The Disciplined Investor Podcast – Guest Interview Summary

Guest: Steve Sosnick
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THE MARKET'S "WHAT, ME WORRY?" MOMENT

Steve said the market has become remarkably good at climbing the "wall of worry," despite nearly $40 trillion in federal debt, persistent inflation, wars, higher interest rates and growing pressure in the energy markets. Andrew commented that investors now appear willing to look beyond almost any short-term problem because they have been conditioned to believe markets will eventually recover. The result is a "nothing is a problem until the market decides it is" mentality.

ECHOES OF 2008 IN PRIVATE CREDIT

Steve said there may be echoes of 2008 developing within private credit. Higher borrowing costs have effectively frozen parts of private equity, leaving firms unable to finance new deals or exit existing investments. Andrew commented that many loans made during the easy-money years of 2021 and 2022 are now approaching refinancing, when higher rates could make the original return assumptions nearly impossible to achieve.

THE RATCHET TRADE AND FOMO INSURANCE

Andrew revisited the "ratchet trade" and the idea of "FOMO insurance" that he and Steve discussed during Steve's previous appearance. Steve said markets frequently need only an excuse to rally, not a fundamental reason. Institutional investors who are uncomfortable buying stocks at current valuations may still purchase call options because they are even more worried about missing the next move higher. Steve also explained why covered-call strategies can be frustrating in a market that continues to grind higher.

SEPTEMBER SEASONALITY AND THE FED

Steve said September has historically been the market's weakest month, but he warned that "seasonality is a very fickle friend." Recent Septembers have produced both substantial gains and painful declines, making the calendar an unreliable trading strategy by itself. Andrew commented that the approaching midterm elections could also complicate the timing of the Federal Reserve's next move, leaving December as a more realistic possibility if policymakers decide to wait.

BESSENT’S BOND BUYBACK PLAN

Andrew questioned whether Treasury Secretary Scott Bessent’s bond-buyback program is really a new version of Operation Twist, pointing out that the Treasury is shifting purchases rather than creating new money through quantitative easing. Steve agreed that the program is largely cosmetic and does nothing to correct the structural forces pushing longer-term rates higher. Both questioned whether the timing of the program, which ends just before the midterm elections, reveals its real purpose.

COMMODITIES, SINKHOLES AND HIDDEN VOLATILITY

Steve said commodities continue to play an important role in portfolios as oil inventories tighten, refining capacity remains limited and demand for copper increases with the expansion of data centers. Andrew commented that these pressures resemble a financial sinkhole: the surface may appear stable while significant damage is taking place underneath. Steve added that a low VIX does not necessarily mean there is no risk, especially when substantial volatility among individual stocks is being concealed by a relatively calm index.

QUOTES FROM STEVE SOSNICK

“It’s not a problem until everybody decides it’s a problem.”

“All they needed was an excuse to rally, not a reason to rally.”

“Seasonality is a very fickle friend.”

“The VIX is not a fear gauge. It plays one on TV.”

“As long as the cavalry keeps coming to the rescue, investors will continue to take these risks—and continue to be rewarded for taking them. One day it doesn’t work, but who knows when that is?”