

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Steve Sosnick

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Intro

Steve shared his experience starting in the financial industry in 1982 as a summer intern at LF Rothschild, where he witnessed the market's explosive reaction to Volcker's shift in monetary policy. He discussed the Fed's role in the 1987 stock market crash, explaining that the Fed's intervention was aimed at protecting the banking system rather than the stock market directly. Steve emphasized the Fed's significant influence on markets due to their control over money supply, citing examples from his career spanning over 30 years at Interactive Brokers and its predecessor Timber Hill.

Central Banks and Market Extrapolation

Steve explained that central banks like the Fed are crucial for financial markets as they control the price of money through interest rate policy. He noted that while recent earnings seasons have been well-received, markets may be over-extrapolating good guidance into long-term projections, leading to excessive stock price increases. Andrew drew a parallel to Dell's past over-extrapolation issues and asked if a similar situation might be happening again, to which Steve responded that the current market fragility could come from potential changes in AI spending by major tech companies.

AI Technology Bubble Comparison

Steve discussed historical technology bubbles and their similarities to current AI trends, comparing the internet bubble of the 1990s to today's AI market. He noted that during previous technology frenzies, companies like Global Crossing and Nortel were initially profitable but eventually disappeared, and questioned whether current AI leaders like ChatGPT will maintain their dominance or be surpassed by competitors. Steve emphasized that while current AI companies are profitable, there's uncertainty about the long-term winners and how AI benefits will ultimately translate to bottom-line improvements for end users.

AI and Market Analysis Discussion

Steve and Andrew discussed the impact of AI on legal work, with Steve arguing that while AI can handle routine tasks, experienced human oversight is still necessary to catch errors. They then shifted to discussing market analysis, where Steve described his daily routine of checking overnight

futures, yields, and news to identify patterns in market movements. Steve explained how he recently analyzed a 9-week streak of S&P 500 gains and identified a "ratchet effect" where market movements become increasingly positive despite underlying factors typically associated with stock declines, such as high oil prices and yields.

Market Trends and Investment Strategies

Steve and Andrew discussed market trends, focusing on the "ratchet effect" where stock prices only move upward despite geopolitical tensions. They explored how younger investors have become increasingly risk-tolerant due to limited experience with significant market downturns, while noting that both extreme risk-taking and excessive caution are problematic investment approaches. The conversation concluded with a rapid-fire segment where Steve identified the S&P 500's market cap weighting as overrated and suggested caution in the current market due to narrowing market participation.