ETALON CAPITAL

While You Talk About Inflation and Fed, Activist Investors Make Money On Pinterest

July 16, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

The past two years had taught us an important lesson. The lesson is that we should base our decisions and actions on reality instead of religiously adhering to certain models or modes of thought.

Disastrous performance by quantitative hedge funds during 2020, the inability of models and their operators to adjust to unfolding reality, undelivered promises of hedged returns – all of this makes one conclude only one thing: something is wrong here.

After accumulating some amount of experience analyzing companies, I concluded that in the equity markets it is much more important to know what not to do, instead of knowing what to do.

In 2020, despite the fact that the market was overwhelmed by the covid **narrative,** there was a positive side to all the chaos. A lot of noise, nonsense, conflicts of interest, and lies were washed away.

And reality started to shine brightly. Without covers, without camouflage, without anything that stands in-between us and life facts. The exercise of plain common sense, without the need for too much sophistication, would be enough to achieve good results.

While restaurants and hotels were closed, supermarkets were doing fine. While airlines and travel companies suffered, consumer goods packaging was in demand.

While the banks' performance became questionable, home improvement retailers such as Home Depot, Lowe's, and Tractor Supply Company were enjoying increased demand for their products as people stayed at home.

Plain common sense, nothing more.

Quantitative and algo hedge funds worked hard on adjusting their models and hired more and more quant analysts to try to extract alpha using the same approaches and the same data available to every other market player.

Instead of focusing on this actual reality and events, it looked as if they were stubbornly flogging a dead horse.

Fundamental, active investors willing to exercise plain common sense were in a much more convenient position.

However, they were not given the real chance to do it, I believe.

A robust IPO market extended into 2021, while at the same time SPACs and tech "bubbles" continued.

Plus covid "themes" still took a large share of investors' effort and focus.

But then the Ukraine came. And the oil price. And inflation. And the Fed. And S&P 500 Index declined 20% percent.

Yesterday's **announcement** that an **activist** **investor** has built a stake in internet social media company Pinterest is a wake-up call to investors.

What this wake-up call means is that investors would be much better off by addressing unfolding reality and that all the abstract discussions about inflation and the fed and interest rates and the oil price are only tools to comprehend part of the reality somehow.

To create meaning and achieve investment results, investors still need to play the role of a Fat Tony (familiar to us from Nassim Taleb's books), exercise plain common-sense judgment, and take advantage of the unique opportunity to confront reality.

Not only react passively to reality but influence and change it.

It seems that **fundamental value** investors, as well as **activist investors,** are given the stage now.