Talks at GS
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Howard Marks: In order to outperform, by definition, you have to depart from the crowd. You have to hold a different position. And you have to have resolve to do it.

[MUSIC INTRO]

Katie Koch: Good morning, everybody. I am Katie Koch. I'm the CIO of our public equities business in Goldman Sachs asset management. And I'm here with our guest of honor, Howard Marks, who's the co-chairman of Oaktree Capital. Howard, thank you for being with us.

Howard Marks: It's a pleasure to be here, Katie.

Katie Koch: We're going to start the conversation by talking about market cycles. And just for some stage setting for everybody, and we have a lot of super fans in here of your memos. And many of us who have read a lot of these memos know that there's a couple of things that you always dismiss and a few things that you really believe in. So, let me briefly recap that, which is that you don't believe in economic forecasts, unless, of course, they come from Goldman Sachs Research. Then you love them. And you have a quote that you refer to a lot, John Kenneth Galbraith, "There are two kinds of forecasters. Those who don't know and those who don't know they don't know." And we're going to talk about not knowing stuff later.

But while you don't believe in forecasting, you do believe in cycles. And the cycle I wanted to start talking about with you, if it would be okay, is 2008. And the reason I would like to do that is I think it was a very defining moment for Oaktree. And you and your partner, Bruce, the CIO, Bruce Karsh, stepped into the market in a really dramatic way when everybody was running in the opposite direction.

And I'll end just by giving people that question, by giving people a sense of the magnitude. Howard and Bruce in, call it, the fall, and you'll correct me, of '08, were effectively putting 500 million to work a week in distressed debt. And then a 650 million total a week over 15 weeks across the firm. So, you were a buyer of 10 billion dollars of assets when everyone was stampeding for the exit.

So, given that you say you-- that predictions don't work, people might look at that and say you predicted the global financial crisis. So, if you weren't predicting it, what were you doing?

Howard Marks: You know, we turned very cautious in the end of '04, '05, '06. And the main reason-- I do not believe in forecasts. I believe it's hard to predict the future. It's not that hard to predict the present. In other words, it's not that hard to understand what's going on today.

So, I do something I call take the temperature of the market. Try to figure out whether the market is heated or frigid. And because you want to buy when other people are pessimistic and when the climate is cold. You don't want to buy when the market is overheated and everybody's optimistic.

So, the main indicator in '05/06 was, and I always say I wore out the carpet between my office and Bruce's, because I'd walk in there a few times a day and I would say-- I'd hold up an article from the newspaper. I'd say, "Look at this piece of crap that got issued yesterday. If a company can raise money on this basis, there's something wrong in the market." It's as simple as that. You know?

And the market-- maybe some of you have heard the term "bond vigilantes," but the market is supposed to be like a vigilante. It's supposed to be a disciplinarian. It's supposed to enable good, prudent deals to get done, but not stupid deals. But when anybody can raise money for any purpose or no purpose on any terms, that's a danger signal. And that's what was going on.

And it was just getting worse and worse and worse and worse.

Katie Koch: And then we got this massive dislocation. Everybody's headed for the exits. And you stand up and say, "Buy." How'd that happen?

Howard Marks: You know, it really culminated in the bankruptcy of Lehman Brothers on September 15th of '08. We had lost Merrill Lynch, and Bear Stearns, and Wachovia Bank, and Washington-- and now Lehman Brothers, and AIG. And there was a belief that the whole financial system was going to melt down. And by the way, it did feel that way. It really felt like cascading dominoes.

Either the financial system is going to melt down or it's not. If it melts down, it doesn't matter whether we bought or not because it's game over for everything. But if it doesn't melt down and we didn't buy, then we didn't do our job. So, let's buy. That was the analysis.

I mean, you couldn't say anything more profound than that. First of all, there's really no such thing as analyzing the future because the future is unknown. But we look to the past for analogies. And this was-- you know, there was no analogy to the Lehman bankruptcy. But the past says we have crises, and they end. We don't always know how they're going to end in advance, but so we bought.

Katie Koch: Worked out.

Howard Marks: It was one of the great buying opportunities of all time. And not only could you get good bargains, but you could invest huge quantities. And we were fortunate that Bruce and I had cooked up this idea of developing a reserve fund.

So, at the beginning of '07, we raise 3.5 billion dollars which was our fund for that period of time. But we also raised 11 billion which we put on the shelf because we thought that something was coming. The first closing was March '07. We didn't start investing it until June '08. We actually had 10 billion to spend. So, we were able to spend it.

Katie Koch: I want to pivot to talk about another cycle. And you had talked about history can be a guide. And you have a quote I've heard you repeat a lot which is that "history doesn't repeat, but it often rhymes," by Mark Twain.

So, I want to talk about the tech bubble. In January 2000 you wrote a memo called Bubble.com. And actually, for everybody in this audience, I think it's a really powerful thing to go back and read at this moment in time because there are a lot of parallels to it. Technology can change the world and not generate a profit. Eventually, these companies need to make money. Valuation matters. All that good stuff.

You have said that that memo, when you wrote, got very wide receptance. And you've been doing it for ten years. But you became an overnight success on that. Why's that?

Howard Marks: Well, I never had any response in the prior ten years.

Katie Koch: None?

Howard Marks: Zero. Nobody even told me they got it. But of course, this was-- no, I mean it. But this was the days before the internet. So, I mailed them out to a few hundred clients. And they weren't passed around virally like they became.

Katie Koch: And you've previously said-- and when we get to those moments of euphoria, particularly in tech for example, there's something, people make a narrative, that there's something new happening here that history can't discount. So, how would you describe that for this one?

Howard Marks: You have to have something new. Because if you only have old stuff: steel, paper, and chemicals, you know, the history is too well defined. And the limitations are too well understood. But if you have something new, that gives flight to the imagination. You know? And you can say, well, this is something that's going to make everybody rich.

And you alluded before to the fact that, so, what they said in '98 and '99 was the internet will change the world. And so, by definition, any web grocer is worth infinity. Well, guess what, the internet certainly changed the world. But most of those companies didn't survive because they didn't make money and they had bad business models and so forth.

And what that memo really pointed out more than anything else was how bad the business models were. And they sold on multiple of eyeballs. You know? Because there were no earnings. And in many cases, there were no revenues. But you know, so, you have 50,000 eyeballs a day it's worth such and such.

But anyway, you have to have something new. So, it could be a SPAC. Could be SAS. Could be, pardon the expression, bitcoin. You know? But there's no history to look at. So, it's easy to weave a narrative that-- you know? And there are no historic valuations to limit you and so forth.

Katie Koch: You went on to do a career where you lent money to bad companies, people thought were bad, and you made a lot of money doing that.

Howard Marks: Yes.

Katie Koch: So, tell us what that experience was like.

Howard Marks: Well, I was asked to start a high yield bond fund in 1978, which was really the beginning of that world. And Mike Milken had this idea that even a crappy company should be able to raise money.

And you see, prior to '77/'78, it was impossible to do a bond financing for a company rated below investment grade. Mike's idea was that, and it wasn't unique to Mike, that even a crap company should be able to raise money in the bond market if it's willing to pay enough interest to compensate for the risk. And that's what happened.

So now, as you say, now I'm investing in the worst public companies in America, according to the ratings. And making money steadily and safely.

So, I reached two important conclusions. It's not what you buy, it's what you pay. And success in investing doesn't come from buying good things, but from buying things well. And if you don't know the difference, you're in the wrong business. Literally.

So, everything you buy should offer some combination of excellence of quality and/or attractive price. You don't want to buy a great company at a terrible price. You don't want to buy-- probably don't want to buy something which is horrible fundamentals at a really low seeming price. It's the trade-off that you're looking for.

Katie Koch: Last question on the market cycles. So, in your first book, you include the poor man's almanac for investing. And it's a checklist.

Howard Marks: Well, it's facetious, of course. Semi-facetious.

Katie Koch: So, there are some things to look for to see whether your sentiment is negative or positive. And basically, if a sentiment is too positive, you want to hold onto your wallet is, like, a quick summary of it.

Howard Marks: Yeah, yeah.

Katie Koch: So, do GPs have all the power? Do LPs have all the power? Are the lenders--

Howard Marks: In negotiating terms of funds.

Katie Koch: And then another one was lenders are eager or they're reticent. Capital is abundant. Capital is scarce. Somewhere in the verbiage you put in there that if you're popular at a cocktail party, that's a warning signal that things are too euphoric.

But if you go through that, I'm not going to ask you to make predictions, but you think about that framework we've just laid out here, where are we in this cycle? Because you said we can know where we are now.

Howard Marks: Well, I think we're in moderate territory today. You know? And I have not-- some people started calling bubble two years ago, June of '20. I haven't called bubble at all. I think things are high, but not crazy. You know? I think that valuations have always been reasonable relative to interest rates. It happens that interest rates couldn't stay as low as they were. So, valuations have proved to be vulnerable. But I just don't think it's crazy.

And now I think that the events of the last six months have taken the bloom off the rose that most of the excesses have been driven out. So, you know, again, I think reasonable.

In thinking about coming here this morning, and you mentioned that I had more correct forecasts than I admit, but the truth is they weren't forecasts. They were just observations of current conditions.

But nevertheless, when I was working on the book about market cycles with my son Andrew, who is a very good professional investor, I said to him, "Andrew, you know, I think when I look back," I do admit, I said, "I think most of my market goals have been correct." He says, "Yeah dad. That's because you did it five times in 50 years."

But it was a very profound thing he said because five, six, seven, whatever it is, times in my career, prices were either here or here. And when prices are at absurd extremes, the case, the logic for a market call is very strong. And the probability of being right is very high. But not when it's here or here, or here or here, or here or here. You know? And that's really the difference.

Katie Koch: And we're here?

Howard Marks: Well, I think we're here. But the point is, here-- I mean prices here have always collapsed, whatever here is defined as. But if I say to you what's the probability of a decline in six months? Here, you might say it's 95. You would never say 100 to anything, in my opinion. But here, it may be 75. And here, it may be 55. And then when you pass intrinsic value and you're selling below intrinsic-- well, what's the probability that the next six months are up? 55. 75. 95.

So, you know, one of the biggest mistakes you can make is to think that overpriced and going down tomorrow are synonymous. Markets that are overpriced often keep going. And you know, well, Keynes said it best of anybody. He said markets could remain irrational longer than you can remain solvent. So, somebody who bets that a market which is irrational is going-- a market is too high. We say that's irrational. Somebody who bets heavily that that means it's going down tomorrow could lose his shirt or her shirt because markets often are overpriced and become more overpriced and more overpriced and more overpriced and more overpriced.

That's why we have words like rising market, bull market, bubble. And if it were true that every overpriced market reverts and becomes fairly priced, then we would never get a bubble because they would stop going up here. But sometimes they go to here and sometimes they go to here.

When they get here, the call was pretty safe. Especially if you add the word "eventually." So, what that means is, as long as you realize that nothing is sure to happen in this business, every irrationality can be exceeded, that means that you should try to bullet proof your affairs so that it may be likely to happen, but you want to be able to last long enough so that you're around when it happens.

Katie Koch: I want to talk a little bit about emotion for a second. And you've said that you need to either be unemotional or act like you are. And I wanted to go actually back to the story you talked about before, which is that you-- this 2008, which a lot of people in this audience weren't here. And I think if you weren't there, you might not appreciate how scary that actually was. I mean, you went through the dominoes of all the banks falling.

But were you scared when you and Bruce were putting the couple to work? How did you-- or if not, how did you keep yourself from being emotional?

Howard Marks: Well, first let me say, if you think about the norm, what happens? Things are going well. The economy is performing well. Companies are reporting good earnings. Stock prices are rising. Everybody's optimistic.

And the longer this goes on, people become more and more and more positive until they buy here. And when they run out of money, then things turn around.

Then, eventually, the economy weakens, then the corporate profits aren't so good and stock-- prices start going down and people start losing hope. And as this continues, they get more and more depressed and more panicky. And they start fearing further losses until they sell out down here.

In other words, they tend to buy more here and sell more here, which is the opposite of what we all should do. My mother said, "Howie, buy low. Sell high."

And so, emotion is our enemy. Emotion tends to get us to do the wrong thing at the wrong time. And we have to resist that.

And one thing I point out is that the influences that affect the crowd and make it do what I just described, those influences are universal. And I feel them too. And you feel them too. And everyone in here. We read the same newspapers. The news is the same for all of us. In order to outperform, by definition, you have to depart from the crowd. You have to hold a different position. And you have to have resolve to do it. And, you know, it can't be easy. You know?

I had one of my colleagues came to me in '98. Talking about ancient history. Long term capital. I just [UNINTEL] down and we had the ruble default and the Southeast Asian crisis, and there were a lot of things going wrong. And one of the guys who considers himself to be very thought--

Katie Koch: This is at Oaktree, right?

Howard Marks: Yes, Oaktree. Comes to me and he says, "This is it. I think it's all over. I think the financial system is going to melt down. I think--." And he explains to me all these things. And I say, "Great. Thank you for sharing that with me. Now go back to your desk and do your job."

I said, "A battlefield hero is not somebody who's unafraid. It's somebody who's afraid, but he does it away." I mean, if you're in scary circumstances, to be unafraid, you kind of have to be a nut. But the key is can you be afraid and do your job anyway?

Katie Koch: I was just going to ask you if you thought it helped that you had each other.

Howard Marks: Well, I think it's very important that we have each other and we buck each other up. And you need that because-- well, what I wanted to say is Dave Swenson, who for 35 years ran the endowment at Yale and did a bang-up job-- and he wrote a book called *Pioneering*

Portfolio Management. I think it was in '98 or '99. And he said that successful investing requires the adoption of uncomfortably idiosyncratic positions.

Everybody has the same influences. Everybody thinks pretty much the same. Everybody anoints the same winners and criticizes the same losers. And, obviously, tomorrow's winners are usually found on the pile of today's losers, not on today's pile of today's winners. But to prospect in today's pile of losers the things that everybody else are junk, you have to be idiosyncratic. And you have to take on idiosyncratic positions.

And it's a rare person who can do that and not feel some discomfort. So, I think that those two words, uncomfortable idiosyncratic, tell a huge part of the story. But you have to do it. And you have to-- you know, when Lehman goes under, you have to buy. You can't sell.

Katie Koch: You originally introduced a philosophy or term like, you need to dare to be great. And then you evolved that over time, which is more nuanced. Can you walk us through that?

Howard Marks: Yeah. Well, I wrote this memo back in '04 called Dare to Be Great. And there was this guy who was really a conman who used to fly around American in a Learjet. And he dropped the stairs and these two vertically challenged people would get off and unroll the red carpet and a big banner that said, "Dare to Be Great." And he would come into some small town and siphon up everybody's money. I forget exactly what the scam was.

But anyway, the point is, in order to be a great investor, you have to dare to be great. But then around 2015, I said to myself, you know, but everybody dares to be great. Everybody's willing to be great. But it had come into another focus for me. So, I wrote Dare to Be Great II, which I would recommend you read, not one. And I said, in order to be a great investor, you have to dare to be different, as I just explained. You have to be willing to do some things that are unpopular, and by definition, will look crazy to others. You have to dare to be wrong because there's nothing you can do--

I think the goal in investing, for professionals, is to be above average. Investing is a funny business. It's really easy to be average. Just buy an index fund. It's really hard to be above average. But if you want to be above average, everything you do in the interest of being above average exposes you to the risk of being below average.

You over-weight certain stocks. That's a potential error. You avoid certain stocks. That's potential error. You diversify abroad versus the US. That's potential error. You buy high beta stocks. Low beta stocks. Et cetera. You hold some cash. There's nothing you can do in the interest of being above average that does not expose you to the risk of being below average. So, if you dare to be different, you have to be willing to be wrong.

Katie Koch: I want to ask you one follow up question on that around risk. And I actually want to go back to the very first memo you wrote, October 12th, 1990. And I'm going to just quick recap. I might not get it perfectly right. But you had an observation. There was a Midwest pension fund manager who was in the top couple of percentile. I think.

Howard Marks: He was in-- every year for 14 years in a row, he was between the 27th and the 47th percentile measuring from the top. So, he was solidly in the second quartile every year for 14 years in a row. Where did he come out for all 14? Fourth percentile.

That's crazy math. Because in most walks of life if you stick between 27 and 47, your average is probably 37. His average was fourth.

Katie Koch: So, what was the lesson that you-- and there's actually really, yeah, not really any other industry I can think of where you get around median over a long enough time at the top.

Howard Marks: Yeah, right.

Katie Koch: So, what lessons do you take from that?

Howard Marks: And then, the reason I wrote the memo, what made me write that first memo was the juxtaposition to some guy in New York who was running an investment management firm that had a horrible year because they were a value firm and they bet heavily on the banks, which did terribly.

And so, he comes out and he says, "If you want to be in the top 5 percent of money managers, you have to be willing to be in the bottom five." My reaction was, I like the first guy better. I like the consistently a little above average as the route to performance, which was the title of the memo, The Route to Performance. I don't like this idea of shooting for the top and being willing to hit the bottom. I'm not interested in being in the top 5 percent in any one year. I'm absolutely unwilling to be in the bottom 5 percent. And my clients feel exactly the same. So, why should I do that?

We don't swing for the fences. Oaktree does not swing for the fences. Consistent batting average. And what I say is, if you look at the normal distribution read from your direction, most people say, "I'm going to get here. I'm going to get into the upper tail. I'm going to shoot for the upper tail. I'm going to swing for the fences. And I'm going to have these huge winners."

Our approach is very simple. Cut off the bottom tail. That's what this guy in the Midwest did. And Ben Scotton [PH] was his name. Cut off the bottom tail. So that if you cut off the bottom tail and your total experience consists of fabulous, excellent, very good, good, not so good, so so, but never terrible, you'll be one of the best. Not after one year. Somebody else will swing for the fences and hit it exactly right and will be lionized for her performance that one year. Who can do it for 30 years?

Katie Koch: A follow up question on risk is that you think that there is-- that subjective judgment is a useful tool in managing risk. I just want to ask you the opposite of that, which is that do you think that there's value in using quantitative tools to measure and manage risk?

Howard Marks: No, I really don't. We don't do it at all. First of all, what is risk? It's the probability of a negative event in the future. What do we know about that? What does the past tell us about that?

The past has relevance, but it's not absolute. And I think that-- and by the way, I was talking about epiphanies before, to digress if I may.

Katie Koch: Yes, you can. It's your show.

Howard Marks: So, I was writing a memo in '06 called Risk. And I sat down at the word processor, and I wrote what I always believed is that risk cannot be quantified. And that's one of the reasons why I don't believe in models.

Because risk, being the probability of a bad event, can't be quantified in advance. You can have an opinion. You can state it as a number. But that's not quantification. Quantification is measurement. And the probability of a negative event in the future cannot be measured.

And then I wrote something. You know, you hit the carriage return. And for the next section I wrote of something that I'd never thought of before. Risk cannot be quantified, even after the fact.

You buy something for a dollar. A year later you sell it for two. Was it risky? Any answers? No. You can't tell. Was it a crazy thing where you got lucky and doubled your money? Or was it a really clever thing that nobody else had figured out where you were sure to double your money? And the answer is you can't tell.

No, I don't think risk can be measured. I don't think the past is absolutely applicable. In fact, the big money is lost at the juncture when the past stops being applicable, which happens eventually. And I don't think that the possibilities in the future can be synthesized into inputs that are sufficient to let a computer decide what's risky or not.

Katie Koch: I want to just segue to talk about mistakes. So, obviously you've gotten a lot right and you've highlighted all of that. You're also-- a one liner, which you're clearly a fan of, I just wanted to share here, "Experience is what you get when you don't get what you want." When have you ever gotten what you didn't want? And what'd that look like for you?

Howard Marks: Well, when I was starting in my career, I'll never forget. I met this guy, and he says, "We're bringing out two new stocks tomorrow. They're both little tech stocks." And he says, "And they're both going to double in the first day." I said, "Good, I'll take 100 shares of each." And I called him up the next day. $10 stock. So, I bet 2,000.

So, I called him the next day. I said, "What happened?" He said, "Yeah, they both doubled." I said, "Good. Sell one." He said, "What do you mean? They're going to the moon." I said, "Sell one, and I'll take my money out and we'll let the other ride."

So, I sold one. The other one-- 40, 60, 80, $100. Stopped trading. And there was something crooked-- and when it reopened at 25 or something. You know? So, I learned that there are no sure things. And if something-- you know?

One of the important parts of being an investor is to be a skeptic. And you know, if somebody comes to you and says, "I've been managing money for 25 years. I've made 11 percent a year. I've never had a down month," your job is to say, "That's too good to be true, Mr. Madoff." Right? Right? But very few people did.

And so, I learned the importance of skepticism. And the great thing in life is to learn your lessons inexpensively, as I did.

Katie Koch: And one thing that might help someone with that is humility, which is something that you're a big fan of. And that's a key cornerstone of our investment culture here.

You're also a fan of Peter Bernstein, I believe. And I just wanted to read a quote from him. "Humility is an enormously important quality. You can't win without it.

Survival, in the end, is where the winners are by definition. And survival begins with humility." Can you reflect on that a little for us?

Howard Marks: Oh, well, that's a great quote from Peter. I have a lot of respect for Peter Bernstein. First of all, it kind of goes without saying, but I'll say it anyway, you can't succeed if you don't survive.

And one of my favorite adages is don't forget the man who was six feet tall who drowned crossing a stream that was five feet deep on average. The concept of surviving on average is irrelevant. You have to survive every day. Which means, really, that you have to survive on the bad days.

And so, that's why I say you have to arrange your affairs, which means your financing or your capital from your investors, whatever it is, or your portfolio, so that you can survive on the bad days. So, that's one thing.

But humility, it's all about humility. You have to-- you know, Dirty Harry said a man has to know his limitations. Mark Twain said that when you know something for certain, you can get into big trouble. It's absolutely the truth. And you know, nothing in our business is certain. And anybody who's certain is really missing the point.

Katie Koch: And we say something similar to how you say it, which is that we always have to know what we don't know. And when you and I had that prep call, we competed with each other about how much we knew that we didn't know. You won because, knowingly, you didn't know for longer than I'm not knowing what I don't know.

Howard Marks: But, you know, I wrote two memos in the middle of '20, in the middle of the pandemic, in probably June of '20, called Uncertainty and Uncertainty II talking about the importance of how uncertain things are. The importance of acknowledging that, especially to yourself. We have to be honest with ourselves. And there's something called intellectual humility, which I think is extremely important.

Do you know what that means, intellectual humility? It's very simple. The other person could be right. And if you go into a discussion and, say, with the belief that the other person could be right, you're going to have a much more productive discussion.

Katie Koch: Do you think-- just one last question for you on humility. Something we talked about is sometimes it's harder to be humble when you're losing, actually. When you're winning, you can just be humble, and it looks very gracious. But when things are working against you, sometimes it can be more difficult.

Howard Marks: Well, I think it's hard for most people to be humble.

Katie Koch: At any time.

Howard Marks: Because they have these defenses that require them to overlook their flaws and their limitations. So, you know, look, I think that thing about experience is what you got when you didn't get what you wanted, turn that around. What did you get when you got what you wanted?

If you look at human endeavor-- I believe strongly that success carries within itself the seeds of failure. And failure carries the seeds of success, what do you learn from success? I can do it. I can do it again. It's easy. I can do it in other fields. I can do it with more money. I can do it alone. It was me; it wasn't a team. And these are horrible lessons.

So, I think that success teaches terrible lessons because it plays to our egos. And, you know, I think you learn more from your failures. And hopefully, you learn humility.

Katie Koch: One last question on this is how do you balance that-- the importance of knowing there's incompleteness of knowledge with the fact that, ultimately, you have to make some decisions because you're managing people's money?

Howard Marks: All of these things are about balance. If you assume you know nothing, you can't function. If you think you know everything, you're going to get in trouble. You have to strike a balance. And hopefully, it's an appropriate balance.

Think about confidence. If you're an investor, if you don't have confidence, then every time you buy something, if it goes down, you're going to sell it because you're afraid it's going to go down more. And you're going to be an abject failure. You have to have confidence.

If you buy something and it goes down, you have to reassess your thesis. And if it's intact, you have to buy more or you can't be great. But on the other hand, if you have hubris and you feel you can't possibly be wrong and every time something goes down you blindly double down, then you're probably going to get into trouble and maybe be asked to leave the industry. So, you have to have this balance, confidence but not overconfidence. Humility, but not over-humility.

Katie Koch: And then one question for you just on pushing on this concept of knowing what you don't know. So, we have a lot of more data now, by definition, than ever in the history of the world. And on one argument you could say then that's going to help us know more things because we can prosecute this data and come to conclusions that we couldn't have otherwise done. We can apply AI, machine learning, get new insights.

On the other side, something we say on our team sometimes is the T.S. Elliot quote, "Where is the wisdom that's lost in knowledge? Where is the knowledge lost in information?" Where do you fall out on that? Are we smarter?

Howard Marks: Look, we have more data. And we have more tools for analyzing the data. But my son and his wife and family came to live with us for the first three months of the pandemic: March, April, May of '20. And then I wrote-- he and I actually, he contributed, but I wrote a memo in January of '21 called Something of Value about that experience because it was a great value for us to live together that time.

But he pointed out something very valuable, which was that, you know, Buffett talks about having bought dollars for 50 cents. And he really did because nobody else knew what-- which end was up. You know? I would say I bought some dollars for 60 cents. I can't find those anymore.

And Andrew made the point that readily available quantitative information about the present can't help you be superior as an investor. Or it's not sufficient to be superior. You have to work with that stuff. You have to understand it and process it. But it's not enough because everybody else has it readily available. And it's quantitative.

So, everybody can process it. And it's about the present, so there's no conjecture. No uncertainty. No vagary.

So, readily available, quantitative information about the present cannot hold the secret to being a superior investor. It has to be something else.

And what could those things be? You have to do a better job of understanding the import of those data. You have to do a better job of evaluating the qualitative: the quality of the CEO, the quality of the product, the likelihood that the company will be able to follow a successful product with another successful product, the quality of the accounting, whatever it might be.

Or you have to be better at understanding the future. So, I wrote a memo called Investing Without People in which I talk about what'll happen with AI and so forth, and machine learning and so forth. And it'll profoundly change our business. And it'll put the hacks out of business.

But I don't think that it will replace the best investors. Because the best investors are the people-- I said it in the memo, I don't think that a computer can meet five executives and figure out which one's the next Steve Jobs. I don't think it can look at five business plans and figure out which is the next Amazon.

These are subjective judgments about the future not based on past data. How is the computer going to get the information to make these decisions? Now, what computers do is they handle a lot of data. They handle it fast. They don't make mistakes. They don't make computational mistakes. And they don't make emotional mistakes. So, that's a pretty good list. That'll put a lot of people out of business in the investment business. But it will not, in my opinion, enable a computer to be the Warren Buffett of its day, shall we say.

Katie Koch: Just picking up on Warren Buffett for a second. He's called, I think, and I might not quote him perfectly, but the discipline you're involved with, a negative art. Because you're just trying to identify, ideally, the few companies that won't pay you back. So, do you ever wish that you lived, like, in my world of equities where it was more about possibilities and upside. Was that ever more fun to you?

Howard Marks: Well, you know I'm an escapee from your world because I spent my first nine years in equity research. I was the director of research at Citibank. And I think this is better for me because I'm, by nature, conservative. And you know, when Buffett says that fixed income investing is a negative art, what he's saying is that bonds don't have upside. They come out at par. They're going to be redeemed at par. So, that's the best you can do. It's all downhill from there if you don't weed out the losers. Oaktree's motto is, if we avoid the losers, the winners take care of themselves.

And when I was asked to start the high yield bond fund in '78 at Citibank, I didn't know it, but it was perfect for me because it turns my innate conservatism into an advantage. I think that to be in equities you have to be a dreamer, optimist. And that's not really me. So, I think I'm better off this way.

Katie Koch: Okay, great. I'm going to end with one kind of, I guess, personal question which is that you've said that there are two, just to summarize, two important things. You've got to know what you don't know. But then you need to know something that other people don't know to make money.

And yet, you've been so generous with your time today, all these books you've written, these memos going back to 1990. Why are you telling us all these things you know if we need to not know them for you to make money?

Howard Marks: Well, just knowing them is not enough. You also have to implement them. And you know, I think we do a superior job of implementing them. But you know, as I said, this is fun for me. And I've gotten such a great reward from sharing these things with people.

You know, the people that I share these things with are not my competitors. They're people. And I get these letters saying, you know, you made something complicated clear. Or I get letters that say you changed my life because I had a-- there was a prominent economist from the '70s who called me up a few years ago. He said, "You changed my life." I said, "How?" He says, "I don't think forecasts anymore. I tell people what I think is going on. And I tell them what I think the implications are."

Katie Koch: Is that gloom and doom? One of those economists?

Howard Marks: I'm not going to tell you. But I mean, that's so gratifying.

Katie Koch: You've put him out of business.

Howard Marks: No, I improved his business. I made him more valuable to his clients.

Katie Koch: By not forecasting.

Howard Marks: By not forecasting. If forecasting is not valuable, then you can do a great service to your clients by telling them that.

Katie Koch: Okay. I want to pick up on that answer to say that we really are so appreciative of you sharing all of this investing wisdom with us. And grateful to you for making the time today.

Howard Marks: Well, we-- we and I have had a great relationship with Goldman Sachs. They've been a great help to Oaktree. They took us public. They put us on their true network. And as I told you, they even offered me a job in '77. So, I have a soft spot for Goldman. I'm glad to come back.

Katie Koch: Thank you, Howard. Appreciate it.