**Think Wealth** Visionaries

By Sami Abouzahr, Global Head of Investments and Managed Solutions, Wealth and Premier Solutions, HSBC and Howard Marks, Co-Chairman and Co-Founder, Oaktree Capital Management

**Sami Abouzahr**

You wrote a memo recently called "A Look Under the Hood", where you were talking about risk and how people worry perhaps too much about volatility as being the primary measure of risk.

Maybe you could talk a little bit more when people are assessing what risk means to them, what should they be thinking about?

**Howard Marks**

Over the last three years, we've been in a very optimistic mood. Optimism has been rising. That's why asset prices have been rising so strongly.

At the beginning of November 2022, the market took a pronounced turn toward optimism, and that has continued unabated.

The S&P 500, for example, has more than doubled in three years.

Now, the companies didn't double in quality, they didn't double in potential, they didn't double in earnings. They just became more expensive.

The world has become perhaps more uncertain this year, and yet most stock markets have become higher priced. So certainly more expensive, and that we have to take that into consideration when we make our investment decisions.

I don't apply the word "bubble". This is just a judgment call.

The hallmark of a bubble is mania, irrationality.

And I think today people are optimistic, but hopefully rationally so.

So expensive, lofty.

It's gone from elevated to worrisome, all those things, and certainly not cheap, but I don't apply the bubble word now.

**Sami Abouzahr**

So it's not bubble yet, you're on watch, valuations are elevated.

What do we do in that kind of environment?

**Howard Marks**

I think that one of the things that every investor should do is sit down and have a conversation with himself and figure out what his or her normal risk posture should be.

And your risk posture should be a function of your age, wealth, income, proximity maybe to retirement, and importantly, your intestinal fortitude, your ability to live through fluctuations.

I think about a speedometer in a car, where zero is no risk and 100 is maximum risk.

Where should you be based on that matrix of characteristics normally?

We have an extended bull market cycle that has gone on almost without interruption for 16 years.

We have high valuation metrics, narrow credit spreads, So valuations are elevated. The world is uncertain. It depends really how conservative you want to be.

But I think this is a time, if you want to try these things, to be a little more defensive than your normal posture, a little less than a 75. I'm not saying sell everything and hide under the mattress, but a little more defensive.

Now, one of the reasons I don't like to go on TV too much is that they always ask me, should we buy or sell? Risk on, risk off. The world is not so black and white. It's a matter of gradation.

To me, I think the best way to do it is to shift somewhat from what I call ownership strategies, which are stocks, companies, and buildings, to lending strategies, debt, bonds, notes, loans. Because the risks in lending strategies are much less, and the returns there are contractual.

**Sami Abouzahr**

So you talk about shifting from more equity strategies to fixed income, to credit ones. You manage both public and private market strategies.

How would you position that relative to, let's say, direct lending, but also how do you look at the public bond markets, the liquid bond markets today?

**Howard Marks**

What I want to say here is I want to talk about diversification for a minute, because if it's done intelligently, it increases your probability of accomplishing your goals, and it's "free".

When I think about a portfolio of credit for investors like yourselves, one of the important dimensions is public versus private.

Another dimension is fixed rate or floating.

And then, of course, we have dimension by geography and by company, sector.

We concentrate our investments to take advantage of what we think we know, but we diversify to protect against what we don't know.

I like to assert that I know something, but not everything. And for those of us who feel that way, I think intelligent diversification is the answer.

**Sami Abouzahr**

That's great advice, Howard.

I wonder if you could leave one principle that has guided your thought process through these cycles that you mentioned and that maybe is particularly relevant for now that stood the test of time.

**Howard Marks**

I think that the most important thing is to be invested significantly and steadily and not tinker with it. I think that short-term trading is the enemy of investment success.

You can try to put it in the right thing at the right time and have more offence at some times and more defence at other times, It's not easy. If you do it right, you can increment the process.

But the most important thing is to invest, to have an intelligently constructed portfolio, diversified portfolio, so you can get through a variety of environments.

That's the most important single thing.

**Sami Abouzahr**

Howard, as expected. It's been insightful, humorous, thought-provoking.

**Howard Marks**

Thank you.