds, Silverlake, Thoma Bravo, and Vista brought to the private equity space as far as tech investing goes this idea that the SaaS contracts are almost as good as any contracted revenue stream, which lends themselves – albeit asset-light – to balance sheet leverage. Is that something you see as an opportunity, or is it something you stay away from, from the perspective of the creditor? Do you think it's somewhat imprudent that venture debt is being raised? It's such a hard case.

Marks: On the one hand, there's nothing wrong with lending against a money-good long-term contract. To give you an extreme example, if you go back long enough, sometime in the 1980s, the most popular TV show was called Dallas. It was an evening soap opera of enormous popularity.

I learned about the TV model. You make a show and get a contract to put it on the air. You may make or lose a little money in the first season, but if you can get into syndication and can sell the episodes to somebody for showing over and over, you can really clean up. Dallas was sold into syndication with some extremely strong contracts. I gave Lorimar, the company that made Dallas, a loan against those contracts.

It doesn't have to be hard assets. There's nothing wrong with a solid long-term contract. Now, it may take software expertise to assess the longevity and the renewability of those contracts, but I don't rule it out per se.

Goulakos: In *Mastering the Market Cycles*, you use a lot of analogies from betting – be it backgammon, poker, or blackjack. In situations like that, there's a pit boss, there's a dealer, you know how many cards are in the deck, you know how many dice there are, and the permutations, so you could, to a certain extent, handicap the risk. In today's world, where the Fed is more active, the government is involving itself in markets, and innovation continues to change the structure of the system, how can you properly handicap? How can you define the margin of safety? How do you invest in a changing landscape?

Marks: That's a damn good question. Before I answer, I'll say that you were extolling the virtues of gambling and how fair it is because the odds of the dice are known. This also keeps the game honest. Also, our industry isn't regulated as much as the Las Vegas casino industry. There are lots of, shall we say, good things about gambling. I enjoy gambling. I'm great at playing blackjack for \$10 a hand.

That's different in our industry, but if you look at the gambling industry with all the investor protections, most people still leave all their money at the casino. I don't think that, financially, gambling is a good model for us because we hope not to leave our money at the casino. We'd like to end up with some at the end of the year, hopefully more than we started.

The tech aspects of the investment industry are less regulated. The odds on a pair of dice are absolutely known. You say, "There are 36 possible combinations of two six-sided dice." You know, for example, that six of them will result in the number 7 – 1,6; 2,5; 3,4; 4,3; 5,2; 6,1. You know six out of 36 – or 17% – will give you the number six. It's essential to bear in mind that even when you know the probability distribution, as you do to perfection with dice, you still don't know what's going to happen.

The probability distribution with technology and software isn't even known in advance. Some people know it better than others. That's the key. If you know more about the subject than other people do, you can invest in it intelligently, maybe even with something approaching safety, but only if your knowledge is superior.

I know you and I have talked about this ad nauseam, and I talk and write about it ad nauseam, but people have to realize that investing is this weird field where it's incredibly easy to be average and incredibly hard to be above average, and being above average is my definition of success in investing. Superior performance does not come from being right about the future - it comes from being more right than others. In other words, you think GDP is going to grow at 2%, and it does grow at that rate, but if everybody also thinks it's going to grow at 2%, your forecast is not a valuable one.

The only valuable forecasts are non-consensus correct forecasts. It's extremely hard to make a non-consensus forecast because, usually, for example, extrapolation is correct, and most people do it. Then, having made a non-consensus forecast, it's hard for it to be right because of extrapolation, and consensus forecasts are right most of the time, but it is the non-consensus correct forecasts that make the holder a lot of money.

It all goes to making better judgments. I wrote a memo, maybe in September of 2015, entitled "Not Easy." When I was putting the finishing touches on my first book, *The Most Important Thing*, I got to talking with Charlie Munger, whose office is in the building next to mine in downtown LA. We talked about this at length, and when I got up to go, Charlie said, "Remember, none of this is meant to be easy, and anybody who thinks it's easy is stupid." It is. It can't be easy. Everybody wants to make money. The money will go to the people who do a superior job, not to everyone. What's the definition of superior job? In my opinion, it's making superior judgments. Before making a tech investment or any investment, you need to ask yourself, "Might I know more about this than most others? Am I more likely to be correct in my judgments of the future than most others?" If you're not, there's no reason to expect that it will bring you superior investment results.

If funds that do venture lending have an edge in assessing the technologies on which they're putting their bets, they could win consistently. We know there are firms in Silicon Valley that win consistently. Some of that is because of superior knowledge. I would imagine some of it is due to a self-fulfilling aspect to their success because that means more young companies come to them to get financing - they know that (1) fund XYZ will give them the seal of approval, and (2) the folks at XYZ can probably give them some help.

Again, the average venture funds, the average buyout fund, their performance is no great shakes. It all comes from being above average. One of the greatest questions for investors who look at these funds is whether there is persistence in their success, but in venture there certainly seems to be because a few firms are better situated than the rest.

Goulakos: In today's economy, it's all about buzzwords, like network effect and platform businesses. The NIFTY 50 shaped much of your thinking and your career trajectory. How do you contrast the quality of business today to the NIFTY 50? What were the buzzwords that seduced investors back then? Should we be cognizant of any of that as we look at these businesses?

Marks: We always had to be on alert as investors. Look, you make the most money in assets that have merits which have not been discovered. You lose the most money in investments whose merits have been overstated - or demerits, faults that others have not figured out. This truth is eternal. Back in the 1960s, when I came into the industry, I remember sitting in my family's apartment - probably around 1964 - reading the first brochure on growth investing. I think it came from T. Rowe Price. That was when the NIFTY 50 was flying. The NIFTY 50 did phenomenally in the 1960s.

The buzzwords were that these were companies where nothing bad could happen. Since nothing bad could happen, and since they grew faster than the average company, there was no price too high. There was no concern with valuation because people said, "These companies are growing so fast that if you buy them and the price turns out to be a little high for today, wait a couple of years, and the earnings will grow and will be priced fairly then."

I came to work full-time at Citibank in 1969 after grad school, and if you held those stocks firmly for five years - the greatest companies in America - you lost almost all your money. First of all, a lot of the companies where people said nothing bad could happen either faltered or simply disappeared. My favorite whipping boy in those days was Simplicity Pattern, a company that sold patterns to people who made their own dresses. Who do you know today that makes their own clothes? Everybody had a sewing machine in those days; nobody does today. Obviously, things can happen.

Much more simplistic, Xerox had a lock on the dry copying business. "Xer" is from the Greek for "dry." Before that, all copying was wet. You would take your document to a shop, and they would make a photostat through a photographic process involving chemicals. Xerox created the first dry copying machine, and it had a lock on that industry. I followed the company as an analyst. What it did is the machines were so big, Xerox priced copying very high, and that brought in competition from abroad with small machines and low prices. I forget if Xerox went bankrupt or almost went bankrupt.

Number one, in many of the companies where nothing bad could happen, things went bad. That shows you the limitations of investors' foresight. Number two, they were priced too damn high. The P/E ratios on those stocks ranged up to 80 and 90. Five years later, they were selling at P/E ratios in single digits. That's a good way to lose most of your money. If nothing else changes, you'll lose 90% of your money. If the multiple goes from 80 to 8, that's what we call higher math.

Whenever merits are overestimated, the scene is set for investors to lose money. It happened then, it happened in 1999 and 2000 with the TMT bubble, and it happened with housing in 2006 and 2007. I would imagine that some of the tech companies today attracting investors' attention and loans from the credit community will turn out to have been overestimated. One of the things that happens - we could say bubbles - in times of popularity is that investors discover an industry they hold in high esteem, and they act and invest as if every company in it has a chance of being successful. You find a company selling for a billion, and you say, "That's an awful lot for a company without any sales or revenues or profits." People say, "Yes, but it has a 5% chance of being worth \$100 billion." It has a \$5-billion expected value. It's only selling for a billion, and you could make 5X, so it's justified on the basis of a low probability of a huge outcome.

We call that lottery mentality, and that's what takes over in bubbles, especially in new fields. Most bubbles occur in new fields because the newness of the subject matter is (a) seductive, and (b) there are no precedents to limit investors' imagination.

Goulakos: You wrote a great memo, "Something of Value," where you highlight the evolution of your thinking. When you think back to the past year or two of living under COVID, what bad ideas have you discarded as far as investing? What new mindsets frameworks and mental models have you adopted?

Marks: That, Chris, is a very diplomatic way of asking what my big mistakes were. One of the things Andrew pointed out in our discussions is how the markets have changed. As growth investors, we've all heard Warren Buffett talk about buying dollars for 50 cents. If you go back 50, 60, or 70 years, when he was doing it, it's fair to say the world was a stupid place. Most people didn't know anything. They didn't know how to make money and where to look for good investments because they didn't have computers. They were not interconnected, and they didn't have easy access to data, so it was hard to find the companies whose one-dollar value securities were selling for 50 cents. As I said in the

memo, Buffett did it because you could imagine him sitting in the backroom in Omaha and leafing through Moody's Manual to find these bargains lying there in plain sight if you only looked. He did the hard work.

One of the things Andrew pointed out - with maybe the most fervor - was that, today, unlike those days, you can't expect to make money only on the basis of readily available quantitative information regarding current activities. That's because everybody has it today. Everybody's got a computer and can get all the information they want.

Andrew made the great observation that, in my youth, if you wanted to study a company, you had to write it a letter asking for the annual report. They may put you at the back of the line. Two weeks later, they get to your letter, and they send you the annual report in the mail. Maybe it takes a month to get the annual report of a company you want to follow. In the interim, there's not much you can find. There's no Google, no information online. The search for information was much more challenging. Some people would get this quantitative information regarding current activities, and others couldn't get it or wouldn't go to the trouble, so it wasn't that readily available.

Today, everybody has it. If you want to find a company of this size and this growth and this the P/E ratio, you can find it all in two or five minutes.

Goulakos: Ten seconds on Bloomberg.

Marks: Exactly. The world's a very different place. What that means is you should not expect to be able to beat the market on the basis of readily available quantitative information on current activities. You have to either go for information which is not available - like the distribution of sales for a company - or which is about the future and not the present, which is not reported by the companies but a matter of conjecture regarding the future. Clearly, the profits from thinking about future results are going to come to the people who know that subject better. Like I said in "Not Easy," it always comes down, in my opinion, to people who have superior subjective judgment.

Goulakos: Going back to where we are in the cycle, there was an article in The Wall Street Journal on December 9 entitled "Elon Musk and Other Leaders Sell Stock at Historic Levels as Markets Soar." Howard, you can't predict the future, but you look at what other people are doing as a signal to what and where we could be in the cycle. What does that tell you as far as insiders selling at a record pace?

Marks: I think a lot about such statements because they always say, "The inflation is as high as it's been in 20 years. The prices are the highest they've been in 20 years. The stock market has made the biggest move since October or whatever it might be." A lot of these comparisons are not significant.

With regard to a steadily increasing number of insiders selling large amounts of stock, it was 30 insiders back in 2019 and 65 in 2020. The question is simple: did the value of stocks double? If the value of stocks doubled, then you would think the number of sellers of a certain amount of stock would double. That doesn't tell you anything. The number went from 65 in 2020 to 90 in 2021. Did stocks go up a half? Lots of stocks did go up a half. Certainly not a lot of tech stocks went up a half. The mere fact that more people are selling doesn't tell me that much, but we know the market's way up. We know a lot of people want to take some money off the table. For an entrepreneur who has his whole net worth and more in one stock, it's totally reasonable to sell some as they rise.

I wrote in the memo "Something of Value" about my time with Andrew that he is not by nature a seller. Many people sell because they want to take profits and lock them. Andrew doesn't have that nerve in his body. He's not a seller, but that's because he's just a money manager for our family and for his VC clients. However, if you have all your net worth in one company, it's perfectly

understandable to sell some.

Mihaljevic: How has disruption changed your credit analysis process?

Marks: The main effect is that you have to think about disruption. You can't look at a company and say, "That's stable consumer company like a newspaper, so it's probably free from the threat of disruption." Almost everything can be disrupted today in your industry by people who do it better and use tech better and in terms of competition from outside your industry, as we've seen with the newspapers.

I would dare say that, 50 years ago, when you looked at the NIFTY 50, probably nobody had on their list (a) can this industry go out of existence as it did with Simplicity Patterns? and (b) can our industry be competed or disrupted by people from other industries, other technologies, and other means of doing business? Is technology going to be a big factor in our industry? Who's going to have the best tech? For example, in the NIFTY 50, in addition to Simplicity Pattern, we had maybe Avon or Sears. Sears never thought it would be disrupted by companies that didn't even have stores or printed catalogs.

We all have to think more about the likely longevity of our industries, companies, and technologies. You have to be adult enough to say, "Technology could be really important in this industry. I'm not that good on tech, so I'm going to pass."

Warren and Charlie talk about putting this or that on the too-hard pile. There's a lot in today's world today that is too hard, much more than there was 50 years ago. With the exception of Hewlett, Perkin and TI, which were in the NIFTY 50, there were very few companies or industries where you would say, "You know what? I don't understand that industry. I don't understand that product. I don't think I can invest in it because it's beyond me." Today, there are lots of things on the too-hard pile for most of us. I would not like to invest in a tech industry doing battle with a bunch of people who know much more about a technology than I do, so we have to include the question of disruption in our credit scoring and refuse to participate when it's above us.

Mihaljevic: That's a truly profound statement, Howard. Even though information is everywhere and there's more of it than ever, there are also more things on the too-hard pile than ever. That's quite interesting.

Marks: You have to understand, John, everybody now has a million times more information than we had 50 years ago, but superior investing comes from a superior access to information or superior analysis of information. Information is not knowledge; it is the raw material for knowledge. It's possible to have so much information that you have less knowledge than you used to because it's distracting and confusing.

My favorite commercial 20 years ago was from an online brokerage firm. It simply said, "If you want to make money, just sign up for our brokerage firm and get our data." They show the person doing three keystrokes and say, "Just analyze it." How do you do that? The implication is that by looking at a screen, the average person can figure out whether a stock is going to go up or down. This is so crazy. You can't get away from the fact that in order to make more, you have to know more. To think that you can produce superior profits without superior expertise and superior judgment seems nutty.

Mihaljevic: Could you recommend a book you've read recently and found valuable or enjoyable?

Marks: Chris mentioned my tendency to compare investing with gambling because of the presence of randomness and unknown information and a wide variety of possible outcomes. There was a book I read and discussed at the beginning of 2020. I wrote a memo called "You Bet" based on a book by

Annie Duke titled *Thinking in Bets*. In the latter parts, it gets into other kinds of decision-making, but I thought the first part of the book was very valuable for investors. Then, I must confess, I have to show my human weakness. My favorite book of 2021 was *The Caesars Palace Coup* about the buyout of Caesars Palace and the ensuing legal machinations because, normally, in a bankruptcy, the old owners are wiped out and the old creditors become the new owners. The owner of Caesars Palace did not want to see its equity wiped out and took steps to avoid that process. Since we were among the creditors, a couple of the creditors decided to fight them, and the book is about the battle.

It shouldn't surprise you to find out that Oaktree and David Tepper's Appaloosa were the big winners in Caesars Palace's restructuring, and the equity owners were the big losers. I'll read any book in which we're the winners, but a lot of people have told me that it was a great book. It's quite technical when you get through the machinations of the transactions they engaged in to try to preserve their equity, but it's a fun outcome as far as I was concerned.

Mihaljevic: Chris and Howard, thank you so much for such a wonderful conversation. I feel truly privileged to have been a part of it.

Marks: Thank you, John. It was a pleasure to be here again. I want to say one last thing about the book before I say goodbye. What makes me happy is not merely the fact that we won, but I think it's clear from the book that Oaktree in particular – and I think Appaloosa – engaged in the most ethical possible way. Our fight – which won us a lot of money – was based on solid principle. It was really the triumph of right.

I'm immensely proud of my Oaktree colleagues. I didn't do the heavy lifting on Caesars; people like Ken Liang and Kaj Vazales did, and it's a great outcome in a great way. Whatever we do in our professional and even our personal lives, the only thing that matters is not what the outcome was but how it was achieved. I'm very proud of being able to achieve great outcomes on the high road.

About the session host:

Chris Goulakos is the Founder and Managing Partner of Balius Partners, an alternative asset manager applying value investing principles in the digital economy. He is a board observer at Odeko and an investor/advisor at Flexe, Varda, Cameo, PIPE, ActionIQ, Autograph and Echodyne, specializing in M&A, Capital Allocation and Capital Markets policy. Previously, Chris worked as an associate at MidOcean Partners, a \$9 billion alternative asset manager in New York. He serves as the co-chair of The Hellenic Initiative's New Leaders Group and is also a member of the Milken Institute Young Leaders Circle. Chris is a graduate of the Value Investing Program at the Ivey School of Business and he lives in Washington DC with his wife, Stephanie and two children.

About the featured guest:

Since the formation of Oaktree in 1995, Howard Marks has been responsible for ensuring the firm's adherence to its core investment philosophy; communicating closely with clients concerning products and strategies; and contributing his experience to big-picture decisions relating to investments and corporate direction. From 1985 until 1995, Howard led the groups at The TCW Group, Inc. that were responsible for investments in distressed debt, high yield bonds, and convertible securities. He was also Chief Investment Officer for Domestic Fixed Income at TCW. Previously, Howard was with Citicorp Investment Management for 16 years, where from 1978 to 1985 he was Vice President and senior portfolio manager in charge of convertible and high yield securities. Between 1969 and 1978, he was an equity research analyst and, subsequently, Citicorp's Director of Research. Howard holds a

B.S.Ec. degree cum laude from the Wharton School of the University of Pennsylvania with a major in finance and an M.B.A. from the Booth School of Business of the University of Chicago, where he received the George Hay Brown Prize.