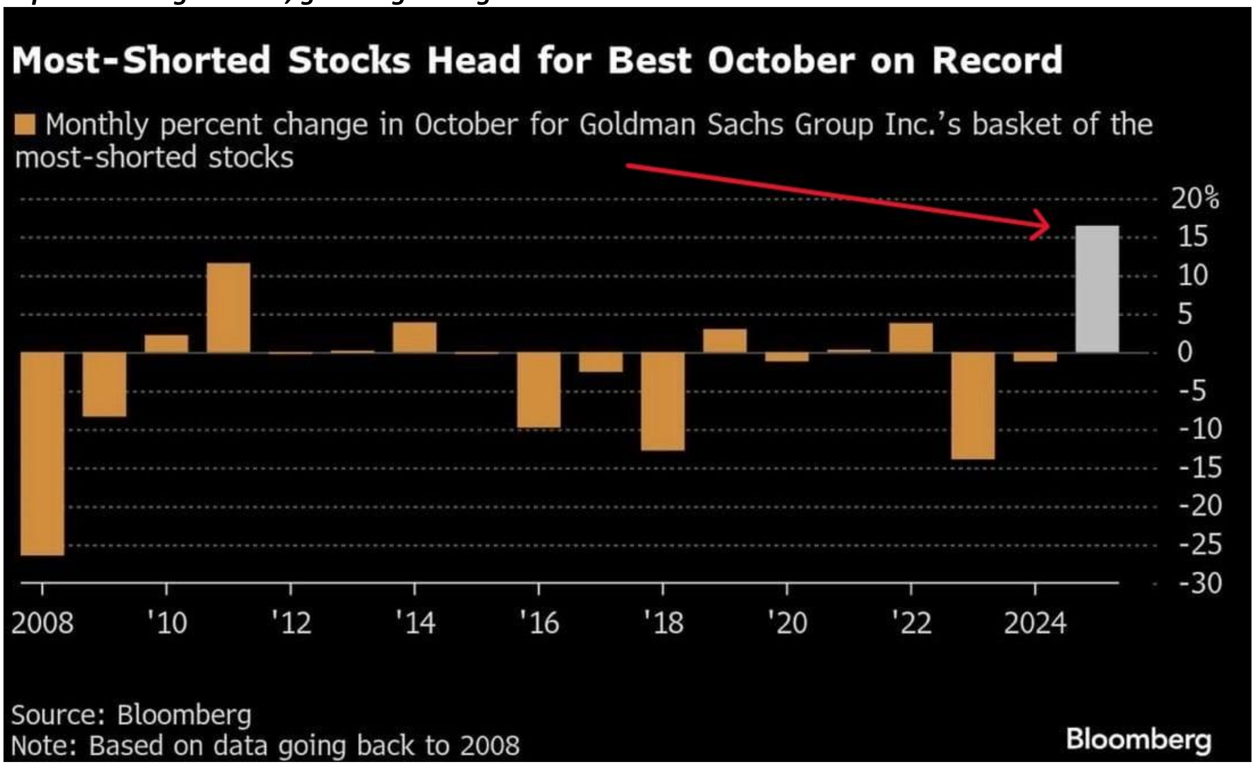
The Outlook: Oct. 28, 2025

Once more, the nature of the market.

Here's a picture which is, well, obscure. But it's worth one glance, because it falls under the heading of "understanding the nature of the market," which is always worth our time as investors.

Sophisticated gamblers, guessing wrong.



There are always a few "individual investors" among the market's crowd of short-sellers (ie, betting stocks will fall, losing their shirts if instead they rise.) They would mostly be young men throwing away their money on RobinHood. But the vast majority of the short-selling crowd is "sophisticated" investors: hedge funds, trading desks, leveraged inverse ETF's, and on and on. That is, they're professionals with distinguished credentials and high-powered positions, in charge of a <u>lot</u> of money.

That picture looks at 18 years of Octobers (no reason for October except that it's the month we're in) and asks, "What were the stocks those professionals were most heavily betting against, each year . . . and how did they do?" When the gold bars pointed down from the zero line, the pros made money. When they pointed up, the pros lost money . . . lots of money, because in short-selling there's no limit to losses. The red arrow is this month. The professionals have been taken to the cleaners.

Now, in fairness there were 5 years, in the 18, when the sophisticated gamblers made plenty of money. There were 6 years when they lost money: from "not too much" to "ouch!" The other 7 years were "blah" (using the technical term.) And that, right there, tells us about "the nature of the market." It overflows with "sophisticated" people, great educations, able to sound smart to the highest degree . . . using their time and gifts to do something which is, yup, pretty dumb. But as a whole "class" of people, they never give up. We can see the odds, up in that picture: they're terrible. Those odds guarantee an endless trail of financial corpses through the years: "sophisticated" gamblers who guessed wrong and lost their shirts, and were fired or otherwise washed out of the business. But there is an equally endless line of replacements, glad to step over the bodies and take their turns . . . because every once in a while there is a killing to be made, maybe.

That does sound an awful lot like the mindsets of all those people hunched over the slots or tables in Las Vegas, year after year, doesn't it? It is like that . . . in the short run. Instead of betting on spinning wheels and slot machines, they bet on headlines and impressions, guessing at how strong the impressions might be and how long they might endure . . . until facts prove them wrong. Those facts float by in the long run, eventually, finally. But in the market—unlike the casino—the facts grow out of cold cash earned by Main Street and handed back to its investors . . . so the gambling crowd must bet on them when they finally show up.

That's why we have the market roller coaster. It will never go away . . . because the nature of the gambling crowd never changes. But it tilts up in the long run, so that if we just wait out the ride, we'll get off somewhere higher than we got on: much higher.

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