

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Brian Dress, Left Brain Research

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Quick recap

Andrew and Brian discussed the current political climate, the challenges of conducting research and making investment decisions in the uncertain economic environment, and the unprecedented economic situation. They also discussed the risks and challenges associated with private credit investments, the lack of transparency in private equity and private credit markets, and the potential of AI in various industries. The pair agreed on the growing importance of cybersecurity and the potential for AI to increase the total addressable market in this field.

Summary

Political Climate and Private Equity Concerns

Andrew and Brian discussed the current political climate, expressing frustration with the leadership and their execution of ideas. They also discussed the topic of private equity, with Andrew sharing his concerns about its lack of transparency and liquidity. Andrew shared his experiences with interval funds and private equity, highlighting the risks and challenges associated with them. They agreed to discuss these topics further in a future meeting.

Uncertain Economic Environment Challenges

Andrew and Brian discussed the challenges of conducting research and making investment decisions in the current uncertain economic environment.

They noted the difficulty in predicting future earnings and the impact of macro factors such as tariffs and political events. Brian emphasized the need to focus on actual actions rather than noise, while Andrew highlighted the volatility and uncertainty caused by the situation. They also touched on the challenges of providing guidance in such an environment.

Unprecedented Economic Situation and Federal Reserve

Brian and Andrew discussed the unprecedented economic situation, comparing it to the 2002 recession where energy shares were the only safe investment. They noted the current impact on stocks, bonds, and the dollar, and the uncertainty of the Federal Reserve's actions due to the tariff situation. Brian expressed his inability to forecast interest rates, emphasizing that it's not their area of expertise.

High-Yield Bonds and Long-Term Investing

Brian discusses the increasing attractiveness of high-yield bonds, with some offerings reaching 7-8% yields. He notes that many companies are well-capitalized following the COVID-19 period, which may help mitigate risks in a potential recession. The conversation then shifts to the challenges of investing in household name companies, using Nvidia as an example of how unexpected policy changes can impact even strong performers. Brian emphasizes the importance of long-term thinking, particularly in sectors like AI, and expresses confidence in companies with strong leadership to navigate challenges.

Private Credit Investment Risks Discussed

Andrew and Brian discussed the risks and challenges associated with private credit investments. Brian expressed concerns about the lack of transparency in private companies' financials and the potential for economic sensitivity. He also highlighted the issue of illiquidity in private credit investments. Andrew shared an anecdote about a large private equity firm experiencing markdowns in their real estate portfolio and raised concerns about the size of companies in private credit, their debt levels, and the potential for private equity firms to

seize control. Both agreed that private credit investments can be difficult to value accurately and may not be liquid.

Private Equity Market Transparency Challenges

Brian discussed the lack of transparency in private equity and private credit markets, highlighting the importance of understanding a company's credit worthiness. He also mentioned the challenges faced by private equity companies in finding exits for their portfolio companies due to the frozen IPO market. Andrew expressed his preference for liquidity and his dislike of illiquidity, emphasizing the need for a balance between long-term investments and liquidity.

AI's Role in Cybersecurity and Manufacturing

Andrew and Brian discussed the potential of AI in various industries, particularly in cybersecurity. Brian emphasized the importance of AI in increasing margins and reducing labor costs, and suggested that AI could lead to the return of manufacturing to the US. He also highlighted the potential of AI in software development and semiconductor design. Brian expressed his preference for companies like CrowdStrike and Zscaler in the cybersecurity sector, and shared his positive view of CrowdStrike's handling of a recent software update issue. The pair agreed on the growing importance of cybersecurity and the potential for AI to increase the total addressable market in this field.