

Level Set: Things I Used to Believe, that I Don't Anymore

Periodically, something happens where it hits you immediately that something is a sell signal. For example, in January 2007, I was a newly anointed Director of Research at Sanford Bernstein and invited to a “retreat” for around 75 “executives” at Alliance Bernstein (Ticker: AB). In a large theater room at a corporate retreat center in Westchester County, the meeting started with an animated PowerPoint chart and a line that slowly wiggled higher from the bottom left of the chart toward the top right, which was the AB stock price, which had recently strongly appreciated in the stock market rally that had preceded it. The chart was accompanied by the “Hail to the Chief” song blaring on speakers through the room. Then, the President of AB walked out to begin his opening remarks. It was the first time in my career that - at the moment it happened - I knew this was a sell-signal. I immediately sold all my vested AB shares, valued at \$75 at the time. Today, 18 years later, the stock trades at \$41 a share. Why are we mentioning this? Because we are not even sure anymore if we would recognize a sell-signal if it kicked us in the teeth.

Take Palantir (PLTR) for example. The stock is among the most - if not the most - expensive stock I have ever seen in my career. The CEO is wildly promotional and attacks the sell-side if they write anything critical. Alone, these two facts might have tripped into sell-signal territory 20 years ago. But six weeks ago, a security guard in our office building asked me if he should buy PLTR. Riding up the elevator, all I could think of was “This has to be a sell-signal. Finally, another gift.” I meekly answered the question with something about a Russell rebalance. The stock is up over 20% since. I learned my lesson. I doubt this doorman will ever ask me for investment advice again, because he could have made some money had I given him better advice. But if he does, no matter what he asks me, I am going to say “Yes.”

This challenge in recognizing what were previously obvious sell-signals has led me to think that many of my prior experiences are a hindrance to giving good investment advice. Quantitative people always struggle with what historical time frame to use to analyze the data, because that predetermines that the immediate future will rhyme with this evaluation period. But fundamental / anecdotal people rely on their human intuition, and bet on “leopards not changing their spots.” So, when our judgment turns out to be so off, we are left to question whether our experience is anti-correlated to giving prudent investment advice. We pride ourselves on trying not to anchor to a thesis, and on constantly learning and reacting to new information, but still, **we find ourselves increasingly viewing something the exact opposite of the way we used to view it.**

Here are a few examples of how our thinking has changed:

- **Short interest:** We used to think that high short interest was bad for subsequent return. Now some incredibly smart funds look for high short interest, high options activity vs. underlying equity activity, and as soon as a stock moves higher, they get long it for a short-term move. Last week, we received shares from a private equity investment we made in 2014. The shares are in FuboTV (Ticker: FUBO). Disney (DIS) announced it would buy some of the company in January, but we aren't sure of the exact timing. This is a \$3.63 stock with over 15% short interest. The total amount of money is not that substantial, but my normal thinking would be just to sell the shares, with limited instructions and move on. I called my advisor, and then, even though the company is already a demonstrable target, decided to hold it in case it somehow gets a meme-squeeze. **I am holding a \$3 dollar stock with 15% short interest on purpose. That is a change in how I conduct my personal investments.**

Adam Parker
Founder
646-734-7070
adam@trivariateresearch.com

Maxwell Arnold
Analyst
347-514-1234
maxwell@trivariateresearch.com

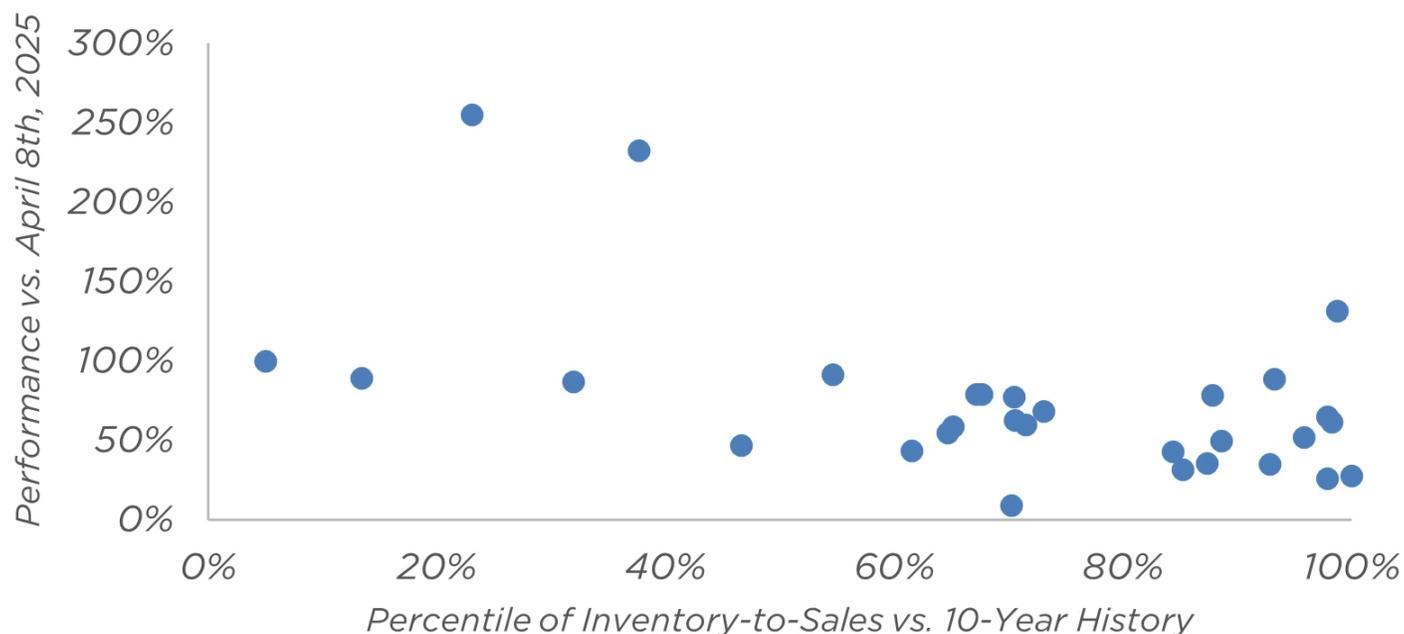
Colin Cooney
Head of Sales
617-910-7934
colin@trivariateresearch.com

Chang Ge
Analyst
614-397-0038
chang@trivariateresearch.com

Ryan McGovern
Director of Research Sales
973-271-8017
ryan@trivariateresearch.com

- **Capital spending:** We used to think that high capital spending-to-sales was bad for subsequent return. While there have always been some sectors with counter-examples, like Media, Cable, Telecommunications, Energy, and Utilities, for most businesses higher capital intensity means a larger depreciation burden on COGS, lower gross margins, and therefore lower enterprise value-to-sales multiples. But, among the hardest questions to answer today is when will investors care about the huge step-change higher in the capital intensity of the hyper scalers? We don't really know, but for now, it seems like it turns out that convincing the market your capital spending has high return is much easier in the digital world than the physical one. I am recommending the stocks that are spending capital at these astronomical levels - for now - and that is a change in how I used to think. I hope I can time when to get worried about it again, but it seems impossible to worry about it when the AI productivity proof cases are coming in 2027. **The market is likely to largely stay in an "innocent until guilty" mode about the potential for AI, and that is a bullish view, depreciation burden on COGS be damned.**
- **Contrarian:** I used to think that doing the opposite of the consensus makes sense. Nothing is better than being a contrarian bull and being ultimately proven to be correct. But Billionaire investor Philip Lafont from Coatue used a line a year ago that I keep thinking about. He said "I have made 120% of my money on things everyone else told me were already obvious and lost 20% on everything else combined." AI is obvious. Most value stocks are not. I want to buy the obvious. That is a change in how I am thinking vs. how I would have thought about this 15 years ago. Nothing is more dangerous than romanticizing you are contrarian, because after all, contrarian, by definition, means recently wrong. **We are recommending Healthcare stocks, and we know this is contrarian, but we no longer think that it is a good thing. We are probably anchored.**
- **Europe:** When I was at Morgan Stanley I often said Europe was great for vacation but not for stocks. I am starting to change my mind on that. A lot of Europe is not as good for vacation as it used to be. Some of the stocks aren't that bad.
- **Style:** We used to think that Value investing was easier and more sensible than Growth investing. As we wrote months ago, we now think the opposite is true ([LINK](#)).
- **Valuation:** We used to think buying stocks that were cheap vs. their own histories and shorting / selling stocks that were expensive vs. their own histories was a good strategy. But as we recently wrote ([LINK](#)), using valuation to pick stocks in deciles 2 through 9 (i.e. when valuation isn't extreme) doesn't make sense anymore. How I think about valuation today is far different from how I used to think about it and incorporate it in an investing process. Mostly, I think now that embedding valuation into stock selection with less than a 2-year time horizon probably isn't prudent. **The 2002 version of me would like to verbally, and probably physically, assault the current version of me when it comes to valuation.**
- **Inventory:** I have been surprised by how many of the Semiconductor companies have traded well, until this past week, despite having very high levels of inventory-to-sales. Semiconductors in the S&P500 are up 82% on average since April lows. All the top 30 Semiconductors by market cap. (see below, left axis) are up in absolute terms, but I would have thought the rally from April lows would have been less pronounced for certain chipmakers, given their absolute levels of inventory. We have studied and published several times that change in inventory-to-sales matters more for subsequent stock performance in the Semiconductor industry than the level of inventory-to-sales. Even such, to see these stocks rally this much with inventory levels so high is not what I would have anticipated previously. **Lesson learned - high inventory-to-sales doesn't matter. Rising inventory-to-sales does - I think.**

**Top 30 Semiconductors by Market Cap.
Performance Since April 8th, 2025 vs.
Inventory-to-Sales (Percentile vs. 10-Year History)
Through August 15th, 2025**



Source: Trivariate Research, LP

- Rates:** Back when I was a fundamental Semiconductor analyst, from 2001 to 2006, I never thought about or cared what interest rates were, or what the Fed was doing. I didn't even know what the 10-year yield was for most of my time as a fundamental analyst. Obviously, that all changed following the Financial Crisis, and I began to hyper-focus on what the Fed was saying and interest rate strategists and Fed watchers were saying when I arrived at Morgan Stanley in 2010. But then I learned. The people who forecast interest rates for a living are consistently and demonstrably bad at predicting both the Fed interest rate path and the 10-year yield. Going back nearly 15 years, they thought the supply of bonds would mean the 10-year yield would back up during QE1, QE2, QE3, etc. Yet, every time this supply came online the 10-year yield went lower anyway. When investors get nervous, they buy the 10-year yield. I did a survey in 2009 about when the Fed would raise rates, and 100% of respondents said within a year, and 55% said in 6 months. The Fed ultimately took six years. At present, a CNBC poll we saw this week had 100% of respondents say they thought the Fed would cut interest rates in September, with some prominent investors and minds advocating for a 50bps cut. Meanwhile, at a large investor dinner I attended this past week, a well-respected buy-sider said he thought the Fed would not cut this September as his contrarian idea. Me and three others in the room immediately agreed. As a former colleague of mine used to say, "Nobody knows nuttin'" when it comes to interest rates, and frankly, the Fed. So, if suddenly all these prognosticators are incredibly accurate, following and hanging on every word the Fed says, then I guess my experience will be anti-correlated with success with interest rates as well. I've changed my mind several times on this topic. **I used to never think about the Fed and interest rates. Then I cared a lot. Then I realized caring doesn't matter, knowing they have no predictive value. Now I pay some attention, but not too much.**
- Tariffs:** I used to worry - in our year-ahead outlook this year for example ([LINK](#)) - that policies like tariffs could and would cause a big market sell-off. Frankly, a part of me is still concerned that we are at a point of maximum complacency, and that might mean we are due for a bout of stagflationary fear and a classic September growth scare. However, I have convinced myself that a big chunk of the S&P500 is relatively immune and that it is unlikely demand will be anywhere near as strong as the post-COVID cycle when the country offered The Payment Protection Program and other fiscal policies. Therefore, we won't see a demand spike that exacerbates pricing increases, and any tariff headwinds in 2026 can probably be absorbed by the market at the aggregate level. So, I used to care a lot, then the market told me not to care, and now I care a little because no one else cares.

CONCLUSION: Because the market has rallied sharply despite so many demonstrable worries - from high US government deficit to tariff implementation - we interpret the resiliency as bullish. We are on the eve of AI implementation, driving out costs and enhancing productivity, likely driving 10% EPS growth for the S&P500 by 2027. Investors generally want to buy high-quality stocks if they sell-off 10%, making it hard for us to see how there isn't a bid for quality stocks that have lagged if there is a growth scare in the next few weeks. **We like Healthcare, Financials, and Technology a lot more than Consumer Discretionary, Real Estate, and Consumer Staples.**

Important Disclosures

Analyst Certification

The analysts, Adam Parker, Maxwell Arnold, Colin Cooney, Chang Ge and Ryan McGovern, responsible for the preparation of this research report certifies that: all the views expressed in this research report accurately reflect the research analyst's personal views.

Disclaimer

This presentation is confidential and may not be reproduced or distributed without the express prior written permission of Trivariate Research LP and its affiliates (collectively, "**Trivariate**").

The information contained herein reflects the opinions and projections of Trivariate as the date of publication, which are subject to change without notice at any time subsequent to the date of issue. Trivariate does not represent that any opinion or projection expressed herein will be realized. All information provided is for informational and research purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific portfolio investment, security or other asset. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data or other information presented. Information obtained by Trivariate from third party sources in connection with the preparation of this presentation has not been independently verified by Trivariate. Additional information regarding Trivariate is available on request.

Any projections, forecasts, targets or other estimates presented herein constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "predicts," "potential," "forecasted," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections, targets, forecasts or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance of the funds may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to predict and often depend upon factors that are beyond the control of the Trivariate. Nothing herein shall under any circumstances create an implication that the information contained herein is correct as of any time after the earlier of the relevant date specified herein or the date of this presentation. In addition, unless the context otherwise requires, the words "include," "includes," "including" and other words of similar import are meant to be illustrative rather than restrictive. Forward-looking statements and discussions of the business environment included herein (e.g., With respect to financial markets, business opportunities, demand, investment pipeline and other conditions) are subject to the ongoing novel coronavirus outbreak ("**COVID**" or "**COVID-19**"). The full impact of COVID-19 is particularly uncertain and difficult to predict, therefore such forward-looking statements do not reflect its ultimate potential.

This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any fund, product or account that is or may in the future be advised or managed by, Trivariate or any of its affiliates.

All data sourced from S&P Global, Bloomberg, or our Trivariate estimates. All forward-looking-statements reflect the opinion of Trivariate.