



Missive

NOVEMBER 21, 2023

Thankful For James Chanos

Dear fellow investors,

We have never met Jim Chanos, but we know him well through business media. He is the leading short seller of my 43-year career on Wall Street. Jim is a forensic accountant who took advantage of superior number crunching to sell stocks short and do the markets a huge favor by exposing maniacal/nefarious investments. He recently announced the closure of his hedge fund named after the Greek word for cynic (Kynikos).

Even though we are eternal optimists by nature as long-only value managers, we relished Jim's thoughts and studied his logic. He attempted to do on the short side what we try to do on the long side. He sold short popular and unmeritorious common stocks with confidence that economics would win out over time. He did this even though there has been a strong positive bias to the performance of the stock market.

Jim is a contemporary of mine and we are both 65 years old. I came to know of him when he successfully shorted a former piano maker turned finance company called Baldwin United. From that time forward, we would always turn up the TV when Jim showed up on one of the business channels. His opinions were valuable and caused us to stop, think, and ponder.

My favorite example of Jim's clear thinking came after my son, Cole, and I traveled twice to China in 2011 and 2012. We'd seen a video from SBS Dateline in Australia about the "Ghost Cities of China" and began to expect a severe unwinding eventually. Jim was short the banks in China who were being forced by Communist Party leaders to grow the local economies and keep up the high GDP growth numbers that BRIC trade investors coveted. It caused us to avoid energy, commodities and international common stocks inflated by what we called the China "Kool-Aid."

We did well from what we learned from Jim about Chinese banks, but as happens many times, the market can stay exuberant longer than short sellers can stay solvent. Even though Jim was dead right about Chinese banks, their decline didn't happen soon enough to reward the Kynikos Hedge Fund Jim ran.

Now, Jim is closing his hedge fund. He said, "It is no secret that the long/short equity business model has come under pressure and interest in fundamental stock pickers has waned." To us, this looks very similar to what Julian Robertson said when he closed his hedge fund in early 2000 at the height of the tech bubble. He said something on the order of, "I just don't understand these markets anymore!"

There never is a bell that gets rung in the stock market, but Jim Chanos throwing in the towel during an AI frenzy looks to us like what happened late in the DotCom Era. Thank you, Jim Chanos, for enriching our discipline and being a voice of reason in markets that require fear of stock market failure.

Warm regards,

Bill Smead
Chief Investment Officer

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