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Earmuffs.

The amount of information we have at our fingertips is a blessing and a curse. Supercomputers in our pockets would have been Sci-Fi just 30 years ago. Now, you have the answer to almost every question you can think of at all times within reach. But as empowering as this technological revolution can be and has been, it brings an unprecedented, unnecessary, and undesired amount of noise to our airwaves. And now, with the introduction of ChatGPT, you can fire away all of your questions into your phone and receive an intelligent sounding answer, regardless of if it is accurate or not. Perhaps that is what makes AI technology more human than we'd like to admit?

Noise

There are real threats to an investor's portfolio out there. Several of which we've covered over the last several months: a slow motion ending to the current monetary policy cycle, the unwinding of the Fed's balance sheet, sticky core inflation, and a return of real rates just to name a few. Many of these risks to an investment are situations you can position yourself for. You can adjust your duration, you can seek out higher coupon debt, implement an options strategy to help protect yourself in the event of volatility reintroducing itself; but there's one step we think all investors should take regardless of time frame or objective: *tune out the noise*[1].

This incessant itch to know what is happening can, and does, translate to poor investing habits. Anxiety, overreactions, and overconfidence are all human elements that we all must battle throughout the investment process. So, we think to control what we can control (ourselves), siphoning out the excess noise that is thrown at us (unsolicited at that) is the first step to risk-mitigation.

Very recently there was a headline making the rounds following the 13F filings becoming public for hedge funds. These filings reveal[2] positioning among some of the largest hedge funds in the world. One fund manager's positioning, Michael Burry, tends to receive a bit more attention than others. Largely because Dr. Burry is renowned for (and rightfully so) his accurate call and trade surrounding the housing collapse in the GFC. That trade cemented Burry as an oracle, joining a list of others over history who rightfully called a significantly negative market event. Now, whenever he tweets, or his 13F is tweeted by someone else, it's a headline.

But there's only two problems with the latest piece of "news" that was being thrown in front of investors. For starters, here's how the bearish position was being reported:

"Burry's fund, Scion Asset Management, bought $866 million in put options (that's the right to sell an asset at a particular price) against a fund that tracks the S&P 500 and $739 million in put options against a fund that tracks the Nasdaq 100[3]."

[1] This material does not constitute a recommendation to buy or sell any specific security.
[2] They don't always reveal a full picture. It's a common practice known as "window dressing" where fund managers purchase and sell securities near the end of the quarter, just to give an illusion of positioning in their 13F.
[3] CNN

The reporting on these positions makes it seem like Burry purchased $1.6B in put options. For reference, his fund has ~$238M in assets under management[4]. Notional value in 13-F filings reveals the maximum possible value of the options — meaning a put bought at the $400 strike has a notional value of $40,000 — that's the maximum value that the put could reach. With that said, that put option could have cost the user a significantly smaller premium, depending on how far out of the money it was, and the expiration date. Additionally, the 2 million units represented in the 13-F were listed in share-equivalent, not option contracts. Because option contracts represent 100 shares of a stock, that 2 million units actually represents 20,000 option contracts in each ETF — 40,000 total.

Once you understand that the misreporting of this information can easily mislead a retail investor, the next question an investor should ask themselves is, "Why should I care?" Well, like many other (in?)famous doomsayers, Burry's correct call in 2007 has led to a cult following among many market participants. What separates him from the likes of Roger Babson and Elaine Garzarelli, is perhaps the fact that he was the centerpiece of Michale Lewis' book, "The Big Short" and had Christian Bale portray him in the wildly popular movie adaptation. I mean of course people idolize Dr. Burry; *Batman played him in a movie*. But the problem is, since his call on the housing market, the following warnings he's sent out, or that have interpreted from his filings, haven't come to fruition — much like the other names on Doom Mt. Rushmore. Here is a measure of Dr. Burry's calls for concerns in the equity market since the GFC[5]:

In Dec 2015, he predicted that the stock market would crash within the next few months.

-> SPX +11% Next 12 months

In May 2017, he predicted a global financial meltdown.

-> SPX +19% Next 12 months

In Sept 2019, he predicted that the stock market would crash due to a bubble in index ETFs.

-> SPX +15% Next 12 months

In March 2020, he revealed a massive bearish bet.

-> SPX +72% Next 12 months

In Feb 2021, he predicted that the stock market would crash due to a speculative bubble. Shorts Tesla.

-> SPX +16% Next 12 months, TSLA +28% Next 12 months

In Sept 2022, he predicted that the stock market warned of more failures, bottom not hit yet.

-> SPX +21% Next 11 months

In Jan 2023, he predicts a recession and a new round of inflation. Says "SELL"

-> SPX +17% Year to Date

In Aug 2023, Reveals Short Positions on the SPY and QQQ

-> SPX TBD

I understand as well as anybody what it is like to have a scoreboard hanging over your head each and every day when you show up to work. It is the only setting for a career I have ever experienced. So, by no means do I agree with the tactic of measuring static snippets of people's thoughts or feelings, or even performance,

[4] Unusual Whales, company filings. As of 6/30/2023.
[5] Adam Khoo, data provided by Bloomberg database.

and point and laugh. But I do think that there's power in reminding ourselves that any one person's thought on the market, at any given time, should not matter to you. Because it sure does not matter to the market.

One thing that can help cancel out this noise is a sound investment process and thesis when constructing your portfolio on day one. With clear objectives outlined for yourself and your family, you will be invested with a purpose and each component of your portfolio will be selected based on those objectives. The noise that is broadcast over the airwaves is being curated by people who were not with you on day one. Their objectives are not yours. With a plan in place, and earmuffs (or headphones) on, reaching your personal end game can be a more manageable task.

LEGAL STUFF

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