NOTES

Circle of Competence
To build an investing circle of competence, I should leverage the knowledge base I have already. Which means it has to be something related to electrical engineering and manufacturing. Therefore, in no particular order, the industries I should understand are:

- Utilities - Regulated Electric
- Consumer Electronics
- Engineering & Construction
- Software - Application & Communication Services

Mortgage in Canada
Mortgage in Canada is typically done in 25 year periods. For which there are three types:

1. High-Ratio, where the home buyer also pays for the insurance, which lowers the rate.
2. Low-Ratio, where the bank assumes the insurance, thus, has a typical rate that matches the market.
3. Uninsured, where the loan does not meet the government guidelines, thus, done privately. These typically have high rates.

There are also open and closed mortgages. Open allows the buyer to pay off the load at any point in time, where the other doesn't allow this.

To get a mortgage, you need to be qualified and be approved. Qualification process is nothing but a check on self-submitted information to see if the mortgage is even an option. Approval process validates the information. The lender also goes through a stress-test analysis to see if the borrower can withstand the rate increase. However, not all mortgages have a variable rate. Some are fixed, for which the borrower pays a premium on the fact that rate won't change in the future.

How Does The Stock Market Work
Stock is a share of a company and its market allows the transaction of those shares. The public market allows all participants to engage in the transactions, while the private only allows the agreed upon parties to do the same.

The fundamental price movement is done via supply and demand. Given that the number of shares is constant, when something becomes more favorable, the price moves up, and vice-versa.

Exchanges exist to facilitate these market transactions. The more efficient the exchange, the less spread between bid and ask prices. Companies can choose which exchange they wish to enlist on, however, the exchanges also have their qualifications. For example, NYSE needs the shares to have at least 100k volume and 2.2k shareholders in total. The selection of exchange can be important as it determines the geographic region for which the shares are traded as well as the type of transaction the shares go through.

For example, securities on the NYSE and NASDAQ are bought and sold via very different techniques. The NASDAQ is a dealer's market. Buyers and sellers are not negotiating with one another directly but through a dealer who is a "market maker." This is a broker-dealer firm that accepts the risk of holding a certain number of shares of a particular stock in order to facilitate trading. Market makers compete for customer orders by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the market maker immediately sells from its own inventory. There are more than 500 member firms that act as NASDAQ market makers.

In contrast, the NYSE is an auction market where the buyers enter competitive bids and sellers enter competitive offers at the same time. The price at which a stock is traded represents the highest price that a buyer is willing to pay and the lowest price that a seller is willing to sell at. Matching bids and offers are then paired together and the orders are executed. The NYSE has specialists who match buyers and sellers, facilitating the trade.

For a company to be publicly traded, they must go through the IPO process. This include:

1. An underwriter, typically an investment bank, buys the shares before they are offered.
    - Once an IPO goes through, the banks can sell the shares and make a profit if the stock appreciates.
2. Underwriter and the company determines:
    - The type of security
    - Offering price
    - No. of shares and % ownership to give up
    - Timing of the IPO
    - Government registration

Understanding 2008
Mortgage-backed securities (MBS) are financial products that bundle mortgages into an asset class with varying risk-return profiles. Rating agencies like Moody's and Standard & Poor's evaluate these profiles to indicate the associated risk for investors.

For instance, a mortgage bundle with AAA, AA, and A ratings would have a lower return due to lower default risk compared to bundles with A, B-, and C ratings, which have higher risk and thus a higher return. However, many mortgages rated AAA were not genuinely that secure. Rating agencies, fearing the loss of major clients like banks, issued favorable ratings to retain their business, resulting in misleading assessments of risk.

This failure cascaded through the financial system. Banks, confident in the ratings, approved loans more quickly and in higher volumes, often engaging in predatory lending practices. They also used financial instruments like swaptions to hedge perceived risks. Insurers, relying on the same ratings, took on substantial default risks, further amplifying the problem.

Mortgage investors, primarily pension funds, viewed housing as a safe investment and continued to invest heavily. Homebuyers, encouraged by easy loan approvals and rising home prices, took on loans with the expectation of future profits.

When the bubble burst, confidence in the financial market eroded. People began withdrawing their money, leading to bank failures, business closures, and increased unemployment. The resulting economic distress saw a rise in unemployment-related suicides, with each 1% increase in unemployment linked to a 1% to 1.6% rise in suicide rates.

In response, the U.S. government intervened with the Troubled Asset Relief Program (TARP) to stabilize the banks and passed the Dodd-Frank Act to curb predatory lending and regulate over-the-counter derivatives.

Warren Buffett and The Interpretation of Financial Statements by David Clark and Mary Buffett
Buffett had a key insight while working with Ben Graham. Graham bought hundreds of statistically cheap stocks and sold them if they didn't recover their initial financial offset within two years. Buffett noticed that some of these sold stocks would later surge in value. He realized that if he could identify stocks Graham would have bought, ones that were statistically cheap, but also had strong long-term economic prospects, it would be a perfect investment.

To simplify this, Buffett treated equities like bonds. For instance, if a business earned $10,000 annually and was expected to grow at 12% for 20 years, discounted by a risk-free rate, its value would be at least $100,000. Combining this quantitative approach with qualitative insights on the business guided his investment decisions.

The Folly of Certainty by Howard Marks
Argumentation on the risks of certainty in political, economic, and market forecasts, underscoring the unpredictability stemming from their inherent complexity and randomness. It advocates for intellectual humility and caution in forecasting; indeed, absolute certainty often reflects the absence of virtue.

Mr. Market Miscalculates by Howard Marks
Reminder that the market is inefficient. Loved his coverage of what happened in the market the last few years. Market truly is a representation of human psychology with regards to their greed. Staying rational is hard, not a character that intelligence brings. It requires wisdom. As an investor, it is a must to take note of such characteristics of the market and figure out how to act in response as those characteristics are what allows the investment opportunities.

Notable quote from Rudiger Dornbusch, “Things take longer to happen than you think they will, and then they happen faster than you thought they could.”

2023 Investment Manager’s Report by Bill Ackman
An investment hedge is an instrument to reduce the risk of losing permanent capital. It is not to maximize one’s investment gains. Therefore, there are prolonged times where a hedge is held.

I should understand the hedging mentioned in this report. They are:
- Interest-rate swaptions
- Interest-rate payer swaptions
- Energy-related
- Credit default swap

Pershing Square has permanent capital meaning that their firm doesn't have to return any capital on some predetermined schedule. This allows the company to recruit and retain talents. But why is it true?

Google and Canadian Pacific Kansas City pitch should be noted.

The Current Carry Trade: Is It Still Viable? By Barry M. Gillman
Study on carry trade returns for eight major currencies (Australia, Canada, France, Germany, Japan, Switzerland, the United Kingdom and the United States).

Current carry trade is defined by investing in a high-yielding currency, funded from a lower-yield currency. This carry trade is profitable as long as the additional interest on the high-yield currency is not offset by that currency depreciating by more than that amount. In theory, if currency markets are efficient, that higher yield should be offset by a similar depreciation in the currency, and the carry trade should produce a net zero profit over time.

Carry Trade Efficacy Timeline			
Carry Trade Broadly Neutral	Carry Trade Tended to Work	Neutral	*Reverse* Carry Trade Worked
1973 to 1986	1987 to 2007	2008 to 2011	2012 to 2016*

Financial Theory I by MIT
There is an inverse relationship between bonds and risk-free interest rates. Let's say a bond is priced at $950 with a face value of $1000. Which would mean that the bond yields ($1000-$950)/$950 = 5.26%. If the risk-free rate is now higher than that, let's say 10%, the bond price has to come down to at-least match the 10% yield. Meaning that the price should be ($1000-$909.1)/$909.1 = 10%, which is a 4.3% decrease. And now, since the original bond is not risk-free, the price has to further decrease to incorporate the default premium on the yield. This pushes the bond price further down.

Forward contracts allow one the obligation in buying or selling an asset at a price that is agreed upon today on a future date/maturity date. However, this is illiquid and has counterparty risk. To mitigate this, futures contracts are introduced. They are traded on an exchange and are quoted daily until the maturity date.

Option contracts allow one the right to buy or sell an asset at a price that is agreed upon today before the future date/maturity date. The option can be exercised at any point in time before the maturity date, unlike futures.

The business utility for futures and options are huge when it comes to dealing with transcoding raw materials, or just in general, managing a cost-controlled supply chain. The pricing of these contracts, therefore, are sensitive to the risk associated with the underlying asset. However, academia seems to use mathematically derived ways (Black-Scholes, Merton) of pricing these contracts, which likely will overlook the economic nature.

Dev Kantesaria by Value Investor Insight
Virtuous management shows sound capital management. Companies that have predictable earnings can do 3 things: expand, buy-back shares or pay a dividend. For a company like Costco or Moody's, where the system of operation is hard to replicate due to its culture, or the product requires minimal re-investments every year - earnings become predictable and the cash-flow goes back to the shareholders.

While companies at the forefront, like Google, require high capex to ensure they are not disrupted. R&D spending is inevitably high, which means the economics of the business is less predictable. In the same sense, a high-quality business means a system of money generation that is utmost efficient with its future economics largely dependent on human needs rather than wants.

The Process Is The Reward by Kingswell
Adam Wright is the CEO of Pilot, a subsidiary of Berkshire. He has the soul of an athlete with a passion for business. One of the examples about manuals resonated with me as I also was put responsible for going over the design manual as a co-op. But I didn't take as much initiative as he did. Lessons learned. Also the notion that huge failure in life comes day by day, like success, is eye opening. We often think that both come overnight, especially failure, but thinking about it, it's the day by day that destroys one's life.

Insights On Success From Greg Alexander A CEO Who Has Disrupted Three Industries by Forbes
Greg Alexander is a great operator. A systematic way of thinking is required to move things fast. The way he made operations lean should be noted.

> 1- We "productized" our service offering. Our engagements with clients were no unique snowflakes but rather were standardized solutions. This increased revenue per head by allowing employees to complete work faster by moving rapidly along the learning curve. 2- We automated many manual tasks with technology solutions. This reduced task completion time from hours to microseconds. This increased revenue per head by replacing people with machines. 3- We leveraged the gig economy by tapping into talent marketplaces. This increased revenue per head by leveraging fractional headcount on demand when needing to flex up or flex down capacity.

Ajit Jain Q&A by NDTV India
He has a very clear thinking in risk and its management. Admirable rationality - which is why I think Mr.Buffett favors him so much.

Firstly, when you think about investment [and] when you think about insurance, it is about risk. And, in a sense, risk is synonymous with gambling. Gambling, unfortunately, has bad connotations. I like to refer to it as prudent risk-taking.

The fundamental aspect of risk-taking is you've got to be able to assess what are the odds of something bad happening to you — however subjective that process might be. And if something bad were to happen to you, how bad is that and being able to define how bad that is.

That's a fairly simple, straightforward equation — you don't need more than high school algebra to be able to handle that. And, then, to make sure that you get paid so that you have a margin of safety over and above what you think are the odds and the expected value of a loss — without getting hyper-technical. People can complicate the process — and we do tend to complicate the process.

We are in the risk-taking business. There are a lot of factors that come into play in terms of taking the risk. Clearly, one is the pricing of the risk. But, then, the business — the way it's conducted — there's a lot of pressure to do deals. You don't want to lose market share. You don't want to have your distribution force mad at you for not writing business. So a number of factors come into play. Besides the fact that people just like to take risks. I mean, that's something they like to do.

So I think the discipline is in terms of being able to say no — and having the ability and the willingness to say no if you feel you're not getting the right price for taking the risk.

Now, having said that, we at Berkshire have an advantage in as much as there's nothing forcing us to write risk if we don't feel it's adequately priced. So we can have a fairly rational approach to taking risks without regard to trying to meet some grand target or trying to conquer the world and get market share. We have a single-minded focus on making sure we can assess the risk — and, if we can't assess the risk, we just say pass to it. And if we can assess the risk, we [still need to] get a price that adequately compensates us for risking our capital.

NOTES

Brown Sugar by Semper Augustus

- Oil is a cyclical industry. When demand surges, companies often respond by ramping up production with existing equipment or expanding capacity. This increased supply eventually saturates the market, leading to a drop in prices and a plateau in demand. As capital expenditures become less efficient, production decreases, which in turn drives prices back up, tightening the market and reigniting demand. This process repeats, perpetuating the industry's cyclical nature.

- From Mohnish Pabrai's lecture, it's evident that Charlie Munger favored oil companies that returned cash flows from production directly to shareholders, rather than reinvesting in exploration or other ventures - especially when the company already had ample oil fields for production. This preference likely stems from the reduced risk of cyclicality for shareholders, allowing them to benefit from steady cash flows without the uncertainties associated with further exploration or expansion.

- The oil industry has been undergoing significant changes since the global push for renewable energy. The traditional capital cycles have been disrupted because the once-logical strategy of expanding oil production now makes less sense due to incentives aimed at reducing oil assets in favor of investing in new "green" assets. This shift has led to a decline in demand for oil assets, making them harder to sell. Simultaneously, the aging of equipment renders it unusable over time. The depreciation of these assets, coupled with the replacement of less efficient and economically unviable operations (without government subsidies), is transforming the industry, leading to an increase in oil scarcity.

- Population growth is inevitable unless human civilization fails, and as the population increases, so does the demand for energy. This growing demand necessitates that the newer "green" energy sources be supported by more efficient and consistent energy supplies. For instance, wind turbines depend on the wind blowing, and solar panels require sunlight, both of which are variable. As energy demand rises, the inconsistencies in these sources - unless mitigated by technological advancements or improved extraction methods - create a need for a more reliable energy source. Natural gas fits this role perfectly. It is not only more efficient and abundant but also considered a "green" energy source relative to coal and oil. Therefore, the demand for natural gas is likely to increase, while oil and other "dirty" energy sources will gradually phase out due to the energy transition, though this process could take a considerable amount of time.

- The US uses about 20 barrels/day for which they produce about 12. Europe depends heavily on Russia and now the US as well because of the conflict arised.

- EV’s are a promising solution but are nowhere near the rate of replacing the combustion cars entirely, and it is not clear that the demand would result in a negative CO2 as the production of the cars as well as the extraction of raw materials are still in question.

- Refineries are among the dirtiest industries in the world, yet they play a critical role in the global economy. Without them, there would be no fuels or plastics. However, due to their reputation as major contributors to global warming, many refineries are being shut down or sold. In Europe, the number of refineries has dropped from 137 to 85 over the past 30 years, with a 15% reduction in capacity. In the U.S., the number has decreased from 250 to 129, though capacity has actually increased.

  The closure of refineries has led to increased dependence on a smaller number of facilities, creating potential monopolies for those that remain operational. This natural selection process has weeded out less efficient and flexible refineries. However, the concentration of production may lead to unique economic dynamics, particularly in Europe, where refinery capacity is declining rapidly.

  These shifts could present investment opportunities. For instance, while the reduction of diesel in cars might seem to challenge the oil industry, diesel is still essential for jet fuel and the production of various materials. As overall consumption rises with population growth, low-cost and flexible refineries are likely to capture a larger share of the market.

- Nuclear energy is one of the most efficient and cleanest ways to produce power. To replace the output of a single nuclear plant, you would need two oil plants, three wind farms, or four solar farms. The global push towards low-efficiency energy sources like wind and solar is not entirely rational.

  When considering this large-scale replacement, the environmental impact of building and maintaining the necessary infrastructure becomes significant. For instance, wind farms can make the land toxic over time, affecting local water sources and wildlife. The combined effects of needing more infrastructure, the resources required to produce it, and the environmental side effects—along with the vast amounts of land occupied—raise important questions about whether this transition is truly sensible.

- Pipelines add an intriguing layer to Europe's energy dynamics. Approximately 80% of the EU's gas is transported through pipelines in Ukraine, with about half of Russia's gas production passing through this route. Ukraine charges a transit fee for allowing the pipeline to cross its territory, a factor that has contributed to tensions between Russia and Ukraine. As the

conflict escalated, gas prices skyrocketed, inadvertently benefiting countries like the U.S., where gas production has remained robust.

In the U.S., the Jones Act mandates that any energy resources used domestically must be transported by U.S.-flagged ships. This has made regional gas shipping more expensive, prompting companies to divert shipments to Europe, where the gas prices have surged, offering better margins than in the U.S. Consequently, the U.S. has become one of the largest exporters of gas, capitalizing on the higher prices in Europe.

- During Covid, OPEC has over-produced oils to lower the price to save the economy from failing. Now because of the over-production, they now lack the ability to meet the demand at the current price today. The US, who has gained energy independence from OPEC, is now in a place to capture the margin created by this.

- The strategy is straightforward. Berkshire Hathaway, as the largest renewable energy producer in the U.S., is reaping significant benefits from tax credits associated with renewable energy. On the "dirty" energy side, it makes sense to focus on companies that prioritize returning cash flow to shareholders rather than expanding operations. Additionally, targeting low-cost and flexible refineries is a smart move, as they are likely to become increasingly important as more refineries shut down, leading to a more concentrated market share for the survivors.

How Innovative Is China in Nuclear Power? By Stephen Ezell
From a pure knowledge standpoint, China and the U.S. are on par in their ability to understand and build nuclear power plants. However, where China excels is in the initiatives from policymakers that empower engineers to actually construct these plants (China intends to build 150 new nuclear reactors between 2020 and 2035). The hands-on experience gained from these projects, particularly with the new generation 4 nuclear power plants (which is the world's first), has proven critical. These advanced reactors are designed to safely shut down even in the event of a power failure.

The continued underestimation of nuclear energy in the U.S. threatens to hold back not only the country but also the world in expanding nuclear energy as a viable norm. The expertise that comes from real-world experience cannot be replaced, and in this regard, China is currently leading the way in energy innovation with regards to their organizational, operational and systemic ability.

However, it must be recognized that the risk/reward ratio for China is far greater than for any other country. As the world's largest emitter of CO2, it makes sense for China to invest heavily in nuclear energy to shed that title. In contrast, energy-rich or currently stable countries have less incentive to pursue nuclear energy, as the perceived risks often overshadow the potential rewards. This, I believe, is a mistake born from a lack of understanding of the current advancements in nuclear technology. Nuclear energy must be - and will be - the future.

"Founder Mode," DOJ alleges Russian podcast op, Kamala flips proposals, Tech loses Section 230? By All-In Podcast
- There's no one-size-fits-all solution in business operations and management. The methods effective for one team or group may not necessarily work for another.

- In the realm of technology, social media algorithms have become highly advanced, capable of recognizing user interaction patterns and suggesting similar content. However, this sophistication has introduced new challenges. The issue isn't with the algorithms themselves but with our interactions and expectations, revealing that the real problem often lies with us.

NOTES

Gregory Aldrete: The Roman Empire - Rise and Fall of Ancient Rome by Lex Fridman

- Business acquisition is analogous to conquering a village, town, or even a country. Berkshire Hathaway has achieved this not through warfare, but through cultural alignment, which reduces the friction typically associated with such conquests, making it one of the most successful approaches. The Romans excelled at this as well, skillfully integrating non-Roman cultures into their own.

  In essence, we can think of "Romanization" as a form of "Berkshirization."

- The power of exceptional public speaking skills surpasses anything else one can possess. Words and actions evoke emotions, and ultimately, humans are driven by emotions alone.

- The pleasure-seeking or sadistic tendencies observed in some privileged children may stem from their inability to seek deeper meaning in life, as they already have access to everything they desire.

Stan Druckenmiller by Norges Bank Investment Management

- There are no signs of weakening in the economy. If the rate continues to cut, it may cause hyperinflation similar to that of the 1970s. Bond market should be watched closely.

- An intuition on a macro trend should be acted upon if you have the confidence to do so or at least start a small position - the invest and investigate mindset.

- Analysts and the people in the investment community share ideas with one another. Right accounts for X can be leveraged to the same effect.

- Compete against the opportunity set.

NOTES

How did Warren Buffet design Berkshire?

1. Continuous maximization of rationality, skills, and devotion of the most important people in the system, starting with himself.

2. Create win/win results everywhere. For example, in gaining royalty by giving it.

3. Make decisions that maximize the long-term results, and seek those decision makers who usually stayed long enough in place to bear the consequence of decisions.

4. Minimize the bad effects that inevitably come from a large bureaucracy at headquarters.

Case Study: Buffett's Early Investment in a Tab Card Company

- What is a tab card? Before computers were digital, they read off of punch cards. They were called Mark-Sense Cards, and these were big decks of cards with holes punched in them and they would be stuck in the computer, and they would be read mechanically through the computer.

- The company, Data Documents, was a start-up specializing in tab cards. At the time, punch card printing was IBM's most profitable business due to the high markup on these essential computer supplies. Data Documents realized that by investing in printing presses and operating closer to their customers to reduce shipping times, they could have an edge in the market

- The founders offered Buffett a 16% equity stake in exchange for funding one printing press, but he declined. His decision wasn't because it was a technology company, but because of his investment philosophy. Like a horse handicapper, Buffett asked, "What are the odds that this business could face a catastrophic risk that could cause it to fail?" He concluded that a start-up competing with IBM was highly vulnerable and likely to fail.

- Over time, the business became highly profitable, making 35 million tab cards per month. The company needed more capital to grow their business so they went back to Buffett.

- Now Buffett was interested because the catastrophic risk was gone as they were competing successfully with IBM. Buffett asked for some numbers and was given the information that they were turning 7 times the capital. With each Carroll Press costing $78,000, made $11,000. Basically, their gross profit from the press could buy another one. At this point Buffett was very interested.

- Finally, Buffett asked for 15% on $2 million of sales. The company already had $1 million sales growing at 70% so there was a huge margin of safety. Buffett ended up putting 20% of his net worth on 16% of the company and some subordinated notes.

- The company was later bought out and Buffett earned 33% compounded return for 18 years.

- Lessons Learned:

    1. First step of the investment process is always to ask if the business is prone to catastrophic failure. Start with what could go wrong.
    2. Buffett never built financial models or relied on projections. Instead, he focused entirely on historical data, identifying one or two key factors that most impacted the business - much like a horse handicapper analyzing fact sheets. He gathered historical figures for the company and its competitors, studied them in depth, and used this to make a straightforward yes-or-no investment decision.
    3. He wants 15% day 1 return on investment and starts compounding from there. Not greedy and nothing fancy.

Revisiting one of Charlie Munger's sayings...

"You spend less than you earn. Invest shrewdly. Avoid toxic people and activities. Try to keep learning all your life. And do a lot of deferred gratification.

If you do all of those things, you are almost certain to succeed. And if you don't, you're going to need a lot of luck.

And you don't want a lot of luck. You want to go into a game where you're very likely to win without having any unusual luck."

What If I Was Starting Off with $1 Million by Guy Spier

- Make investments that cannot result in total loss but have a high probability of multiplying the initial capital. Embrace slightly more risk—aim for two bets per year

- Earn your journey: develop your unique approach to research and analysis.
- Utilize resources like Value Line, VIC, Seeking Alpha, the Zurich Project, and ValueX.
- Focus on sub-billion-dollar companies or small-cap stocks.
- Seek out special situations that create compelling valuation opportunities.

Richard Galanti, MBA '82 Arjay Miller CFO Award Winner by Stanford Graduate School

- When you try your best to save money for your customers, they try their best to make money for you.
- Always keep it simple. Do things that are only necessary.
- Maximized common sense.
    - Don't change something that works
    - Pay vendors on time and respect the deal at all times
    - Builds trust which in the long-term builds royalty
    - ...etc
- Be predictable in the paying and receiving of money. Costco is a book-value business that has to be a cash cow.
- Decisions made regarding aspects of businesses are talked about in an extremely simple manner. Nasdaq vs Nyse, Dividend, Buybacks, and others are all mostly 1 or 2 point decision making processes.

Special Situations by Hudson Value Partners

- Special situations are when the sum of the parts are worth more than the whole.
- There are number of cases where special situations are likely to emerge:
    - Merger Arbitrage

      The price discrepancy between market value and the deal price.
    - Bankruptcies, Liquidations, and Restructurings

      The price discrepancy between market value from these events and the actual value of the business.
    - Spinoffs and Divestments

      The price discrepancy caused by a downward pressure from either a) being the smaller player or b) having been underinvested or c) value hidden by being under the parent company.
    - Convertible Securities

      A conservative way to deploy capital to a business when special deal making is possible.
    - Warrants, Contingent Value Rights, and Long Dated Options

      Similar to CS but these are derivatives directly linked to an event.
- An investor should be equipped with foresights to identify these situations and invest accordingly. This is especially favourable for smaller capital pools as these situations are more common and under-researched.

Apollo Investor Day 2024 by Apollo Global Management

- After the Global Financial Crisis (GFC), Athene offered attractive yields to investors searching for them, enabling Apollo to outperform other alternative asset managers.
- The industrial sector, particularly energy, power, and digital infrastructure, is experiencing a significant demand-supply imbalance. Financing in this sector often requires long-term commitments, varied cost-of-capital structures, and flexibility in formats—conditions that traditional banks find challenging to meet. Moreover, these investments often lack an investment-grade rating, creating an opportunity for alternative asset managers to step in.
- In Australia, superannuation funds allow for investments across both private and public markets. This flexibility

addresses the significant demand for retirement products, which are primarily driven by investment-grade fixed income.

- Family offices allocate approximately 50% of their portfolios to private investments. Unlike institutional investors, they are not constrained by consultant-driven benchmarking and are free to tailor their strategies to their specific goals. This independence is a notable market signal.

- The traditional distinction between private (risky) and public (safe) markets is fading. The gap between investment-grade securities in private and public markets is narrowing, suggesting these distinctions may disappear entirely in the near future.

- Given that 90% of professionals fail to outperform market indices, it prompts the question: Is the underperformance due to declining skill levels or a fundamental shift in market structure? The latter appears more plausible.

- A shift from equity to private capital could reshape financial markets, particularly as Athene focuses on originating investment-grade fixed income assets. These assets exceed the yield of public fixed income, providing a competitive edge in origination capabilities.

Joel Greenblatt & Howard Marks Discuss Value Investing by Wharton School

- If you're in the right place, you only need to jump a one-foot hurdle. Focus on playing the games you excel at, so luck becomes less critical.

- Markets can be unpredictable, but solid valuation work is almost certain to align with the market's view over time—2 to 3 years is a reasonable horizon.

- Ask yourself if you truly enjoy reading 10-Ks. If you don't love the process, it’s not worth playing the game half-heartedly.

- Your largest position should be something you're confident won't lose money.

- Operating leverage matters because, in tough times, high fixed costs can become a liability. For example, Greenblatt cites renting trade show spaces—buying at $2/sqft and renting at $62/sqft works well until the trade show stops. Businesses with high operating leverage face significant risks when things go wrong.