

WINNING

By William H. Gross | August 24, 2022



Winning isn't everything, nor is it "the only thing" as Vince Lombardi once said. Still, it is better to be on top instead of the bottom. Not of other people - but on top of things; in control of one's life. Wildness tamed - or at least subdued. More moments of peace than not.

I've had my share of victories but also life-molding incidents of defeat - the anguishing humiliation of which tested me and ultimately helped shape my life. For me, not making the flag football team at Covington Junior High came first. Crushing! Then came four years of subpar grades at Duke; too much poker. Two years later an ego-bruising tour of Naval duty in Vietnam; I was a lousy officer. After that, it was up and up but with appreciation for the downs.

It was, and still is, never clear to me as to whether the ups and winning results in that much more happiness than losing, mainly because it often is measured in nanoseconds or at most the lifecycle of a butterfly. Still it is better to move through the second half of life as a billionaire rather than the alternative. More stressful, but many more chances to "buy" temporary happiness as with a private plane or a nonchalant attitude toward medical bills. But rich or poor, the thing is to be happy no matter what the circumstance. The real secret is to accept everything and to expect anything and then future tragedies disappear or at least lighten. Losing early can lead to winning but then experience foretells that losing is just around the corner. So lose a little, win a little but accept the inevitable decline. Winning at anytime along the way though is like chocolate frosting on a devil's food cake. It tastes good but ultimately doesn't last.

Losing in financial markets can certainly lead to later prosperity if lessons are learned - just don't lose too much. My first bond trade took place several years before PIMCO was even born and involved investing \$10,000 (margined) in 30 year Treasury bonds. Two weeks after the purchase I was wiped out! Lesson? Beware of leverage and non-diversification. Today's markets, both bonds and stocks, have been levered by \$6-7 trillion of Fed balance sheet expansion and perhaps \$5 trillion (15% of GDP) of unnecessary fiscal spending, the result of which has led to overextended stocks, ultra-low yields and the inevitable acceleration of inflation. 4-5% future inflation does not justify 2.8% 10 year Treasury yields, nor 40+ P/E ratios for many growth stocks with as-yet nonexistent earnings. Equity bulls touting 75 basis point declines in the 10 year Treasury as justification for a 15% bounce in the NASDAQ fail to recognize that the same 10 year inflation protected Treasury (TIPS) has hardly moved lower during the same period. TIPS are the key because they eliminate inflation as a risk and discount the value of future earnings more accurately. Right now, most intermediate TIPS congregate around 0%, an historically low level by at least 1%. 0% 10 year TIPS will not produce a recession strong or long enough to bring inflation back to 2%. Real and nominal yields have more to rise - a prospect unfavorable to both bond and stock Markets.

My portfolios remain defensive, selling out of the money Treasury calls, as well as out of the money strangles (puts and calls) on high volatility stocks. AMC for instance, the beguiling theater stock with 40% of revenues coming from soft drinks and popcorn, trades today at a one month volatility of 90%, meaning over the next 22 trading days for the next month, the stock is priced to move 11 points with the stock now at 25. They've gotta sell a lot of popcorn (and a lot of their soon-to-be-issued APE preferred stock) to make that happen. Selling volatility was a key to my success at PIMCO. Now, (in small amounts within a diversified portfolio) this is a juicy prospect for winning in the short term, as are other high flyers in the 100% volatility camp. Otherwise, stay defensive. I like AT&T and Verizon at 6% dividend yields as well as attractively priced buyout prospects such as Citrix Systems (CTXS). Solar energy stocks despite recent runups look good - my favorite being Canadian Solar (CSIQ) as a 20% PE.

Chocolate icing on a devil's food bear market cake? Sure but in this market, the thing is to expect anything and everything. Try to be happy.