

Making Good In Bad(water) Markets

By Vineer Bhansali | August 5th, 2024

The following article was published [here](#) on forbes.com.

Two weeks ago I had the distinct pleasure (some may say pain instead of pleasure), of finishing the 135 mile [Badwater 135](#) race, the self-proclaimed “toughest foot-race in the world”, in just under 40 hours. I was supported by an excellent crew that consisted of one elite runner who is a veteran and podium winner in the race, another excellent long-time running friend, my brother, and my wife.

“For those who don’t know much about this race, it starts at the Badwater Basin (below sea-level) in the aptly named Death Valley, in the middle of summer, usually the hottest day in the hottest place on earth, and finishes at Mt. Whitney portal, about 8330 feet above sea-level.”

Many people have heard about this race, even though they do not know or care much about ultra-running, maybe because they have read books by elite ultra-endurance athletes Dean Karnazes or David Goggins.

Now three things stand out about this run. First, it is very, very long, distance-wise, even for ultra-running nuts. Just over five consecutive marathons, back-to-back, which have to be done in 48 hours max. I have run many 100-mile races before, but this one is an additional 35 miles, which did tricks on my sleep-deprived brain. At 90 miles I felt like I was getting close to being done, since that’s what my mind and body are conditioned to do. But I had another 35 miles, or a 50k race, or a marathon and a half to do. The final 13.5 miles climb up Whitney portal as the self-proclaimed “toughest half marathon in the world”.

Second, it is very very...very hot. The starting line was about 120 degrees Fahrenheit, and most of the night running registered in the high 90s and low 100s in Death Valley National Park. The mid-day heat in the sun registered 160 off the heat reflected from the road. Yes, you can make a nice warm cup of tea or scrambled eggs by just putting your cup on the side of the road. The

solution to the extreme dry heat is cooling; runner's crews are on call and every couple of miles they stop and pour ice and water on the runner, so I, and everyone else, ran the distance soaked and wet. Which has its negative side-effects, such as massive blisters when the heat and moisture conspire with pounding and friction from the road.

Finally, it takes a lot of time. Two nights and one day of not sleeping with maximum physical exertion. The distance and heat require careful execution and planning, and time is one variable that allows optimization so that the race can be run to finish in one piece. As Dean Karnazes warned me before the race – “the first/only thing to remember about doing well at this race is - don't die” (FYI the race selection process is stringent enough that in the 40 years it has been running no one has died). And as my elite crew chief Charlie Engle added – “you just have to deal with the moments that occur”. Most of the almost 60 hours of staying awake

is not that bad — but there are definitely moments where one has to be prepared to endure.

So now that I have bragged about my finish let me try to draw some parallels for investing today.

First, the goal of an investment strategy is not to win for a day, a week, a month, or a quarter, or even a year.

“The goal of a good investment strategy is to do well over the very long lifecycle of the investor, and this may even surpass the individual's own life, overlapping with other generations, so proper planning and risk management for the long run (pun intended) are required.”

Second, there will be high points and low points; and like Charlie said, these are the “moments”, that one can use to one's benefit, if one is prepared and practiced. Like buying when others are selling in panic, or selling when others are buying in euphoria.



Badwater 135 Run Picture

Vineer Bhansali

Finally, investing, like running Badwater, requires a “crew”, a support system of all kinds, from colleagues, technology, providers, financial market instruments, to help “robustify” the portfolio. Markets are way too complex to deal with on one’s own all the time. All of this so that there is a good plan, and so that an unforeseen event, such as the thunderstorms and hot gusty winds like I experienced at the start line do not scuttle the long-term plan prematurely. Running “naked” is not recommended, and holding only naked, outright market exposed portfolios is similarly not recommended. And volatility and turbulence there will be. To finish the race, one has to run. To grow one’s capital, one has to invest. Staying in cash, like sitting in a chair, will never get one to the desired finish line.

Unfortunately, the easy money environment of the last two decades has created an approach to portfolio construction which is the antithesis of these requirements.

“Short-term momentum, concentrated tech bets, and unhedged “naked long” portfolios have done so well that market participants are conditioned to believe that the passive, throw-money-at-the-stock-market approach they have been following will help them weather the turbulence and volatility in the markets that are ahead.”

A small change in macro-economic conditions can upset the markets. The markets are not prepared for regime changes. Could I have done my training at the neighborhood high school track and then took on something like Badwater race? Yes, I might have survived, but most likely I would end up as roadkill on Highway 190 that runs from Furnace Creek across Death Valley. I had to train for the long distance and time by running for long distances and long hours; and I had to train for the heat by running in the heat and by roasting in the 185 degree dry sauna at the local gym. An easy money driven bull market has simply not trained for the volatility that can arise out of nowhere.

As an investor who specializes in risk mitigation, the almost 40 hours and 135 miles that I spent in the heat of Death Valley gave me a lot of time to reflect on what I do professionally. If I were not being cooled down continuously, I would certainly have fried to death within a couple of hours, as many unwary tourists in Death Valley experience. In markets, the constant cooling of stimulus and easy money that the government has showered has allowed us to drop the need to manage risk; many investors are not prepared for the heat if this “Fed-Put” is

taken away. Just as trees don't grow to the sky and eventually the ice melts, the sooner an investor/runner realizes this, the sooner he or she puts in a plan to manage and mitigate risk. I believe we are at that point in the markets now, and surges in volatility are signaling that tougher, hotter times are ahead.

At the end of the day, we have all heard that investing is a marathon, not a sprint. In reality it's more like a few marathons put together, back-to-back, where the most important thing an investor can do is to plan, not make too many mistakes, and manage risk proactively. The markets are still providing the tools to do so. Taking the initiative today to plan can make the difference. There are no prizes for winning the race at the half-way point. The long-term goal of investing is always to invest and manage money for the very long term, and while it may be different for everyone, stay in the race, stay invested to the finish line, whatever and however distant it may be. Hedging our bets makes it easier to do so.

Update August 5th: The market did indeed heat up. Waking up stateside this Monday morning, investors faced a major selloff in Asia, vol levels spiked, and levels of hedging FOMO crept up. Will this selloff cause investors to finally start questioning their investments in double and triple leveraged NVDA funds? All eyes will be on the markets and the federal reserve as the week plays out.

Important Disclosures

Vineer Bhansali, Ph.D. is the Founder and Chief Investment Officer of LongTail Alpha, LLC, an SEC-registered investment adviser and a CFTC-registered CTA and CPO. Any opinions or views expressed by Dr. Bhansali are solely those of Dr. Bhansali and do not necessarily reflect the opinions or views of LongTail Alpha, LLC or any of its affiliates (collectively, "LongTail Alpha"), or any other associated persons of LongTail Alpha. You should not treat any opinion expressed by Dr. Bhansali as investment advice or as a recommendation to make an investment in any particular investment strategy or investment product. Dr. Bhansali's opinions and commentaries are based upon information he considers credible, but which may not constitute research by LongTail Alpha. Dr. Bhansali does not warrant the completeness or accuracy of the information upon which his opinions or commentaries are based.

This publication is for illustrative and informational purposes only and does not represent an offer or solicitation with respect to the purchase or sale of any particular security, strategy or investment product. Past performance is not indicative of future results.

Different types of investments involve varying degrees of risk, including possible loss of the principal amount invested. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, or any non-investment related content, will be profitable or prove successful. Nothing contained herein is intended to predict the performance of any investment.