



# Missive

DECEMBER 4, 2025

## The Price of Free

Dear fellow investors,

For over eighteen years, we have maintained the same investment discipline and the same eight criteria for stock selection. We have deliberately sought opportunity in the sectors and structures the market has decided are too complicated, too cyclical, or simply no longer fashionable. This philosophy has rarely felt more necessary or more lonely than today.

There is a 45-year-old paradox that almost no one on financial television ever mentions: the Grossman-Stiglitz Paradox. Essentially, it says that information is costly to produce. Someone has to pay for the analysts, the models, the site visits and the career risk of being wrong for a period. In return, those informed investors must earn enough gross excess return to cover their costs. If they don't, they stop doing the work, prices drift away from fair value and markets become inefficient. Perfect efficiency is therefore impossible; there must always be some mispricing left on the table as compensation for the people who keep the scale honest.

Index funds and ETFs are the greatest free-rider scheme ever invented. They capture whatever efficiency active managers create without paying a dime for it. The more money that flows into passive vehicles, the smaller the base of active capital that has to shoulder the entire cost of price discovery.

Valentin Haddad and his co-authors have now put hard numbers on the damage. Over the past two decades, the rise of passive investing has made the demand curve for individual stocks roughly 11 % more inelastic, with another ~24 % coming from the retreat of traditional active management. Prices have become far less responsive to economic reality.

In a textbook world, active managers would simply step into the widening mispricing and restore elasticity. In the real world, they are terrified of being fired. Haddad's model shows that active managers do respond—by trading more aggressively when surrounded by passive capital, but only enough to offset about two-thirds of the distortion. The remaining one-third festers. Career risk, quarterly benchmarking and consultant scorecards cap how far any human being is willing to deviate before the redemption notices arrive.

Michael Green takes Haddad's math and puts it in what we feel is the correct context: when passive owns half the market, the remaining active managers would need heroic (or leveraged) skill to move prices sufficiently to be compensated for their research budgets. Most can't or won't. The result is a slow-motion tragedy of the commons for price discovery.

We are left with a market that looks serene on the surface, with record-low realized volatility in 2025, while the underlying plumbing is more brittle than at any time since the 1930s. Mega-cap stocks, the most index-owned and least elastic names on the board, trade like 1999 internet stocks, desperately pushing AI as the new technology paradigm. Certain pockets of the healthcare sector, small-cap stocks, homebuilders, energy, materials, international equities, and complex corporate structures, where passive penetration tends to remain low, now offer the widest Grossman-Stiglitz compensation in a generation.

This is not theory. It is playing out in real time.

We have typically made our best returns by swimming against the tide, into assets the market has temporarily exiled and into companies the Street has decided are no longer relevant in this new AI age or are too complicated to love. The best examples are our investments in homebuilders, malls, and energy in 2020. Complexity has become a sin. Rigorous, bottom-up valuation has taken a back seat to comfort, conformity, and asset retention. What matters now is how easily the story can be digested by the masses, not the intrinsic value of the businesses beneath the ticker.

We are invested in a company that somehow managed to check virtually every box the market currently does not like. APA Corp (APA) is an upstream oil & gas producer completely exposed to the price of oil & gas, with a geographically diverse set of assets scattered across the Permian Basin, Egypt, Suriname, Alaska, and the North Sea. By today's lazy shorthand, that makes it an impossibly complicated story to sell. We see it differently.

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On a disciplined sum-of-the-parts basis, APA trades well below what we believe the assets are intrinsically worth and currently sits at roughly 80 cents on the dollar of its invested capital. This is a company that has generated close to 30 % return on invested capital over the past five years and carries a netback breakeven (including dividends) in the low \$50s per barrel. At \$65 WTI, you are effectively buying the crown-jewel Permian acreage, U.S. natural gas contracts and the locked-in Egyptian gas contracts while getting Suriname exploration upside, the rest of Egypt, and the entire Alaskan position for next to nothing. This is not a discount for complexity, rather it is a free call option on assets the world has temporarily written off. Add one of the strongest balance sheets in the sector with a 14-year weighted-average debt maturity at a fixed 5.6 % coupon, as well as high insider ownership and aggressive insider buying over the past twelve months and APA checks every box on our eight criteria. While the market may or may not reward us, anytime we can purchase a collection of assets where we are paying for only one or two and getting the rest plus upside optionality essentially for free, that's the kind of asymmetric bet we are willing to take.

Play The Long Game,



**Seamus Sullivan**  
Senior Analyst

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