



Newsletter

SMEAD INTERNATIONAL VALUE — 4TH QUARTER 2025 (12/31/2025)

From Mythos to Logos: An Investor Tragedy

In reading David McWilliams' recently published book, *The History of Money: A Story of Humanity*, he argues for the transition that the Greeks made. He explained that they went from the mythos to the logos dominating their society. Mythos is defined as "a pattern of beliefs expressing often symbolically the characteristic or prevalent attitudes in a group or culture." For the Greeks, this was dominated by their view of the gods like we know from the Iliad and the Odyssey.

Logos, by definition, is "reason that in ancient Greek philosophy is the controlling principle in the universe." When you account for the biblical definition of logos (from John 1:1), logos can be seen as truth with controlling principles. For the Greeks, this was philosophy (Plato and Aristotle), mathematics (Pythagoras) and strategy (Alexander the Great). These logical and analytic frameworks are what became the bedrock of Western thought. We must remember that it took time for even the Greeks to believe this, and it took even more time for it to be accepted by a wide audience. After all, the age of enlightenment didn't peak until the 18th century. While we don't believe this will take centuries (we are too pragmatic for that), we must recognize that it also takes time for the culture to change from mythos to logos in investment markets. We will discuss some of the beliefs circulating in investment markets today.

American Exceptionalism

This was the dominant mythos entering 2025. To summarize the mood among investors, America is the most dominant capitalistic society and system. Therefore, its ideals, entrepreneurs and incentives may provide the highest financial returns for a foreseeable period of time. This is heightened by the America First politics and the trailing returns of US equities.

This theme and idea have led investors to believe that anything is possible. It's similar to what Pedro Sanchez once said in the movie *Napoleon Dynamite*, "Vote for me and I'll make your wildest dreams come true!" The wildest dreams are a new technological paradigm in AI, crypto, and no foreseeable issues in asset pricing. This is undergirded by the largest capex spend in US history, since the drill, baby drill mania of 2014 or the telecom/internet mania of the late 1990s.

Logos is already showing up in this subject as we begin to see credit markets reprice the risks of large spending in capex and weaker capital structures. The more cold and analytical investors become, the more the idea of the mythos we believe will fade with this.

Europe as a Basket Case

The mythos of Europe has long been seen as over-regulated, antiquated and plagued by poor decision-making. It was nothing like the "move fast and break things" mantra of others. This mythos was pronounced with the sovereign debt crisis, weak banking and the weak defensive response to the Ukraine war. That war has served to be a wake-up call in many respects for the continent.

The logos provided a much different view. The European securities were priced as if problems would last for many years. However, capital allocation and decision-making have become far more analytical. Banks on the continent believe they must earn their cost of capital and provide investors a reward for sitting in the shareholder register. Cost-to-income ratios declining, stock buybacks and consolidation are all part of this coldly analytical logos.

What's surprising is that this logos is showing itself and most global investors don't care. The old saying is that dogs chase cars and people chase stocks. Until people are chasing this logos, most investors may still be lost in the mythos of the past. With Germany getting rid of its debt brake to prepare for rearmament, we begin to see a future driven by returns and investment, even at the cost of inflation.

Drill, Baby Drill

The mythos still believed by investors harkens from the 2010s view of the Permian as the swing producer of the world. The idea is that American energy producers will drill and pump regardless of price, because that's what they do. This mythos is furthered by the mid-single-digit returns over the last ten years, even for the majors, who should have been winners in a tough era. Add one last piece to the mythos, the Saudis can stick a straw into the ground and oil by the billions of barrels comes flooding out. These represent the mythos of the oil sector globally.

The logos paints a very different picture. Capex, as noted by barrels per rig per day, has moved to higher levels that coincided with attractive entry points to the oil stocks. The politicians say drill, but this shows American producers are unwilling. OPEC has increased its supply on paper to the global oil market, but the actual production increases have been muted relative to these pronouncements.

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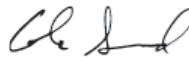
One part of this reason is that OPEC nations were, in some cases, already lying about their quotas and producing higher amounts. The second reason is that it's not very easy for OPEC to increase production, even if it would like to. As an example, Saudi Arabia is the only OPEC country that can bring back a meaningful amount of production at 2.1 million barrels per day of excess supply. If American production declines, these barrels become increasingly important in meeting future demand, which is projected to grow by 1.4 to 1.5 million barrels per day in 2025. This means that there may be only two years of foreseeable supply growth to meet the world's needs for the future. If the lower oil prices are like other goods, people consume more at lower prices as we learn time and time again in economics.

Mythos or Momentum?

The final thing we'd like to point out from Mr. McWilliams' book, which we mentioned earlier, is that he believes there are only two types of investors: momentum and value. In a discussion with David, we asked him if that is similar to the analogy of mythos versus logos. He hadn't thought of it like that, but he can understand why they may be the same. The momentum investors need a story. The old saying is that stocks are sold on a story. This fits the momentum markets of the past. The future is where the momentum investor is always going, and it sounds just as fun as the stories of Hercules.

The value investor is the person trying to understand how businesses are priced by different attributes like their capital structure, their returns on capital and the future growth and capital allocation. This is more coldly logical and analytical, but takes the same faith needed to say, "In the beginning, was the word." We can't know the future, but we know that Zeus didn't do much to change the world. Plato did. We think the logos will conquer again.

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The recent growth in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Margin of safety is the difference between the intrinsic value of a stock and its market price. The price-earnings ratio (P/E Ratio or P/E Multiple) measures a company's current share price relative to its per-share earnings. Alpha is a measure of performance on a risk-adjusted basis. Beta is a measure of the volatility of a security or a portfolio in comparison to the market. Growth investing is focused on the growth of an investor's capital. Leverage is using borrowed money to increase the potential return of an investment. Momentum is the rate of acceleration of a security's price or volume. The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share. Profit margin is calculated by dividing net profits by net sales. Quality is assessed based on soft (e.g. management credibility) and hard criteria (e.g. balance sheet stability). Value is an investment tactic where stocks are selected which appear to trade for less than their intrinsic values. The dividend yield is the ratio of a company's annual dividend compared to its share price.

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