IDIOSYNCRATIC RISK

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He's not slow, he's diligent.

CASH OFFER, QUICK CLOSE, AS IS

Price conscious buyers in today's marketplace are having a difficult time, indeed. In the housing market, the national association of realtors publishes, monthly, the number of existing homes listed for sale in the United States. In March, there were 1.07M homes for sale, down -28.2% from the prior year, as households eager to relocate to suburban areas from city centers amidst a global pandemic have found their employers are newly tolerant of flexible and remote work schedules. And families are not the only groups looking to purchase single-family homes. In early April, the Wall Street Journal reported that, in many U.S. markets, more than 1 in 5 homes sold are purchased by investors who either rent them out, or flip them to another buyer, but never plan to move in.

The WSJ report detailed that 24% of homes sold in Houston are purchased by investors and investor groups, after describing a recent transaction in Conroe, Texas, in which the homebuilder D.R. Horton sold, not one single-family property, but an entire subdivision, at auction, to an investor group known as Fundrise, LLC. In December of 2020, a SPAC led by former Facebook-executive turned venture-capitalist Chamath Palihapitiya completed its acquisition of Opendoor Technologies, an AI-assisted house flipping firm that aims to "provide liquidity" to sellers in the housing market, at a valuation of $4.8B. Despite that there is no unmet need for liquidity in the housing market, Opendoor (Nasdaq:OPEN) has done well in a difficult market for SPACs. The company sports a market cap near $12 billion, today.

These developments are music to the ears of homeowners who, far from underwater on their mortgages, are finding that virtually any house listed for sale is liable to attract multiple offers above the list price, and frequently in cash. In such a marketplace, it is to the buyers' advantage to move quickly, rather than carefully. Why bother with formalities like inspections? And why haggle over price? After all, money is cheap, houses are scarce, and most of them will do just fine.

The losers in the feeding frenzy are, as usual, millennials and first-time homebuyers, who have been earnestly renting and building wealth for over a decade in an attempt to afford a home, and might have dreamt that they'd have the opportunity to tour one, or have it inspected, before making a down payment. For this generation, it must seem nostalgic or old-fashioned, indeed, to think of a home as the largest purchase that one will ever likely make or imagine that careful consideration and well-thought-out inspection should inform the buying process. The home buying process, instead, is whittled down to a mathematical equation. Your credit rating informs your purchasing power, and an offer is submitted if a house is listed at a price below that number.

The very phrase, "due diligence," seems to imply that nothing else is owed to a buyer but the opportunity to perform a bit of careful research before making a purchase. And yet it would seem to impose a limit on the prospective buyer's consideration, as well. At some point, if money is no object, worry over its waste becomes an unnecessary time sink. And money has rarely ever been cheaper to borrowers. It is not only the housing market which is increasingly finding buyers are more motivated to consummate a deal than to select one.

This author was recently referred to an excellent piece titled, "Playing Different Games," and published on Substack by Everett Randle, a Principal at Founders' Fund, which describes a "new" strategy that has come to dominate the late-stage venture capital landscape in recent months. That strategy, which Randle describes rather succinctly ("Maximum Deployment Velocity"), is the strategy that has recently been employed at Tiger Global, Addition, and Coatue, among others. Bluntly, these funds seek to deploy capital as quickly as possible. They take a "portfolio" approach to venture capital, and basically do every deal that is offered to them, as soon as it is offered, and at prices above asking. As Randle points out under the aforementioned section heading, "Maximum Deployment Velocity," Tiger can generate above average IRRs simply by accelerating the pace at which they deploy capital, even if the MOIC on their deals falls from 3x to 2x.

He goes on to describe the consternation that "traditional" VC's have felt confronting this approach in the marketplace, as they have watched deals snatched out from underneath their very nose while they were dithering over their "process," "diligence," and "negotiations." When every deal makes money, it does not really pay to waste time deciding which deals are best. The dominant strategy is speed, and the winning position is scale.

When this author attempted to describe this thesis to a friend who is not trained in the field of securities analysis, he was immediately confronted with a seemingly naïve question. "And what if they don't double their money on every deal?" As it turns out, this author's audience was more interested in an altogether different question than the one posed, "how much diligence is due, really?" They were interested to know why so many professional market participants are able to operate under the assumption that every deal they do will be successful, while the popular perception is rather more the reverse: most "double your money quick" offers are scams.

There is no single variable that can fully answer this question, but recent developments in the public markets that will be familiar to regular readers of *Idiosyncratic Risk* can go some way towards providing an explanation. As passively managed vehicles have grown to replace active management, the mere fact that a company is listed on a public exchange is offered in lieu of diligence, fieldwork, and analysis to credential a public equity security. Because passively managed indices use tenure and volume as a public listing as the gating criteria for inclusion in the indices, companies have found ways to come public without the expense and scrutiny of the IPO process. When a so called, "blank check company," or "Special Purpose Acquisition Company," can make a private company into a public one as quickly as an acquisition can be completed, or a

Series B round funded, what need would the owners of a private company have for the IPO process? As asset managers have found that a substantial public appetite exists for SPAC vehicles among retail investors who enjoy little or no access to the traditional IPO process in the first place, more "SPACs" have been formed. And as more SPACs have been formed, the MOICs on late stage venture assets have become an increasingly foregone conclusion.

Of course, SPAC sponsors won't simply "buy anything," but then again, they have to buy *something*. Perhaps Tiger, et al., have taken note. The implications for the integrity of the public markets are of more direct concern to this publication. As SPACs have eliminated the need for companies to undertake a lengthy roadshow and give professional investors the opportunity to "kick the tires," so to speak, diligence is outsourced to SPAC sponsors whose incentives are aligned with the successful consummation of the deal. As late-stage venture investors prioritize "deal velocity" over due diligence, diligence is outsourced to early stage venture investors and providers of seed capital, whose incentives are more aligned with maintaining a reputation as a "preferred partner" to founders (or a rolodex of connections in Silicon Valley) than they are with increasing their batting average and deal selectivity.

As various financial innovations "grease the skids" for the successful consummation of deals in every phase of the capital raising process, and every subsegment of the capital markets "re-learns" that covenants, restrictions, and diligence are obstacles to profit-making rather than critical process steps, one could be forgiven for wondering if there might be any adverse or unintended consequences in future periods. Over the course of Antrim's short, but successful foray into the world of independent equity research, we have found no shortage of viable targets for skepticism. We continue to believe that financial rewards will accrue to those who seek to separate the wheat from the chaff, even as those who seek to maximize deal quantity, instead, dominate the headlines and public discourse, and we continue to hone our diligence process, accordingly.

PAST PERFORMANCE IS NOT A RELIABLE PREDICTOR OF FUTURE RESULTS

Recommendation	Date	Performance Since Recommendation
Short ACEL	October 1st, 2020	+21.0%
S&P 500	October 1st, 2020	+24.3%
Long LMND	August 3rd, 2020	+55.4%
S&P 500	August 3rd, 2020	+27.8%
Short TSLA	July 1st, 2020	+228.5%
Short GSX	July 1st, 2020	-46.7%
Long AKRXQ	July 1st, 2020	-100.0%
S&P 500	July 1st, 2020	+34.9%
Long MIK	June 1st, 2020	+469.2%
Short QSR	June 1st, 2020	+29.6%
Long MINM (formerly: ZMTP)	June 1st, 2020	+34.4%
S&P 500	June 1st, 2020	+37.3%
Long NLY	May 1st, 2020	+59.4%
Long AGNC	May 1st, 2020	+56.0%
Short SWKS	May 1st, 2020	+76.4%
S&P 500	May 1st, 2020	+43.6%
Long DESP	April 1st, 2020	+133.5%
Short KNSL	April 1st, 2020	+66.8%
S&P 500	April 1st, 2020	+61.8%

Inflation, pictured in its natural habitat.

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I sincerely appreciate the friendship, support, mentorship, and camraderie I've experienced during my career in Investment Management and I would like to thank my friends and readers for supporting me, whether by forwarding this email and my contact information along in your network, or merely reading these pages and considering what I have to say.

Feel free to reach out with questions, criticisms, suggestions, and investment ideas if you've got any good ones.

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