

How About Never

Coaching Tips for The Long Now

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Notes from the Diamond #9

Exploring parallels between baseball and investing

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READ TIME 10 MINUTES

FENWAY PARK

	1	2	3	4	5	6	7	8	9	10
LAA	0	0	0	1	0	0	0	0	0	0
BOSTON	0	0	0	0	0	1	1	2	0	0

BAT — BALL STRIKE OUT — (H)

There have been so many fundamental changes to the way that baseball, football and basketball games are played that there is no longer any doubt that the nerds have won — and sports will never be the same.

Ben Cohen, Jerod Diamond & Andrew Beaton in "The Decade When Numbers Broke Sports", [Wall Street Journal](#), December 19, 2019

Trivia Question. How many days elapsed between the end of Ben Cherington's tenure as general manager of the Boston Red Sox in 2015 and principal owner John Henry's utterance of this seemingly unqualified endorsement at a press conference in Fenway Park: "[Ben] is going to be the general manager of this team for a very long time to come." *Answer below.*

Never Works For Me. Your in-box resemble mine just now? Wouldn't doubt it. *The Decade in Review. Yay! The Decade Ahead. Yay!* Actually, nay, with most of the many fin-de-decade pieces hitting my in-box of late getting trashed in short order. Which don't? Those containing useful takes on two distinct but cognate phenomena: (1) past events to which investors as a group assigned slim but non-zero odds before they unfolded; and (2) potential events to which the same crowd assigns similarly slim odds.

This first *NftD* of the decade just commenced seeks to shed useful light on both such phenomena, supplementing as distinct from disputing weightier and worthier thoughts on

them Ben serves up in [The Long Now](#). If you haven't studied that multi-part gem yet, I urge you to do so before proceeding.

[Welcome back.]

Admit it: if asked when the 2010s began if capital markets could morph by decade's end into "political utilities" to the degree Ben dutifully describes in [The Long Now](#), you — like me — would've said, "Never."

Admit too that you, like me, hope Ben's decidedly dreary **Now** proves less long-lived than he conjectures.

Could it? Sure. After all, if the 2010s ("Teens") proved anything respecting capital markets — or politics — they proved anew the cardinal wisdom of **never** saying **never**.

Negative interest rates on trillions of dollars of debt? **Never**. Annualized stock returns on the S&P 500 vastly higher than that of major non-US stock indices to say nothing of annualized growth

in US or global GDP? **Never**. A reality TV king with a well-earned reputation as a wholly unreliable partner (business or domestic) getting crowned elected president of the US? **Never**. Yet all these developments plus others that seemed wildly improbable ex ante actually transpired.

So too did unanticipated developments in a field of human endeavor on which these *Notes from the Diamond* focus more than politics if not also markets, namely pro baseball.

Readers don't need me to catalog fully the sundry shockers that markets produced during the decade just ended (though I can't resist flagging a few below). Nor do readers who follow baseball closely need me to catalog fully **its** sundry shockers in the Teens. Indeed, with baseball much in the news just **Now**, for all the wrong reasons, the last thing any reader wants let alone needs is my extended discourse on baseball's biggest surprises over the last ten years (though I can't resist flagging a few below).

And while anyone reading this note surely hopes to find in it actionably reliable forecasts of market-moving events certain to unfold over the **next** ten years, no one who's internalized Ben's forecast-phobic views in [The Three Body Problem](#) deems such soothsaying feasible, least of all me.

Coaching Tips. Accordingly, the rest of this note comprises not falsely confident forecasts of what the new decade holds for markets or baseball but rather **non-falsifiable axioms** that might help folks heeding them survive if not thrive as the Twenties unfold, regardless of any beanballs the decade hurls at all of us.

As will be seen, to clear the high (or is it low?) bar just set, the maxims proffered below focus on unchanging aspects of the human condition, and more specifically on the focal point for this note flagged in the teaser with which the [prior note](#) in

this series closed: "*Up next: the importance of character and temperament in 'weak link' endeavors like pro baseball and investing.*" With both apologies for their ~~Trumpian~~ rank unconditionality and a hat tip to Rusty for extolling neverism in [By Our Own Petard](#), here are three coaching tips for getting by in the decade now unfolding:¹

Axiom #1 — Outsiders to an organization can never know in real time what goes on inside it. As ~~WeWorks~~ Major League Baseball's (MLB's) now-disgraced 2017 champs taught the world anew, the more central a suspect person or practice is to an organization's apparent success, the more tight-lipped insiders will be about him or it.

["Him" may be inapt here — see for example recent revelations about the [former female CEO](#) of luggage maker Away— but the incidence of bad behavior by male execs is arguably disproportionately large relative to males' disproportionately (sic) large presence in C-suites.]

Consider how many person-hours journalists and analysts not employed by the Houston Astros spent studying that team's every move as its march toward a world championship in 2017 progressed. Consider (depressingly) that, despite such intense scrutiny, outsiders to the organization didn't obtain credible evidence of the team's corrupt practices until an **ex-insider** (current Oakland pitcher Mike Fiers) [spilled the beans](#) to two respected journalists, fully two years after Houston snatched its ill-gotten crown.

Consider too how many person-years allocators and consultants thereto spent diligencing Ken Fisher and his eponymous firm from its standing start in 1979 launch to its \$100 billion zenith (in AUM terms) in 2019. As with many former admirers of the Astros' winning ways, many

privately: "We will **never** — can **never** — be aligned with our agents." [Emphasis added]

¹ Kudos to Rusty for having the courage to assert [publicly](#) what most allocators are afraid to admit even

former Fisher clients claim to be shocked — shocked — to find that an apple they otherwise eyed favorably was rotten at its core.

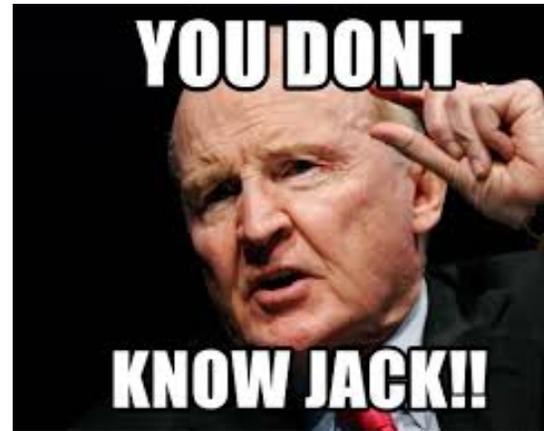
Assuming as I do that most such claims of ignorance, unlike Captain Renault's in [Casablanca](#), are legit, what might folks keen to avoid such shocks do before entrusting their hearts or capital to organizations of which they themselves are not part? I'm unsure I have a universally applicable answer to this question, except to invoke my favorite maxim about investing: "Diversification," the late Peter Bernstein counseled, "is the only rational deployment of our ignorance."

In keeping with such counsel, and as hinted in the two prior and conspicuously Trout-centric notes in this series, I'm now dividing my loyalties between the longtime but decreasingly worthy object of my MLB affections (the Bosox) and a team whose presence in the same division as the Astros (AL West) has subjected it in recent years to as much Astros-inflicted pain as any MLB franchise excepting perhaps the one with which it shares its domicile.

I'm speaking of the Los Angeles Angels, of course, the AL West club that just hired as on-field manager the sage who led the 2016 Cubs to their first world championship in 108 years: Joe Maddon. Maddon has never been employed by the LA-based team whom the villainous Astros beat in the 2017 World Series (WS) — the Dodgers — but he started his pro baseball career with an LA-based franchise (the Angels) 45 years ago and will hopefully end it on a high note with the same organization. Time will tell whether he does so — and will tell too whether Maddon's seemingly supreme skill in skippering the Cubs was real or merely apparent. I'm convinced it was real, but ...

Axiom #2 — Human labors can never be gauged fully and dispositively in real time. This is certainly and conspicuously true of sham achievements — the Astros' WS win in '17, Lance Armstrong's [seven "wins"](#) in the Tour de France,

Jack Welch's ["profit"-laden years](#) at GE's helm, Masayoshi Son's "gain"-laden tenure at Softbank prior to [WeWork's recent implosion](#) — as the truth **never** fails to emerge, albeit sometimes with a prolonged and problematic lag. But it's no less true of legitimate triumphs, including a baseball feat that garnered far fewer plaudits when accomplished than it has in the 86 years since then.



Former General Electric Chairman and CEO Jack Welch, photographed during his 20-year tenure (1981 – 2001) heading GE.

In the 1934 MLB All-Star Game, pitcher Carl Hubbell struck out an impressive but by no means unprecedented five batters in succession. In due course, all five — Babe Ruth, Lou Gehrig, Jimmie Foxx, Al Simmons and Joe Cronin — were enshrined in the Hall of Fame, causing later generations of baseball fans to marvel ceaselessly at Hubbell's evident mastery of his craft.

Hubbell was indeed a fine pitcher: good enough to himself get elected to the Hall in '47, 13 years after his memorable feat in '34, which itself unfolded two years before the Hall was **created** and five years before Ruth became the first of the aforementioned batters to be enshrined in it.

From our perch in the 21st century, Hubbell's performance in the '34 All-Star tilt seems not merely laudable but unworlly. It didn't in the

moment, long before the deceptively difficult conditions governing his five straight K's became fully apparent to baseball cognoscenti.

Similarly, the seemingly poor performance of later-day pitchers who got blasted by the 2017 Astros was not as bad as it seemed in real time. Sadly, these poor souls included not just established stars like future Hall of Famer Clayton Kershaw but pitchers of far less renown (and wealth) who could ill afford to get shellacked, psychologically and in due course financially via artificially repressed pay trajectories.



Los Angeles Dodgers watching the Houston Astros' on-field celebration of their 2017 World Series win.

Sadly too, it's going to take a few years at best for younger position players on the 2017 Astros to prove they can rack up hits **without** the aid of impermissibly stolen signs — if indeed MLB takes the necessary steps to "prove the negative" on such players' behalves, i.e., to convince outside observers that sign stealing done in a manner violative of MLB rules no longer happens because it **cannot** happen.

Arguably, the only way MLB can furnish such proof is to do what many money managers have done since algo-driven trading became dominant in markets earlier this century: combat tech-based threats by throwing ever-increasing tech-based assets into the fray. For MLB, this means among other measures the green-lighting of gizmos enabling pitchers and catchers to pick

pitches without such choices getting detected by opposing players or indeed any third party except perhaps the Kremlin. Hopefully, Putin and his goons are too busy attacking Western civilization's other vital institutions to disrupt America's ~~former~~ national pastime.

Axiom #3 — Chains are never stronger than their weakest links. In some folks' eyes, baseball is every bit the "[strong link](#)" sport that the poster child for same, basketball, would appear to be. After all, put an overpowering pitcher like Bob Gibson on the mound, and all a team must typically do to win is score one or two runs. Doing so seems a snap with at least 27 outs to "spend" in the pursuit.

Of course, even ultra-tough pitchers like a Gibson or 2019 MLB innings leader (and Astro) Justin Verlander can pitch only so many innings in a season or indeed a career, leaving the teams that employ them vulnerable to opponents' exploitation of "weaker" teammates' relatively inferior play. (FWIW, Verlander pitched 223 innings in 2019, less than 15% of the season's total of 1,462 for all Astros pitchers.)

Basketball, conversely, is clearly a "strong link" sport — except when it isn't. To be sure, hoops teams with GOATs like Michael Jordan or LeBron James tend to win much higher fractions of their games than even the winningest baseball teams, it being far easier for a single star to shine on a court populated by nine other players engaged in fluid action, including four allies, than it is for a comparably gifted position player to dominate under the regimented conditions governing the actions of twice as many official participants in a baseball game at any given point in time (i.e., two teams times nine players each).

That said, **all forms of group endeavor, no matter how they're constituted in theory, can morph into "weak link" undertakings in practice**, especially under the conditions that matter most: when existential threats strain all links, weak or strong, to the max.

Exhibit A for this assertion comes not from baseball but from basketball, as manifest in the Golden State Warriors' run-up to the first of their three NBA championships over the decade just ended (more than any other franchise). Facing an opponent whose starting five included a legendarily strong defender with weak offensive skills, the Warriors left that player (Tony Allen of the Memphis Grizzlies) [unguarded](#), thus enabling them to "double team" a rotating array of Allen's more offensively gifted teammates. In short, the Warriors converted a strong link endeavor into a weak link one to their advantage, gauging correctly that the Grizzlies did indeed have an exploitable weak link.

Of course, anyone who's ever sat on an investment committee or governing board of any kind can attest to such groups' acute vulnerability to weak link degradations, as discussed in unloving detail by yours truly in a talk on group dynamics downloadable [here](#).

Similarly, anyone who's been following the Astros over the last few years can attest to that franchise's regrettably but perhaps inevitably checkered performance under the leadership of its recently dismissed general manager, Jeff Luhnow. For now, and likely forever, the record books show Houston winning more regular season games than any other MLB team over the three years ending in 2019 (311 vs. 302 for the runner-up Yanks), an achievement befitting a team assembled and overseen by as ~~amoral~~ analytical a GM as MLB has ever known. Precisely **what** Luhnow knew about his team's illicit sign stealing and **when** remains unclear, at least to me. What's perfectly clear, however, is how ineptly Luhnow managed the fallout from a key deputy's disreputable [dust-up](#) with two journalists whose EQs if not also IQs are higher than his own, his then-boss's (Luhnow), and his then-boss's boss, Astros owner Jim Crane.

Clear Eyes, Full Hearts. Full-hearted observers can't help feeling sorry for Crane, who's seems to be doing his all to repair fractured links

between his team and its fan base. That said, clear-eyed observers can't help wondering if the fractures aren't attributable in large part to Crane's own failings, **late** often being as harmful as **never** respecting ~~Luhnow's firing~~ fidelity to mission-critical values.

Don't believe it? Cast clear eyes on Crane's counterparts with the Mets, who discovered too late that the manager they hired in November (Carlos Beltran) had flaunted MLB rules as an Astro. Beltran's tenure as Mets manager lasted 77 days, ending ignominiously with a joint statement from the team's co-owner and COO Jeff Wilpon and its GM Brodie Van Wagenen.

You'd think that of all team owners in any sport, the family who got [well and truly suckered](#) by Bernie Madoff would be least likely post-Madoff to commit grievous errors diligencing a key potential hire. How can Mets fans reasonably expect the team to perform strongly on the field when the family controlling it is so weak in discharging its cardinal duty of picking talent?

To be sure, the Wilpons' tenure as the Mets' chief puppeteers may in the fullness of time be judged less harshly by outsiders than it is presently, especially if things go from bad to worse for the Bosox, a franchise that itself just completed a memorably brief round-trip trade



Mets co-owner Fred Wilpon with Bernie Madoff, pre-2008, of course.

(to use trader-speak) with Alex Cora, a key facilitator of dirty deeds that helped the '17 Astros and (gulp) maybe also the '18 Bosox go all the way.²

How one scores this now-completed round-tripper depends importantly on how one applies all of the axioms propounded here, and more specifically on the lasting value one assigns to feats whose titanic initial dimensions shrink over time as the means used to achieve them become increasingly suspect when viewed in hindsight.

On this point, Crane has stated if not fairly boasted that nothing that's come to light about the Astros' championship season in '17 can negate the joy it produced for Houstonians, in the moment and presumably forever. Who am I to say he's wrong?

What I **can** say or rather ask of "**my**" team's principal owner, legendarily successful commodities trader John Henry, is the following question: how did an ownership group whose smarts brought the Bosox's 86-year championship drought to a joyful end (in '04) **and** assembled two more World Series-winning squads over the next nine years ('07 and '13) do such a poor job vetting Cora? Might this group have discovered disqualifying skeletons in Cora's closet prior to his hiring in late 2017 if Henry had made his fortune not as a "quant" but rather as an investment pro relying heavily on subjective assessments of corporate managements and cultures?

The question just posed may seem off-point to some readers, albeit perhaps not those who've read Alex Speier's [book](#) on the Bosox's 2018 championship and its antecedents. On June 14, 2015, Henry told Red Sox Nation that the GM who'd presided over the team's 2013

championship as well as its somewhat uneven start in '15 (23 wins out of 52 games played through June 14) was "going to be the general manager of this team for a very long time." Sixty two days later, Cherington's tenure as Bosox GM ended, technically by resignation but actually by dint of the team's hiring of a new exec to oversee all baseball ops including roster moves or non-moves that'd previously been entrusted to Cherington.

That exec (Dave Dombrowski) ultimately hired Alex Cora; saw the talent-laden and Cora-managed Bosox win the Series in '18; and was summarily dismissed by Henry on September 9, 317 days after the Bosox clinched the 2018 Series and roughly six weeks before the first credible accounts of Cora's conscious rule-breaking in Houston became public.

Did Henry and his brain trust know big shoes were about to drop on Cora when they fired the guy who'd hired him to manage the Sox? I doubt it. Has Red Sox Nation experienced joys and pride since Henry took control of the team in 2002 sufficient to offset the agonies and embarrassments his tenure atop the franchise has produced? Until news broke of Cora's checkered past several weeks ago, this lifelong Bosox fan would've answered yes without hesitation. Upon reflection, I'm not so sure.

Never Is Good. Looking forward rather than backward, my best advice to those seeking to get through the Twenties without getting slammed by their own or others' infidelity to the axioms propounded above is to pay particular heed to the third.

Ask anyone who went down with the Lehman ship, metaphorically speaking, whether Lehman employed any world class execs until the very

(hedge fund titan Steve Cohen) has his fair share of both admirers and detractors, with yours truly not knowing enough about the man to have an informed opinion about his ethics or lack thereof.

² In December 2019, the Wilpons agreed to an installment sale of their majority stake in the Mets that will reduce them to minority investors after 2024. I won't comment on the buyer's virtues or vices, known or unknown, except to note that he

end and they would likely and rightly answer, “Yes, many”. Alas, at least one link in Lehman’s managerial chain circa 2008 proved fatally weak, bringing that entity’s 158-year life to an end and bringing as well the global financial system to its knees.

Whether Lehman’s fatally weak link was ever as strong as his nickname (Gorilla) suggested is a question meriting careful contemplation by anyone entrusting **anything** of value — capital, careers, passions or other valuable things including votes — to persons or human constructs of any kind whose inner workings they don’t know intimately well.

[Psst. Were you “short vol” when the infamous XIV ETF blew up in March 2018, imperiling all investors who’d bet stock index volatility would remain subdued, including those who’d never owned nor even heard of XIV? Many such punters had no idea their fortunes depended to an imprudent degree on the tensile strength of an inherently weak link in the endless and impossibly tangled chain connecting seemingly discrete asset classes and their derivatives to each other.]

[Psst. Wanna know sumthin else? The chains just referenced have menacingly weak links **still**, with deep-pocketed parties willing to accommodate hurried sellers of corporate credits, or more precisely the evident **paucity** of such parties, being perhaps the weakest links now and for the foreseeable future. Counting on such liquidity providers to appear when needed would be as wise as counting on the Astros or Red Sox to win this year’s World Series. Either team **could** go all the way. But the odds ain’t great either will do so.]

Not wishing myself or others to move through the Twenties or beyond as Henry Kissinger has moved through his uniquely interesting life — **never** reposing full trust in any person or entity — I won’t suggest here that readers (or I) mimic Kissinger’s modus vivendi. Echoing Rusty in the aforementioned [ET post on incentives](#), however, I will suggest that **never** works well as the default response to financial, emotional or political appeals from persons or entities whose superficial soundness may mask major weaknesses.

End



Conspicuously weak links

Up next: TBD after MLB completes its investigation of the 2018-2019 Red Sox (ugh)

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