Goldman Sachs The Markets
How investors are managing rising volatility
Kerry Blum, global head, Equity Structuring Group, Asset & Wealth Management, Goldman Sachs
Sam Grobart, Host
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Sam Grobart: Amid record stock performance, what moves are founders and executives making with their portfolios? This is The Markets.

Hi, I'm Sam Grobart. Today I'm joined by Kerry Blum, global head of the Equity Structuring group within Private Wealth Management. Kerry, thanks so much for joining us today.

Sam Grobart: So, tell us a little bit about who your clients are and what you do for them.

Kerry Blum: Would love to. Thanks so much, Sam. So, my team works with Wealth Management clients to help them utilize the firm's capital markets platform to tailor the investments in their portfolio. So, that could either be building a portfolio and putting money to work in the strategic or tactical investments. Or for holders of concentrated equity positions, helping them think about how to manage the risk associated with the positions.

Sam Grobart: Tell me a little bit more. Concentrated equity positions? What does that mean exactly?

Kerry Blum: Large sized positions. Could either be on an absolute or relative basis. Sometimes that could be 90 percent, 95 percent of someone's overall balance sheet. Those would be founders of companies that go public, families that sell private companies to public companies and get equity as part of the deal consideration. And then more recently in the last capital markets cycle, we found an increasing number of our clients were GPs or LPs getting distributions from venture capital firms.

Concentrated equity can be a great way to create wealth, but on a risk adjusted basis. It's generally not the best way to maintain wealth. Just to put that into perspective, when looking at the Russell 3000 over the last 30 years, the median stock was 3.3 times more volatile than the index. And 23 percent of the stocks in the index lost more than a fifth of their value during the average calendar year.

Sam Grobart: Kerry, markets have been at or around all time highs lately. What kinds of conversations have you been having with your client base about that? What are they asking about?

Kerry Blum: Clients are very engaged right now. As you said, because the market is back to all-time highs, stocks have performed incredibly well. So, when we're talking to executives of public companies, most of those conversations revolve around helping them create sales plans. So, looking to find the right timing, price objectives to help them achieve their liquidity goals with the position.

In fact, if you look at the total sales of restricted stock by individuals and institutions, we're annualizing to be the second highest year in a decade, which is consistent with what we've seen in capital markets activity with 2021 being the outsized year.

Sam Grobart: And what about investors who are not executives of public companies, how does that change for them?

Kerry Blum: Yeah. So, we find that client set to be a lot more tactical and have the ability to dynamically adjust their implementation based on the opportunity set available. They have less constraints. And so, for clients interested in hedging, so reducing the volatility of an existing position via strategy such as collars, putting guardrails around your stock, the market conditions that drive those collar optics are particularly attractive right now due to two reasons. One, the overall rise in interest rates that we've seen over the past two years. But more recently, as there has been demand for call options for upside participation in a potential further rally, in the collar, our investors are selling those call options. And so, they're selling them at higher prices.

And so, the combinations of those two market dynamics, so, one, higher interest rates, and more demand for upside calls has led to collar optics where our clients can, right now, achieve additional upside of multiple percentage points just due to the market opportunity.

Sam Grobart: Now, of course, last week we had our colleague Lizzie Reed on talking about equity capital markets. And there does seem to be some restarting in the IPO market. What does that mean for your clients?

Kerry Blum: Yeah. So, we're spending a lot of time with clients who either just created wealth via capital markets events or have a high probability of creating it in the future. And a lot of those conversations are really focused on planning. So, helping them think about what will the path to liquidity look like? What are the different considerations to take into account? And also, making sure that they've spent some time thinking about trust and estate planning in conjunction with that wealth creation event.

Sam Grobart: And Kerry, what about clients who are looking to sell larger positions?

Kerry Blum: So, the ability to execute block sales has allowed clients to trade larger sizes at tighter discounts now as well. And that's due to the investment community's increasing appetite for risk assets broadly.

So, to give you an example relative to 2022 and 2023, we've seen the average trade size across the market increase by about 15 percent while at the same time, the average discount available to our sellers has tightened about 100 basis points given the demand environment.

Sam Grobart: So, Kerry, we're talking right now about market highs. But of course, this is in marked contrast to the equity sell off of 2022. And you referred to that earlier. That, of course, was the worst for US indices since 2008. What have been the lessons from that downturn?

Kerry Blum: Yeah. That's a great question. And I'm glad you ask it because the number one question we get from clients is what should I know? And so, we're all familiar with the concept of buyers' remorse and sellers' remorse. The sell off of 2022 introduced us to the concept of holders' remorse.

So, that sell-off, as you said, came on the back of particular strong capital markets activity. As a result of that capital markets activity, there was a significant amount of wealth creation. And many investors now had more concentrated equity positions. And they wanted to think about their path to diversification.

In many instances, we had worked with investors to help them on the path to partial or full diversification. But in some instances, they had been considering plans but had not yet implemented them. And that might have been because they were waiting for further price appreciation. Or sometimes they were just reluctant to make an execution decision. Or sometimes they just wanted to wait a little bit longer.

But when that sell-off happened and we saw significant valuation comparison due to the inflation concerns, in some cases, growth equity [UNINTEL] 50, 60, 70 percent. Over this time period, our clients experienced this holders' remorse or regret.

Sam Grobart: They got caught on the wrong side of that a little bit.

Kerry Blum: Exactly. Regret for not having taken action when they could have. And I think it's just a good reminder that be prepared. Spend the time in advance to think about what you want to do. And when those windows are there, move forward.

Sam Grobart: What move or data point has caught your eye recently?

Kerry Blum: So, as you and I have both seen through the end of the first quarter, the S&P has returned over 10 percent. The best first quarter performance since 2019. But when you unpack that a little bit, what you see is there's very strong performance as we know in mega cap tech.

Sam Grobart: Obviously.

Kerry Blum: And about half of the names in the S&P 500 are within 5 percent of their one-year highs. And so, looking at that more closely and understanding the factors that are driving it and where we can be more opportunistic with clients is something we're very focused on right now.

Sam Grobart: And lastly, what will be on your radar in the weeks ahead?

Kerry Blum: Yeah. So, three things we're watching right now. So, one, the macro backdrop, and in particular, economic data releases, central bank policy, interest rates, etcetera. Two, the capital markets cycle and the ability to help our clients navigate through upcoming capital markets activity. And then lastly, as we just talked about, single stock dispersion and what's happening at the single stock level.

Sam Grobart: Kerry, this was great. Thank you so much.

Kerry Blum: Thank you for having me.

Sam Grobart: That does it for another episode of The Markets. Be sure to find us on Apple Podcasts, Spotify, or wherever you get your podcasts.

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