

FRIDAY, APRIL 14, 2023

Well, hello and welcome to the Dividend Cafe. I am recording from a land far, far away, have left New York City. We'll be back in California this weekend, but in the meantime, have penned really interesting Dividend Cafe this morning. And I want to tell you why it's a little bit different. My wife and I were having dinner last night. We're having a conversation. It starts going down one track to another. It brings up a subject, and then all of a sudden I found a kind of a application or utility that I was inspired to bring to you here in this Dividend Cafe podcast. You're going to have to bear with me a little bit because I need to connect some dots that are going to provide, I believe a very important practical and lasting investment application.

But I want to start by sort of setting up a critique of a concept of a, it is a character deficiency at times. It is a personality at times, but it's a concept that I refer to as the "Last Dollar". The notion that in a particular transaction that someone is fighting and scratching and clawing for the very "Last Dollar" on the table. And if you like me, have been a part of a lot of business negotiations over the years. You may relate to it instantly because there's so many things that could be relevant in this to when one is buying and selling a business and so forth. I've been a part of a lot of transactions myself, and I've obviously been a part of a lot of advising auto our transactions. But even if that is not your world and there isn't any relevance to your business selling it or buying it or something like that, a lot of people have bought a home. A lot of people have sold a home. And even just hiring somebody or basic day-to-day

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transactions, I'm referring to a mentality. A mentality that is what I would consider overly zealous of capturing the "Last Dollar". And this is not a critique of somebody looking out for their own interest. It is not a critique of self interest, of zealous representation, of looking out for your family, looking out for what is your scenario. I completely defend and quite candidly have devoted my life to defending the free society in a market economy. There is no part of what I'm saying right now that has to do with just voluntarily being a doormat. What I'm referring to is something that is very uncomfortable for a lot of people is the fact that the reason the book of Proverbs was written in the Bible is that there's a lot of gray in between black and white, and that not everything in a transaction is as binary is that's mine and that's yours. And there will be no in between. There is a particular approach that is not just humble and soft and whatnot. Those things can be really good. But what I'm getting at is intellectually aware of the fact that getting that perfect deal where you capture the "Last Dollar" is generally something only known in the rear view mirror. So therefore, an exorbitant amount of energy and effort and emotional attention is given to that, which cannot even be known anyways. So I don't necessarily make a karma argument against obsessing over the "Last Dollar". I make an empirical argument that in the pursuit of the "Last Dollar", one can lose a lot of dollars, that deals can fall apart. The most common thing I think that many people relate to is when the seller of a home couldn't get to a price on real estate that was very emotionally important to them. And then they end up selling for much less than that later, or perhaps not at all.

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I joke in the written Dividend Cafe this week that one day I would write a book about the amount of things I have heard from clients over the years about value of their real estate relative to what subsequently happened or didn't happen. And all six of the people who would read that book would be quite enlightened. These things happen a lot with real estate. But see, in that case it sounds like I'm just saying, "Oh, you mean I might obsess over the "Last Dollar" and it turns out I was unrealistic and I take less dollars later". Well, that's certainly one outcome that could happen and it's not good, but I'm referring to more than that and I look at kind of like the more institutionalized aspect of capital markets. An example came up more recently where so many people have gone to the CMBS market for commercial real estate lending. That's the Commercial Mortgage Backed Securities. It can be much cheaper than bank lending or some form of relationship lending, and one can save 200, 250 basis points in borrowing costs. It's a lot of money. And then all of a sudden they invite certain covenants conditions, inflexibilities contracts, a lack of relationship. That can be very beneficial. Maybe it's worthwhile, maybe it isn't.

But my point is the "Last Dollar" mentality keeps one from having a holistic pragmatism in the way that they engage those thought processes. As our company as alternative investors have grown more and more in the private credit space, we've sat down with some of the real premier asset managers that are doing more and more in middle markets

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lending to the direct lending space and been intrigued as more borrowers up market have begun to come to the private market space versus the high yield bond market or the syndicated bank loan market. And I've asked why are they coming? They're paying 200, 300 basis points more, and you realize, well, no, they're looking past the borrowing cost and squeezing the "Last Dollar" for the ability to transact quickly to the ability to transact without visibility. The sort of privacy and opacity could be important maybe for strategic advantages, for relational, for intellectual capital, let's say. There's various things that could matter, and in the grownup world that is a consideration. Cost is always one of them as well. But what I am talking about is a mentality in your day-to-day transactions that is holding on so tight to what you perceive the "Last Dollar" to be, that it could lead to poor decision making. And it isn't so much greed driven. It can be, but I think it's fear driven, and I think fear often is really the predicate to a lot of greed, and I'll save that discussion for another day.

What does this have to do with you as a regular investor? Well, I think that holding on to "Last Dollar" mentality is first of all, very often really the predicate to FOMO, the Fear Of Missing Out investing that says I have to be in whatever the latest fad shiny object of the day is. These kind of WeWorks and Theranos and high profile blowups of the last decade or so. The, we've seen this crypto thing last year, and people that couldn't get themselves take money off the table, but those that don't have a propensity for shiny object investing. What about just disciplined asset allocation? What about

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rebalancing? Isn't it by definition a form of repudiation of "Last Dollar" mentality? By definition, if I have a stock that is going to be 3% of the portfolio and it goes up and up and it's now 5% or 6%, if I believe it's at imminent risk of collapsing, well, then why would we even trim it back down to 3%? We would probably sell the whole thing, right? And yet, if I believe it's going to go higher, why sell at all? By definition, rebalancing back to target weight is neither a call that you think it's about to be a disaster, because if it was you'd sell all or a call that no, no, it's going to the moon because you wouldn't want to sell any. What it is is a forfeiture, a surrender of the "Last Dollar". I think it is going to go higher. I'm leaving money on the table by trimming these gains, but I'm doing it for the greater good of risk mitigation of rebalancing to a volatility profile that's comfortable because when I don't do that and bad things happen and my volatility exceeds my comfort level, then I'm prone to act even worse and other bad things can happen.

So there's a discipline to it that does not work when you're squeezing on for the "Last Dollar". There are so many examples of where this mentality can go wrong in investing. I just wanted to focus on a couple of the major ones, but I guess I would really tell you I don't think today's talk in the Dividend Cafe I wrote is limited to just the subject of our personal investing lives. I think it has a much broader utility across the way. We think as economic actors, as people that are buyers or sellers that are investors, that that could be in a part of any number of transactions, the way in which we engage. I don't think someone has to be a doormat or a sucker. I think

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someone could be a very rigorous, attentive, economic, self-interested person and at the same time get rid of the utter silliness that is squeezing for the "Last Dollar". Being willing to leave the "Last Dollar" on the table often can make you more dollars than you ever thought possible.

Thanks for listening. Thanks for watching. Thanks for reading the Dividend Cafe. Look forward to being back with you from California next week. Take care.

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Due to the publishing time constraints for us to produce our daily missive, podcast, and video, the best we can offer at this time is a machine-generated transcription which contains errors. We will continue to work to improve this service and appreciate your patience with us.