Finding Asymmetries

In markets and life

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Every asymmetric opportunity starts with a contrarian idea. If it doesn't, there's no asymmetry.

The logic is simple: Asymmetric outcomes are a function of supply and demand. If everyone does something, the reward is diluted by broad participation. If no one does something, the reward is concentrated on the few who see opportunity where others don't. In both cases, the relative reward is affected by the market pricing function. When everyone is on to an idea, the price is elevated, which balances risk and reward. When no one is on to an idea, the price is depressed, which elevates reward relative to risk.

This is not only true in investing, but in life, too.

To find asymmetries in markets or life, you have to do things that others don't. Most asymmetric opportunities are marked by one of three criteria:

- Hate
- Apathy
- Complexity

Hate

Hate has to be broad for an asymmetry to exist. The more universal the negative, the stronger the asymmetry. Hate and fear are closely linked. Hate can be the outcome of fear, or widespread hate by others can create fear for those who might dare to try a thing.

The reason I was thinking about asymmetries recently was a tweet from Sahil Bloom about the asymmetry of cold emails.

> **Sahil Bloom** @SahilBloom
>
> The Cold Email Guide
>
> One cold email can change your life—open doors to a new job, secure a new mentor, or unlock new opportunities.
>
> A cold email has the ultimate asymmetric return profile: Huge upside, limited downside.
>
> A framework for optimizing your cold outreach. https://t.co/jjNcdgRWyR
>
> > **Sahil Bloom** @SahilBloom
> > One cold email can change your life.
> >
> > Here's how to write a great one:
>
> February 23rd 2022
>
> 8 Retweets 94 Likes

Almost everyone hates to cold outreach people because humans are afraid of rejection. Sahil is right about his conclusion. Cold emails are inherently asymmetric. If you have no connection to a person, the worst-case outcome is that you still have no connection post cold outreach. The upside is a valuable new relationship.

In markets, there are many ideas that are controversial, but not hated. Hate and controversy are different. Hate implies universality. Controversy means division, and division means there are both believers and detractors. The more believers, the less asymmetry by definition because price reflects belief.

Tesla is controversial. SPACs are hated. Chinese stocks are controversial. Russian stocks were hated earlier this week.

Discomfort is the best barometer of hate-based asymmetries. The more comfortable an action feels, the less likely it's hated enough by the market to make it truly asymmetric.

Apathy

Apathy is often marked with "that's stupid." Hate comes with stronger language. It's hard to hate something that's stupid. We hate things that seem dangerous for financial or social reasons. Stupid is the perfect description for something we don't care about, nor want to even think about.

Crypto seemed stupid to most people that heard about it in the early 2010s. NFTs seemed stupid to most people through 2021. Maybe even through now. Doge still seems stupid to me, and I like crypto.

There's an adage from Sam Altman in building a startup or investing in one, you want the idea that seems bad but is actually great. Airbnb is the canonical example.

> Have fun renting out your stupid air mattress to no one.
>
> - Airbnb skeptics circa 2009

Apathy creates the same outcome as hate: A wide open opportunity because no one else wants to do it. Who would be crazy enough to build a competitor to Airbnb when it was still a startup? By the time it was obvious, the market was theirs.

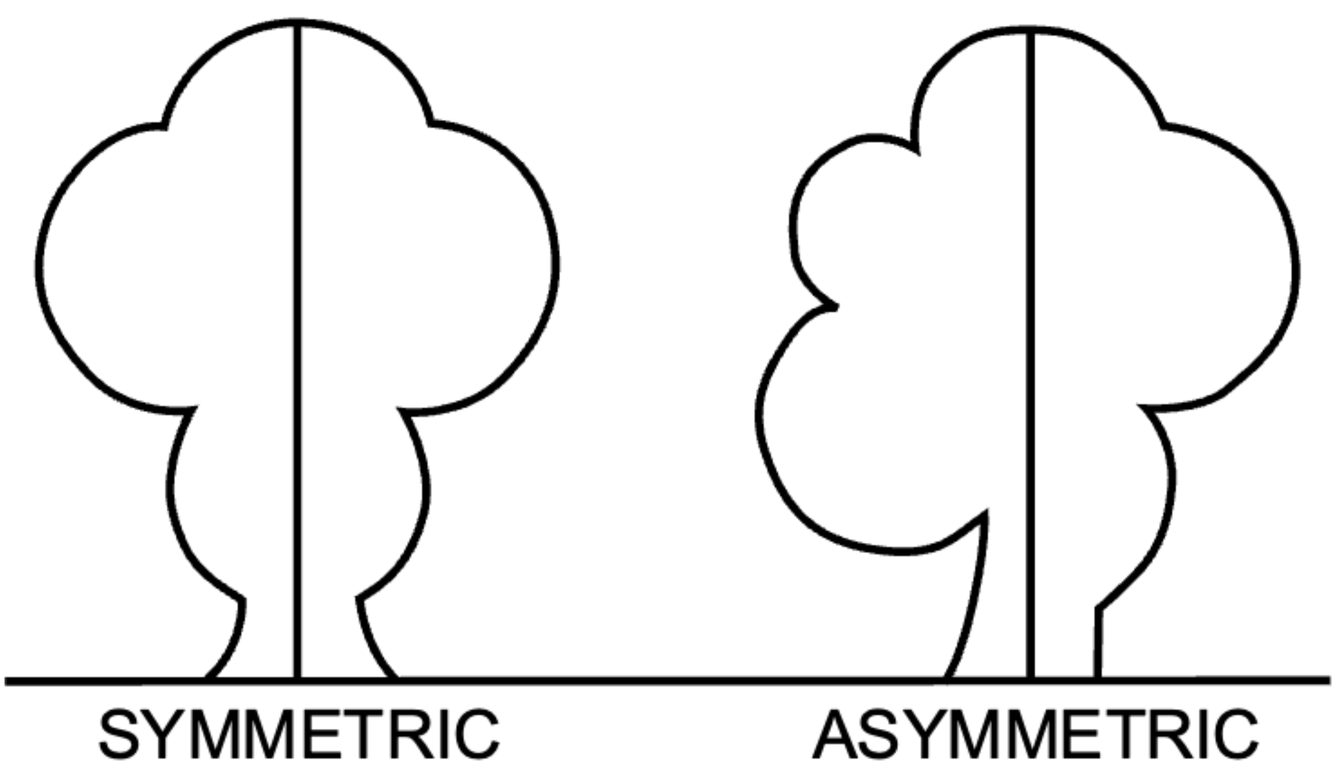
Contrarian embraces of ideas where the market is apathetic comes with feeling stupid yourself — I can't believe I'm investing in this.

Complexity

The CDO-fueled financial crisis of 2008 was built on a mountain of complexity. Few people understood the packaging and repackaging mechanisms that created cataclysmic leverage in the system. Even fewer understood the targeted default swaps that maximized asymmetric potential of betting against CDOs.

Complexity usually comes with blank head nodding. In the privacy of our own ignorance in trying to understand, it comes with rereading the same thing over and over and over again because it doesn't make sense, or it can't possibly mean what you think it means.

Today, there's complexity in the explosion of options use, passive flows, etc. There's also complexity in highly technical businesses in semiconductors, AI, and others. Whether that means there's opportunity is open to debate, but not until you understand the complexity of each.



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Fred Stein Feb 27 Liked by Doug Clinton

I especially appreciate this bit; "When everyone is on to an idea, the price is elevated," This may explain ARKK's correction (currently at about 50% of peak. The idea of investing in innovation is great, until everyone piled in without serious thought. Investing in innovators has to account for DCF, the long term cost of capital, and the odds that today's innovative winners have to continue their innovation and leadership for a long time.

By contrast, very few people are "on to" TSMC as an innovative leader. And the perceived risk of an invasion by China, makes it valuation even more attractive.

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