

## **The Disciplined Investor Podcast Summary**

**Guest - Carson Block – Episode 906 (Airing 2/2/2025)**

### **Quick recap**

Carson Block shared his background, life situation, and experiences as a short seller, including his journey from being a long-side analyst to discovering his passion for short selling. He also discussed the challenges faced by short sellers in the current market, the importance of risk management in investing, and the role of short selling in price discovery and market fragility. Lastly, Carson highlighted Vietnam as a major beneficiary of the redirection of foreign direct investment flows away from China and discussed his upcoming trip to India.

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### **Summary**

#### **Carson's Journey From Analyst to Short Seller**

Carson shared his journey from being a long-side analyst to discovering his passion for short selling after exposing a fraud called Orient Paper in 2010. He initially started this work to help his father, who thought Orient Paper could be a long, but quickly realized it was a near total fraud. Carson's report went viral, leading to a business opportunity to expose fraudulent Chinese companies. He emphasized the cathartic experience of exposing these frauds, especially as he had previously faced challenges in China. Carson also mentioned that the excitement of his work eventually died down as the novelty wore off.

#### **Carson's Orient Paper and Sino Forest Experience**

Carson shared his experiences with Orient Paper, a company he initially researched and later discovered to be a fraud. He recounted his visit to the factory, where he found the company's claims of inventory and production capacity to be exaggerated. Carson also discussed his attempts to find financial backing for his research, ultimately resorting to using his credit card to buy puts. He mentioned that he later found a balance sheet provider to help with short selling and eventually traded in his own account. Andrew, on the other hand, asked about Carson's involvement with Sino Forest and the transition from research to activist investor.

## **Short Selling and Company Beginnings**

He mentioned that this issue was resolved when his company, Muddy Waters, transitioned into a fund management company, allowing them to manage various funds and contact various counterparties. Andrew then proposed to discuss the role of short sellers in the market, mentioning the 8 most famous historical figures in short selling. The discussion was paused for a break, with Andrew planning to provide statistics and ask for Carson's opinion on the positive impact of short sellers on markets.

## **Challenges in Short Selling Strategies**

Andrew and Carson discussed the challenges faced by short sellers in the current market. They mentioned Jim Chanos, who lost a significant portion of his assets due to redemptions rather than losses on positions. Carson suggested that the lack of justification for being in a short strategy when the market is performing well is a significant issue. They also discussed the decline of short selling due to market inefficiencies and the increased efficiency of markets. Andrew brought up the example of Carvana, a company that was criticized by Hindenburg Research for being a "father and son grift." Carson agreed that the current market conditions have made it difficult for short sellers to generate significant alpha. They concluded that the massive amounts of monetary stimulus in response to the GFC and Covid have anesthetized investors to risk, making it harder for short sellers to succeed.

## **Miners and Risk Management**

Carson and Andrew discussed the challenges of short selling and the importance of risk management in investing. Carson highlighted the shift in investor attitudes, with fewer people caring about the quality of management and the accuracy of information provided. He contrasted this with the success of growth investing, which often involves buying into narratives. Carson also shared his experience with the junior mining sector, noting the potential for venture-like returns but the need to distinguish between genuine opportunities and those based on gaming the system. Andrew agreed, emphasizing the role of newsletters in creating excitement around obscure investments.

## **Market Dynamics**

Andrew and Carson discussed the role of short selling in the market, particularly in relation to price discovery and market fragility. They agreed that short selling helps to stabilize markets during downturns, as it provides a floor for falling stocks. They also discussed the impact of passive investing on market dynamics, noting that it can create fragility and make it difficult for short sellers to cover their positions. Carson shared his experience with long-bias mining, highlighting the inefficiencies in the mining industry and the potential for significant returns. They concluded that the mining industry is ripe for investment due to its inefficiencies and the potential for decarbonization.

## **Vietnam's Geopolitical Advantage and Investment**

Carson Block discusses Vietnam as a major beneficiary of the redirection of foreign direct investment flows away from China. He explains that his firm has had an office in Vietnam for over three years and focuses on backing the best entrepreneurs there. Block notes that Vietnam's non-aligned geopolitical stance allows it to benefit from playing the US and China against each other. He also mentions India as another country that could benefit from this geopolitical realignment. The conversation concludes with Andrew and Carson discussing their upcoming trips to India and the precautions they plan to take regarding food safety.