

**Exchanges at Goldman Sachs**  
**Investing with Oaktree Capital**  
**Management's Howard Marks**  
**Howard Marks, Co-founder and Co-chairman,**  
**Oaktree Capital Management**  
**Katie Koch, Chief Investment Officer, Public Equity,**  
**Goldman Sachs Asset Management**  
**Allison Nathan, Host, Goldman Sachs Research**  
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**Allison Nathan:** Investors are facing one of the most challenging backdrops in recent years amidst slowing economic growth, rising inflation, and geopolitical conflicts. I'm Allison Nathan and this is Exchanges at Goldman Sachs: Great Investors.

In this special series, Allison Mass, Chairman of our Investment Banking Division, and Katie Koch, Chief Investment Officer of Public Equities in our Asset Management Division speak with the world's most respected investors about their investing strategies, career trajectories, and their outlook for markets and economies.

I recently sat down with Katie Koch, who shared highlights

from her conversation with Howard Marks, co-chairman of Oaktree Capital Management, one of the world's largest investors in distress securities.

Katie, Howard Marks is a big believer in market cycles. And he's made a career of investing during periods when others were, I mean, frankly just afraid to do so. So, what did you learn from your conversation with Howard about his ability to maintain conviction during past downturns?

**Katie Koch:** Allison, this was a really timely conversation with Howard because, obviously, we're in a pretty challenging market cycle at the moment. And it was great to hear his wisdom on these cycles. And he believes that we are at a point where things are, actually, somewhat attractively valued. Not everything, but some things, which you'll hear more about in the interview.

He also talked about how this is a difficult time to maintain conviction in investments, when markets are difficult like they are right now. And he spoke about, which I thought was quite poignant, the importance of having great partners in investing. And how having a partner like Bruce Karsh, who he really respects and have complimentary skill

set, helped him invest during these very difficult parts of the cycle.

And ultimately, as we know, this is really where there can be tremendous wealth creation, to be a buyer when many other people are sellers. And to not be afraid about these periods of dislocation. And to, in fact, see them as an opportunity.

**Allison Nathan:** I'll let you take it from here, Katie. Here's Katie Koch in conversation with Howard Marks now.

**Katie Koch:** I'm Katie Koch, chief investment officer of public equity at Goldman Sachs Asset Management. Welcome back to another special edition of Exchanges at Goldman Sachs Great Investors.

Today, I'm really excited to be speaking with Howard Marks, a pioneer in the field of alternative asset investing. Howard is the co-chairman of Oaktree Capital Management. And he is renowned for his insights on market trends, risk and opportunity, and his client memos, and two best-selling books. Howard, we are so fortunate that you've made the time to join us in our live audience

with all of our employees. A lot of investors in there who appreciated so much of that investing insight and wisdom. And also here, one on one, in the studio.

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

**Katie Koch:** So, Howard, those who have been readers of your memos for any meaningful period of time know that there are a few things that you consistently dismiss and a couple of things you believe in very strongly.

So, you don't believe in economic forecasts, outside of, of course, our own Goldman Sachs Research team. And you often quote John Kenneth Galbraith who says, "There are two kinds of forecasters: those who don't know and those who don't know they don't know." But you do believe in market cycles. So, I want to start by asking you a few questions around major market cycles. And I want to start with 2008 because that was a very defining period for Oaktree. And I want to ask how you were able to know, if you don't believe in forecasting, that this was the time for you and your co-CIO Bruce Karsh to put 500 to million a week to work over a 15-week period, I think it was during the fall of '08, in distressed debt. And I think you did 650

million total across the firm. So, 10 billion while everyone else was stampeding for the exits. If you weren't forecasting what was going to happen, what were you doing?

**Howard Marks:** I think it's very hard to forecast the future. I think it's rather easy to forecast the present. And I say that a little tongue in cheek. But what I mean is we never know where we're going, but we sure as hell ought to know where we are. And where we were in the fall of '08 was that we had lost Merrill Lynch, Bear Stearns, Washington Mutual, Wachovia Bank, AIG. And now Lehman goes under and now there's a panic. And there's a believe that the financial institutions are all going to melt down. And people are selling things in panic.

And we didn't make a prediction. I didn't know that the world wouldn't end. But I merely reasoned that-- well, first of all, I thought that people were-- there was rampant pessimism. Which is, right, like the great necessary condition for tremendous bargains. But I also felt that if we bought and then the whole financial system melted down, it wouldn't matter what we had done. But if we didn't buy and the system didn't melt down, then we didn't do our job.

We were hired to invest money under exactly those circumstances, or maybe a little less dire. But Bruce and I reasoned that it was our job to put money to work.

**Katie Koch:** You make it sound easy when you say it. But it's actually quite hard because your emotions and your psychology would be pushing you in a different direction. It's a time of great fear. So, is that something you support yourself through on the bottom? How did you maintain that conviction to go against that?

**Howard Marks:** Well, first of all, Bruce and I support each other a lot. And I think the fact that we've been partners now 35 years, at that time it was only 22, but we have so much respect for each other that if I say we should invest, he acts as if I know what I'm talking about, and vice versa.

But, you know, these things would be very hard in isolation. And I think having a partner to do it on a joint basis is very helpful. But we've also been through this a few times.

You know, our first crisis was '90/'91. Our second crisis

was '01/02. We made tremendous amounts of money from those. So, our conditioning is kind of Pavlovian. Our conditioning is that a crisis or a meltdown is an opportunity for bargain hunting, not something to be afraid of. And we had this money sitting on cash. We had not invested it. And then felt the declines. And, well, what do we do now? How do we dig out?

We had cash sitting on the shelf and we had raised the biggest fund in history for such an opportunity. And all we had to do was buckle down and put it to work.

**Katie Koch:** And as you said in your September 2008 memo, you quipped, most of the time the end of the world doesn't happen.

**Howard Marks:** Well, that's right.

**Katie Koch:** And it didn't happen this time. You guys went on to invest, until now. And I just want to ask you one question about your partnership, there's not a lot of investing partnerships that have the durability as the one that you've had with Bruce. Why do you think that is that you've been so successful in that investing partnership?

**Howard Marks:** I think that's easy. Number one, vast amounts of mutual respect. We've never had an argument in 35 years. And we've had intellectual--

**Katie Koch:** Never?

**Howard Marks:** Never. We've had intellectual disagreements. But the other thing is that he knows there are things that I can do that he can't do. Or doesn't want to. And I know that there are things he does that I can't do. And that, in my opinion, is the foundation for a healthy partnership.

In too many partnerships, eventually, one side or the other says, you know what, I can do everything I can do and everything he can do. What do I need him for? And then it falls apart.

So, I wrote a memo about 20 years ago in which I said that the basis for a great partnership is shared values and complimentary skills. I think that really describes us.

**Katie Koch:** And also, I guess, some humility, which we'll



talk about in a bit of accepting that other people have strengths that you might not have.

**Howard Marks:** Exactly, exactly. And that, in turn, requires, I think, that your egos be in check.

**Katie Koch:** Now, I want to move on to talk about another cycle that's playing out right now, which is tech. You have often quoted Mark Twain who said history doesn't repeat itself, but it often rhymes. Which led me to go back and read a memo that you wrote in January of 2000 called Bubble.com, which I highly recommend to everybody listening to go back and read because it is so applicable to the environment that we're in now.

Some observations: technology can change the world without generating profit. Eventually the companies need to make money and valuations matter. And something you and I have spoken about, Howard, that people tend to shift the valuation standards to make it fit the moment. So, then it was total addressable market and eyeballs. And now it's total addressable market and just focus on the top line. So, a lot of things that have repeated themselves in this environment.

A couple of quick questions on the back of that. The first is, you've been writing memos for these ten years, but you said this memo made you an overnight success. What did you mean by that? And why did people finally cotton onto this one?

**Howard Marks:** Well, in the first ten years-- I started in 1990. And in the first ten years I really never had a response. Not only did nobody say it was good, nobody ever said, "I got it." And, you know, I wondered about what kept me going. But I think it was just the fact that I enjoyed the process so much.

And then I was struck in some of the things I was reading. I was reading a lot about the tulip craze and the South Sea bubble and that kind of thing. And I was struck by the parallels to what was going on in tech land.

So, I spent, really, the fall of '99 developing the thesis and put out the memo on the first day of 2000. And it just seemed-- I guess a lot of the time I just looked at these things and I say, "Too good to be true." And that's what that seemed like, you know? People said, "Well, the internet

will change the world." And certainly, it did. But that is not to say that every internet company that starts up with no revenues and questionable business model is going to survive.

And I was struck by how unproven companies, companies that had never had a dollar of sales, were being treated like successes. And I guess I had been around long enough to know that that seemed unrealistic.

**Katie Koch:** And if you compare that to the period now, one might argue there are more companies with proven business models than there were in the last crisis. Yet the NASDAQ is down 30 percent. Parts of the software market that are proven business models, some of these companies are down 50 to 60 percent. So, do you think that this could be different this time? That maybe this might actually be a moment to get involved in some of these companies?

**Howard Marks:** You know, I use the Mark Twain quote all the time, "History does not repeat but it rhymes." So, it doesn't repeat absolutely. One of the differences was as you suggest, in the '90s, in '99/2000 the market treated every entrant as if it would be a success. In 2020 and '21, it

bestowed great valuations on proven companies, the FAAMGs: Facebook, Amazon, Apple, Microsoft, and Google. Some of the greatest companies we've ever seen. They deserve high valuations. Did the valuation get too high? Is that why it's come off? Maybe so. But it's very different to be talking about companies of that caliber than the rinky-dink operations that were being lionized in '99.

**Katie Koch:** And so, maybe there could be an interesting entry point here, public markets have discounted it. I want to ask you just one question about private markets. You and I spoke a little bit about this previous. But private markets haven't yet discounted the same level of carnage that's been discounted in public markets. Do you have any views on that and how that might play out if those marks come down in the coming quarters? Do you think it matters? It doesn't matter? How do you think about that?

**Howard Marks:** Well, you know, there's a saying in golf, every putt makes somebody happy. So, the fact that private asset valuations have not reflected the carnage, that's great news for the people who are invested in those things. They feel a lot better. They look at the stock market. They see how much it's down and they say, "My things aren't down

like that."

But on the other hand, it tells the person who hasn't invested or who might consider investing that they should probably hold off because maybe the prices are artificially high. Maybe the prices of public market assets have reflected some degree of psychological capitulation while the prices of private assets have not. And maybe that just means that public assets are cheaper than private assets. Or maybe it means that private assets will come down in the future as they catch up in terms of depreciation.

But one way or the other, investment is the discipline of relative selection. We have choices. We have to make intelligent choices. That's the discipline. And if it's true that public markets go down and private markets do not go down correspondingly, then you would say that suggest to me that public assets are cheaper and private assets are more expensive and you should wait till they catch up.

**Katie Koch:** Yeah, that psychological pain of the daily mark to market when it's going down is real. So, it's nice to hear from you that might actually create opportunities. That that psychology that plays out much more amplified

way in public markets, in theory, could create some relative investment opportunities.

**Howard Marks:** Exactly. You know, Buffett says, "I like hamburgers. And when hamburgers go on sale, I eat more hamburgers." Nobody likes to see their portfolio values go down. But it is the equivalent of things being put on sale. And you're upset to see the losses. But hopefully that won't paralyze you and you can swing into action and say, "You know what, they're cheaper. I'm going to buy more."

**Katie Koch:** I want to ask you just one more historical question putting the current tech situation in context. You put out an October 2020 memo called "Coming into Focus" where you compare and contrast the FANGs versus the Nifty 50. And you pointed out that if you had invested in the Nifty 50, a list which includes companies like Xerox, Kodak, Polaroid, and Simplicity Pattern, which I had to look up. I didn't know what that was, but it's a company that makes the patterns for you to make clothes. If you had invested in that Nifty 50, including that list of companies, the market fell in half in the early 1970s and they declined more. So, you would have actually lost half your money over that period, maybe more. And why was that in your

estimation? In the memo you wrote it's because investors hadn't been sufficiently price conscious. Can you talk a little bit about this point, about being price conscious?

**Howard Marks:** Well, look, I went to work in '69. '69, '70, '71 was probably the apogee for those companies. And the official dictum among the banks, which were the important investors of the time was that these were such great companies that there's no such thing as a price too high.

And I talk about the worst four words in the world or the worst five words. But those are terrible words. No price too high. Good investing is not about buying good things. It's about buying things well. You have to understand the difference. It's not what you buy, it's what you pay. And in their naivety, the banks were saying, "Price doesn't matter." Price always has to matter.

Now, if you can find a great company, it may not have any earnings. And maybe it doesn't have any sales. And so, on the conventional metrics it looks expensive. But still, price has to matter.

**Katie Koch:** And you had this experience of watching

some of the world's best companies deliver terrible returns for the equity markets.

**Howard Marks:** Absolutely.

**Katie Koch:** And then you actually went into a practice where you invest in some of the world's worst companies through a different part in the capital structure. Tell us what you learned from that.

**Howard Marks:** Well, I was lucky in '78. I would say that my time in equity research and my time as director of research didn't go so well. The bank had a terrible record thanks to its participation in the Nifty 50. Just terrible. And so, you know, a new [UNINTEL] came in and changed personnel. I'm lucky I didn't get fired. But he asked me to start up a fund to invest in convertible bonds. And then a little later, high-yield bonds. And you know, prior to '77/'78, it was literally impossible to issue bonds for a company that didn't have an investment grade rating. And the innovation of that period was that you could raise money for a low-quality company if it offered high enough interest to compensate for the risk.



And this was such a more practical approach. Not saying there's no price too high, which is obviously a ridiculous statement. And instead saying there is an interest rate high enough to compensate for the risk. That makes so much more sense.

And if you think about it, Katie, the whole world operates that way now. What do we say? We don't say we want to invest in things that don't have any risk. We say, what are the risks? What's the potential return? Is the potential return more than compensatory?

And I think that was the innovation of the time. And that has set the stage for the operation of the financial markets ever since.

**Katie Koch:** So, this memo came out October 13, 2020, where you said these could be great companies, but we should always be aware of price. Do you want to guess what they did relative to the S&P from then until now?

**Howard Marks:** From September of '20 till now. Well, of course, it's a bit of a trick question because they are a big part of the S&P. So, there would be a--

**Katie Koch:** But you can back them out too.

**Howard Marks:** Oh, you can back them out. So, well, I would guess that they're down relative to the S&P.

**Katie Koch:** They have underperformed by 30 percent.

**Howard Marks:** I wouldn't have guessed that.

**Katie Koch:** So, I just want to point out that for a guy that doesn't like forecasting, you seem to be pretty good at forecasting.

**Howard Marks:** But I wasn't forecasting. See, what I try to talk about is the implications of the current conditions, which is different from saying what's going to happen. And I can so to you, A looks cheaper than B. That suggests that A will do better. But I leave that-- you know what Einstein said, Katie?

**Katie Koch:** Unh-uh.

**Howard Marks:** He said, "I don't think about the future.

It'll come soon enough." But I think we can get a reading on the present.

**Katie Koch:** I have one last question for you just in terms of where we are in the cycle now. So, we're a fan of looking at your Poor Man's Almanac for Investing, which you put out in your first book. And as a simplification of it, there's basically a column that you look at that has checkmarks for positive and negative. And if people are too positive, that's a moment where you think people should hold onto their wallets. So, just to give context for people, things like GPs have all the power at negotiating deals versus LPs. Lenders are eager versus lenders are reticent. Capital abundant versus capital scarce. And you've added that when you're too popular at cocktail parties, that can be an indicator that things have gotten too far. A lot of people listening to this will want your wisdom on where are we right now in this cycle?

**Howard Marks:** I think we're at a reasonable place. I think that most of the forces in the markets are in reasonable balance. Optimism and risk taking was rewarded from '09 through '19. That's a long time. And people start to say, well, you know, I guess optimism and

bullishness and use of leverage and aggressiveness, these are the right things.

Then, of course, these things were terribly punished in March of '20 with the pandemic. And then there was a bounce back. And the bounce back was very powerful. And again, the risk takers made a lot of money. And it seemed that riskier assets were garnering high returns, which also encourages further risk taking. And that ruled until, let's say, what was it, six months ago, perhaps.

So, you know, bullish factors were in the ascendancy for a long time. And the bulls made money. And conservatism was not rewarded. Now, the people who are the most bullish, the people who had the best returns in 2020 are kind of back down to earth. Nobody's writing favorable articles, fawning articles about them anymore. I think these factors are in balance. I think we're in a reasonable place. I think that the excesses-- I look for excesses. I think the excesses have been corrected.

**Katie Koch:** Okay. So, you feel a little bit better about the forward from here. And ending with a quick personal question, you and I have talked a lot about this, that we

know one of the most important things is to know what you don't know. But then you also need to know some things that others don't know. And yet, you are in this business. And you go out of your way to tell us all the things that you know. And one might argue that would erode your advantage as an investor. So, what motivates you to share your wisdom in such a prolific manner?

**Howard Marks:** First of all, I don't consider the people I share these viewpoints with to be my competitors. They're my fellow man. And I want to help them. And I want to enrich their lives. That's number one.

Number two, I enjoy it. Writing the memos is my creative outlet. And I've enjoyed it now for 33 years. And I'm not going to quit. And I get too many nice notes from people saying, "That was a great memo. You made something complex clear." Or every once in a while, somebody writes me and says, "You changed my life," which makes me feel great.

And, you know, you might want to make the case that it has cost me a little money to be writing these memos. But I wouldn't give up the experience for anything.

**Katie Koch:** Howard, it really was a thrill and an honor to have time with you talking about investing and markets. So much wisdom that you've shared with us. Thank you for joining us on this Tuesday, June 1st, 2022.

**Howard Marks:** It's my pleasure.

**Katie Koch:** And thank you so much to everybody listening to this special episode of Exchanges at Goldman Sachs Great Investors. If you enjoyed the show, we hope you follow up with us on Apple Podcast, Spotify, Google Podcast, or wherever you listen to podcasts. And leave us a rating and a comment.

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