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FRIDAY, OCTOBER 16, 2026

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Hello and welcome to The Dividend Cafe. I'm your host, David Bahnsen, and I am very excited to talk to you all today about the money manager week that we had a week ago. We needed a few days to kind of not just recuperate, but sort of download, debrief, digest. We had an investment committee meeting on Monday where we presented all this to all the folks on the committee.

Brian Kenny and I spent a lot of time in these meetings. We ended up having closer to thirty than twenty meetings in total. And I'm not gonna sit here in today's Dividend Cafe and bore you all to pieces walking through the minutiae of all the meetings, but there are a few kinda high-level takeaways that I think are very, very, very important to all investors, and I'm gonna share those with you today.

But there's going to be one in particular I'm gonna spend most of my time with that was not only a profound, and I don't mind adding, a very disappointing takeaway of last week's meetings, but I think presents an incredible lesson for all investors. First, the history, the just basic background of what it is I'm referring to.

It was actually 2006 when I began doing this week of meetings. At the time, I still didn't have an office in New York. I didn't live in New York. And it was a much more limited Rolodex of relationships with money managers. But there were some that we worked with, and I was gonna

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be out here meeting with some clients, and it was important to me to spend some time with some of these managers.

And I realized after that how valuable the time was, not only the deeper level of questions I could ask people who actually run money versus sort of sales and relationship people that worked with the firms but also how much it challenged me to understand better portfolio strategy and what we were doing on behalf of clients and why.

And it became kind of an educational experience for me as well as a due diligence and vetting experience that we did on behalf of clients. Well, the coincidence of it all is a year later in 2007, I was now at Morgan Stanley, and let's just say that markets had begun to get a little funky, and there was a lot happening in the world.

And that year in particular allowed me to start asking a lot of more difficult questions, to start getting a feel for which managers were a little more intellectually engaged and others that were not. And then, of course, the next year, it not only was the year of the financial crisis 2008, but it was literally ground zero of the crisis when- I was here.

Two weeks earlier was the week that Lehman went bankrupt, that Merrill fell into B of A, that AIG went down. One week earlier was the week that Goldman Sachs and my employer at the time, Morgan Stanley, became bank holding companies. And the actual week that I was there was the day that the TARP vote failed which that day represented the largest percentage loss in the market we had had in a very long time.

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We would end up breaking that record other times just in the, you know, months that followed, and obviously, you know, all records are meant to be broken, I guess. But my point being that there was a lot of financial companies failing, a lot of companies merging. It was just, you know, massive experience.

And I was just sitting there meeting with hedge funds and meeting with money managers and I was soaking it up, learning as much as I could, and I really became quite obsessed with this trip at the time. Kept doing it year after year. My business was growing. Brian Szytel had joined me a couple of years later and began joining the trip on an annual basis.

And of course , Eventually Brian became my co-CIO and Kenny Molina, who chairs our Investment Solutions department, the three of us have done these together now many, many years. And Kenny having oversight of our alternative investment business has formed a lot of the friendships, relationships, whatever the word may be.

Because in some cases, it can even be us departing a relationship, but with a lot of our alternative managers, private markets, and so forth. So that's the history of it that has been going on a long time, and at this point now, we have a large enough business that our access to quality managers, depth of managers, it's wonderful and it's educational.

There's still not a trip where we're not learning a great deal, and we're really appreciative of the partnership we have with some of the long-standing managers. But we're also taking seriously the need to dive deep into points of view and understanding conviction or whatnot. And we can come out of some meetings very encouraged about some of the

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places we have client capital managed, and we can come out of meetings concerned, making changes.

And there was one such change this year I'm gonna talk about in a moment last year the interesting issue that happened, we run a growth enhancement portfolio where we are not focused on our normal dividend-growing equities. But we're saying, "All right, if somebody wants something outside the dividend growth realm and they're willing to take on higher volatility, higher octane, higher risk levels," but we're gonna insist on doing it at a reasonable price.

It's not gonna be momentum-driven. We have to stick to the bottom-up company orientation and fundamentals we believe in and where we don't think we're overpaying from a valuation standpoint, which is somewhat counterintuitive to the way most American investors think about growth investing. But it's how we think about growth investing.

And for a long time, we had a relationship with a, a money manager He is located here in the city. Was a small and midcap growth manager that was really just fantastic from 1990 to 2023, '24. You know, they had some years that, that weren't as good as others, but I mean, just really wonderful at finding companies that were growing revenues and growing earnings far more than other small and midcap companies were.

And what we learned in the mutual fund structure is that the basis of the stock is what the manager paid, and the tax ramification goes pro rata to the current investors, not those who were there when the company was paid for. So for example, if a manager buys a company

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and twenty years later it's up twenty times, then you buy the fund, then that stock goes down half.

The manager's still up 10X, you're down half and if they sell the stock, you're gonna get a massive tax bill even though you're down on the stock because they're passing on the tax bill that the manager had pro rata to the amount of shares you had. So consequently, a lot of managers do not sell stocks that end up with huge returns like that, and we believed that a small and mid-cap growth manager was really taking on water, that they had incredible experience with certain companies, and they had sort of talked themselves into the idea that these companies still had the same growth trajectory going forward when they most certainly did not.

They could have been good companies. There could have been any number of things that argued for a turnaround, but not the same growth thesis that this manager had. But you kind of have to tell yourself what you have to tell yourself when you're trying to avoid that level of tax hit, and that was our conviction what was happening, and we ended up making the decision to exit.

And we now have the research bench and analytics capability in-house, so we thought, we wanna do this more bottom-up without outside managers in US equity and the growth enhancement. So we've been building up that and have, you know, more stocks to come ' 'cause we're very methodical in the way we research individual companies.

Well, okay one of the things we had was a pretty large position in an emerging markets manager inside that portfolio, and this money manager was someone who I developed a relationship with almost

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twenty years ago that was significant in me learning a great deal about emerging markets investing

I essentially came to appreciate out of what had been a really robust number of years at the beginning of this new century for emerging markets investors as the dollar had declined, as there was a commodity super cycle playing out, as there was huge export growth taking place out of Brazil, Russia, India, China that emerging markets were really becoming a levered play on global cyclicalities.

And what this manager taught me was that no, the real economic opportunity was bottom up. It was that there was a genuine third world conversion taking place as more and more of the world was becoming less impoverished and creating a consumer opportunity all over the world. And I believed it. I still believe it.

There were significantly lower PE ratios, largely to compensate for some of the currency risk and geopolitical risk that the asset class offered but robust earnings growth and so forth. That manager left the firm he had been at a long... Oh, I think it's now been about ten years. Started his own firm.

And because of the incredible success he had had over the years, he's been able to raise, you know, a couple hundred billion dollars to manage, and he's become a very wealthy person, a very successful manager over the years. And the, let's just say, approach he's taken has changed a great deal. And in our meeting with this manager this year it was revealed to us this was one of the big AI skeptics, the concerned about the circular revenue model, concerned about how valuations expected growth rates to be sustained when in fact growth of earnings

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could stay very solid, revenues could stay very solid, but the percentage growth of those things had likely peaked.

And he went through historical analysis of what that had meant in the past. And then this year, as many of you might remember, a lot of these, just globally, U.S., international and in emerging markets a lot of these semiconductor and pick and shovel type companies in the AI story got hammered in July and the first part of August, and then into the month of September had a big rally.

And we found out that the portfolio had basically become almost entirely levered to that story. Names that I think of as a lot more associated with Arizona than I do the, the Third World were now ten, twenty percent. South Korea, which had been one percent of the portfolio, was now twenty percent. It was just a completely redone portfolio, almost entirely tied to something that in no way, shape, or form would be considered emerging, but rather the mega cap companies that everybody holds certainly internationally in that semiconductor story.

And a desire to just wanna kind of tread water up or down with your peer group, I think has to be the most logical explanation for what's driving it. In the course of our meetings when I repeated some of the vulnerabilities in the thesis, repeated some of this manager's own arguments with him, he didn't deny anything I was saying.

Sort of seemed to acknowledge that and said, "Well, listen, David, that's why we hold these views lightly." And I was a little taken aback. They're now putting, like, the entire portfolio into this and he said, "But we hold it lightly while expressing it aggressively." And as I repeat it

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now, you know, it's important to me that you understand I'm using quotes around this.

This is verbatim. I wrote it down. My partners, Brian and Kenny, wrote it down. Robert and Ishan were in the room with us. You know, we went to lunch immediately after. We all discussed it. We all heard the same thing. We all wrote it. He meant what he meant, and it was, a jaw-dropping moment for me.

But I don't say it to be critical of the manager per se. I am critical, but that's not my point. And I also, by the way, do not say it to suggest that those names won't go higher, that he won't end up making money on it. Now, it hasn't gone real well since, but, you know, maybe it's a long-term play.

He doesn't seem to be doing a lot of long-term things lately, but who knows? my point is not a prediction as to what will happen with these particular stock prices paid and the go-forward strategy. It is the reasoning behind it. It is the forfeiture of long-held convictions and disciplines in the face of popularity, in the face of peer group pressure.

We will not do it. We will not partner with those who do it. Managers can be wrong, but when managers are wrong because they have changed their own principles, that to me is a dramatically different thing. When you get to a point that you say the words out loud with no sense of irony, that these are views that we hold lightly but express aggressively.

If you have light conviction on something, for the sake of your clients, do not express it aggressively, okay? I believe that we are really

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committed to investment philosophy at our firm, and I believe our managers are largely those that have a investment philosophy themselves and then an investment strategy that flows from the philosophy that we have harmonized into our portfolio process.

And managers can make mistakes. Managers can analyze data wrongly. Managers can have a conviction that proves to be wrong. Managers can be right for a period and then become wrong later. They can be wrong for a period and become right later. All of those things are part of the fallibility, and we speak a lot about the necessary humility of doing what we do for a living.

We are not arrogant people at our firm. Not when it comes to portfolio management. There's some stuff we're a little arrogant about, but it's not that. Here's what I would say I believe money managers are competitive that you don't really get to become a successful money manager without being such.

And I believe that they ought to be very deliberate and thoughtful. But that deliberate, thoughtful a- approach needs to be disciplined and well-executed, and that's our job to do that vetting and due diligence. And we overall this year had wonderful meetings and wonderful managers, but that particular takeaway struck me as...

You know, first of all, it was almost \$200 million of money that we now have to go reallocate. we need a philosophical consistency in what we're doing. We need, to practice what we preach, and we always have. And so this, this particular takeaway I share because you need to understand how contagious it is.

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These are not small unimportant kinda backwater money managers that are susceptible to peer pressure, or to following the crowd, or to reckless bets, or to crazy changing of their own opinions without real thoughtfulness, or what you could question the motives when you get to a point that you're holding views lightly and expressing them aggressively.

Billionaires are susceptible to human nature because every billionaire I've met is a human. And it's a question, by the way, it comes up a lot, that CNBC will do this where they have a billionaire comes out and says X, and another billionaire can come out and say not X. And then, of course, at that point, you now have some appeal to authority for either X or not X because some billionaire has said it.

And you should always remember that Two billionaires, one saying X, one saying not X, they can't both be right, and that no billionaire appeal to authority is logical. There is fallibility. But I would take it further than just those empirically obvious statements. The reason they're all true is the humanity of it, the fallibility of it, and the susceptibility to human nature.

So we want to find managers that are philosophically inclined, consistent and whatnot. A few of the takeaways I wanna share with you before I let you go here is, in no particular order this was the most acrimonious I've seen managers be in terms of their competitors in 21 years. There, there was barely even a feigned cordiality in the way some of the different private credit managers talked about one another.

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There's drama, there's pressure amongst some of the alternative asset managers. There's tension in investment markets, no doubt. But for whatever it's worth, there has generally been a sort of professional cordiality amongst institutional money managers that I felt this year was less so. Number two, I'm very confident that the dispersion of views around AI is as high as I've seen it.

Not just, oh, there's people that really believe in it and people that really don't. I'm saying very different thesis, very different approaches across the whole spectrum now. Bullish on one angle, bearish on another, and then a different person, a different manager can be in a totally different place.

Dis-differences of opinion about what the exposures are, what levels of risk exist now that it's gotten more complicated in different parts of the capital structure. But the dispersion of views to me is a healthy development that we're not just looking at either I'm a AI bull or a AI bear, but rather more nuance existing.

I do think that the September rally in the space, some of which has been unwinding here this week, but that you did have a lot of long-only managers at size that had been lagging their peer group for six months, a year, two years. Keep in mind, the semiconductors went into July up about a hundred percent on the year and then had a big drop in the first six, seven weeks of the third quarter and then a big rally in the last three or four weeks of the, the third quarter.

And I'm now convinced of something I didn't understand or fully appreciate before, which is how much of that rally was flows from people who had not been in it, that were just trying to take advantage

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of that dip to play catch up. Not necessarily connected to a valuation, a conviction or any, you know, renewed appreciation for fundamentals, but just literally playing catch up.

I basically met with one such manager, and we're talking about hundreds of billions of dollars. Number four we own a company called Blackstone, and we link to different things about the company in Dividend Cafe a lot. But I think that you have to really be thoughtful right now. In the AI story, the data center story whatever the company may be that is either directly connected or adjacent, where there is just sort of systemic exposure, like the whole thing is either gonna go well or the whole thing's not gonna go well, or there are company particulars.

What is the play on the kind of beta of AI or is the play on the company skill, exposure, deal sourcing, deal flow deal structure in debt, in equity, whatever the case may be. I really believe you're gonna find in the grand scheme of this that there's already a beta to the asset class that affects the volatility of how it's all gonna go.

It could apply to infrastructure. It could apply to pick and shovel and compute and power. It could apply to enterprise software application. Doesn't matter. Whatever it is, separating where you're just along for the ride in the beta of it all versus sort of particular company convictions and expressions I think is a very important distinction.

Number five, the overall AI issue has gotten increasingly systemic. I talk about this all the time with for cap-weighted index investors, but I think that the adjacent side has become very democratic as well, that there's economic exposure, market exposure in both equity and debt that's

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exponentially higher than it was a year ago, and higher than it was at the point of the tech boom.

You know, an underappreciated fact of the tech boom was that when it blew up, there were an awful lot of parts of the market that were not affected, and a lot of parts of the economy didn't even know it was happening. The AI story has nationalized and globalized far more. And then finally, number six, kind of repeating what I alluded to with our example of this emerging markets manager, but the value we put on consistency of process and accountability to a real belief system you know, is incredibly important.

And it needs to be important even when short-term market outcomes are not cooperating. When you sacrifice a consistency of process because of the nuisances of what's happening short term I think that you're making a fatal and unforgivable mistake. And for us, it is not something we will tolerate or do.

With that said, thank you as always for listening, reading, and watching The Dividend Cafe. I look forward to being with you on Monday. Back for our normal Monday edition Dividend Cafe, where we will go around the horn. We talk about the Fed, the economy, markets, oil, housing, and more. And in the meantime, I wish you and yours a wonderful weekend.

Thanks so much.