

# Glamour Stocks: Investing vs Gambling

## 2021 Speculation in Review

2021 has been a terrific year for KCR. For like-minded investors who believe in buying high-quality companies at reasonable prices, 2021 was a much-needed reprieve. We would like to offer our deepest thanks to all of our subscribers and wish you a happy and healthy New Year!

The prior year, 2020, left a mark that made the madness of the internet bubble seem mild. We cannot recall a period when being conservative, prudent, and sticking with what has proven out over centuries of investing has been less in vogue than 2020. Fortunately, this year has provided some nominal amount of redemption.

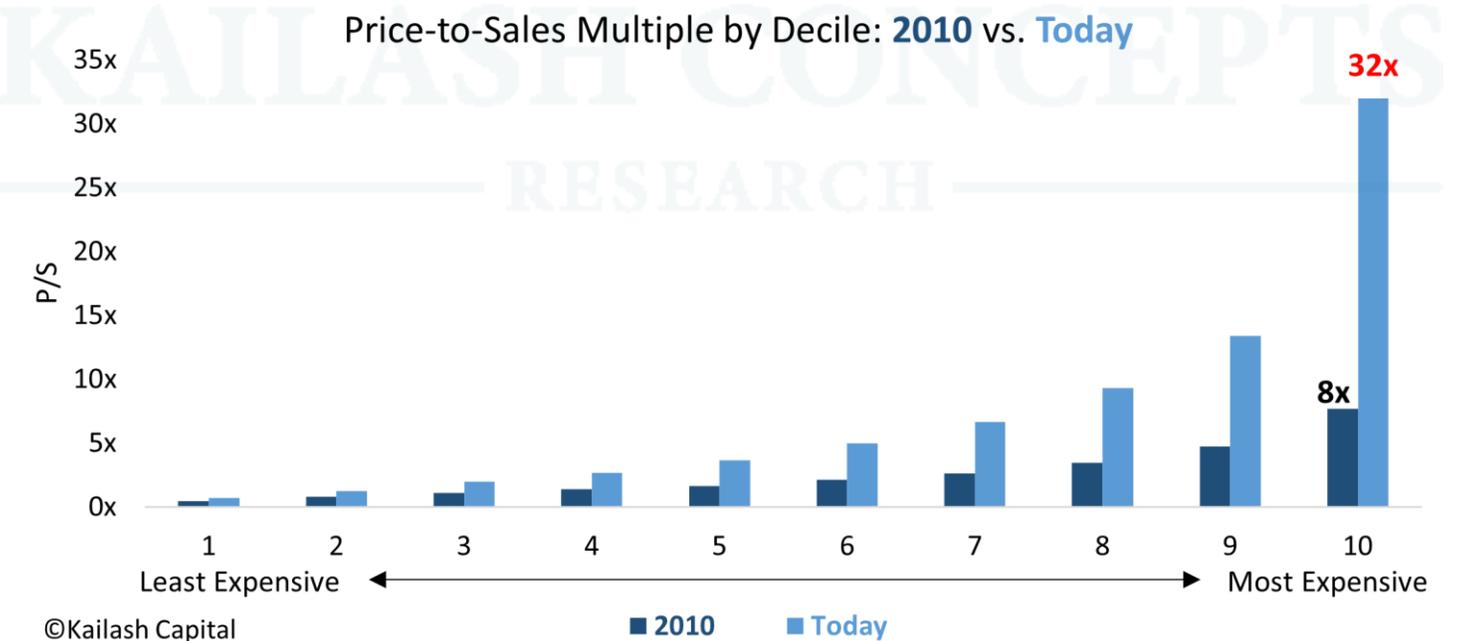
This year we saw a very slight “wobble” in some of the most fundamentally fragile, overpriced, and untested equity issues we have ever seen. Had you asked us in 2019 if many of the entities floating about today professing to be “investments” could even **exist**, we would have laughed. Yet the surfeit of cash flow starved, negative price to earnings ratio “story stocks” quickly became the stuff of legend.

For our closing piece of 2021, we thought we would revisit some of the “greatest hits” of our [Charts for the Curious](#). While many of our missives focused on the [opportunities](#) to buy [high-quality blue chips at cheap prices](#), we are dedicating this piece to some of the charts that we believe will be markers of speculative excess for decades to come.

### Price to Sales Ratios Running Riot

In January, we put out the [graph below](#) showing how the price-to-sales multiples had expanded in every decile since 2010. Looking at the right two bars, we noted that the most expensive 10% of companies in the market had seen their multiples explode from 8x price to sales to 32x. Our appraisal of the investment merits of such stocks was dim indeed.

### Multiple Expansion: A Tale of Two Markets



Source: Kailash Capital, LLC; published January 2021 (please reach out if you would like the chart updated)

## **Betting on Stocks that Lose Money**

In March we put out the chart below [expanding on our piece](#) earlier in the year showing that nearly \$7 trillion dollars of equities were floating on a cloud of losses. We put the issue in context using [Warren Buffett's golden rule for investing](#) and suggested that investing in loss-making companies was a suboptimal idea. Just this slug of stocks came to represent over a third of GDP, a [valuation concept](#) that we use as a simple but effective “North Star.”

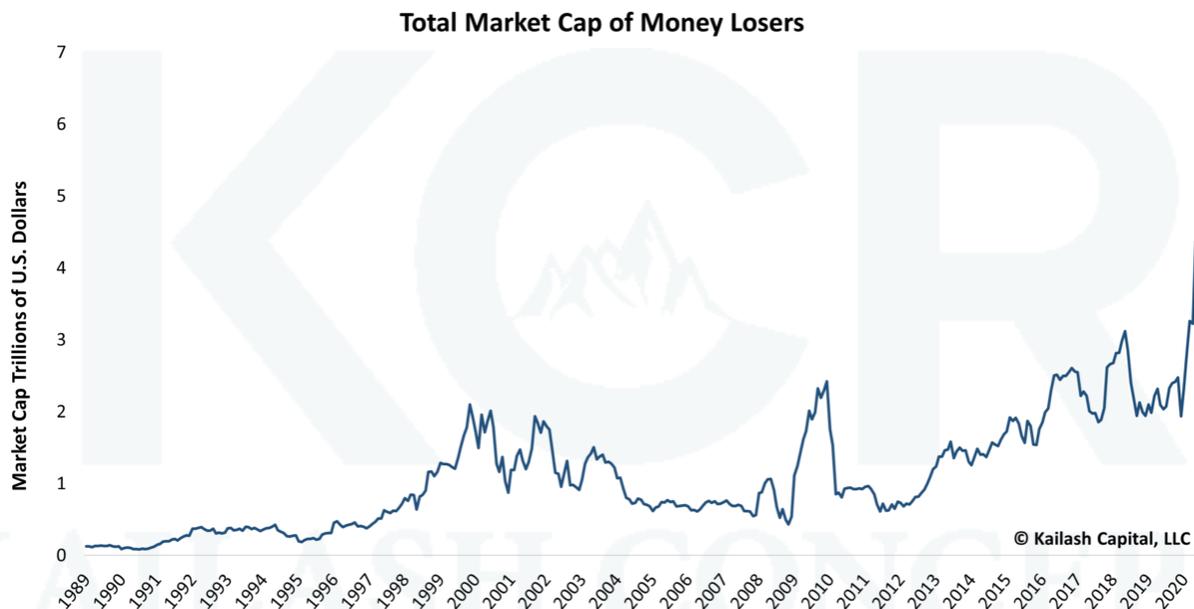
Encumbered with the (momentarily) antiquated belief that owning stock in a company represents ownership in the underlying business, we professed a preference for investing in firms [that earned](#), rather than lost, money.

Rarely have we seen a less complicated concept be so readily discarded as we did in the [government-fueled bubble](#) of 2020.

---

## **Total Market Cap of Money Losers**

---



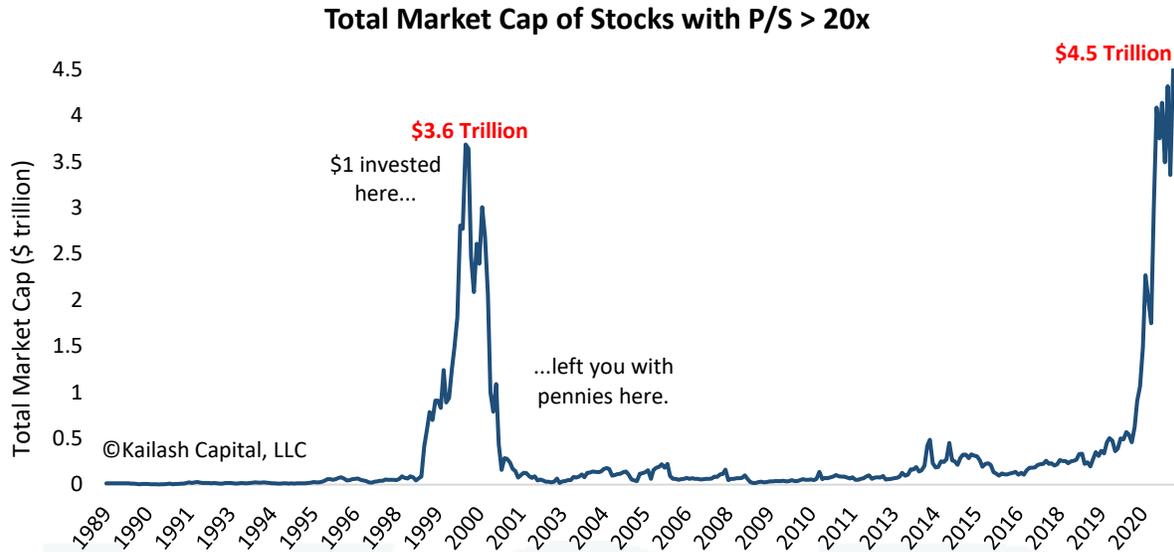
Source: Kailash Capital, LLC; published March 2021 (please reach out if you would like the chart updated)

## **Is Investing in Stocks Gambling?**

In our view the answer to the question is, “it depends an awful lot on what you pay.” Our team understands that risk tolerance varies for investors based on their personal situations. We built the below chart showing that the total market cap trading at 20x sales per share or greater had leapt from negligible to [nearly \\$5 trillion](#).

While short selling is currently under a great deal of scrutiny, the history of stocks with valuations like this suggests shorting may be the most profitable approach to “investing” in these things. As our [research has shown](#), even when you have a world-changing technology, paying too high a price can lead to horrible outcomes. We will discuss the catastrophic folly of investing in stocks and mutual funds that traffic in such overpriced baubles in an upcoming [Quick Take](#).

**Total Market Cap of Stocks with P/S > 20x**



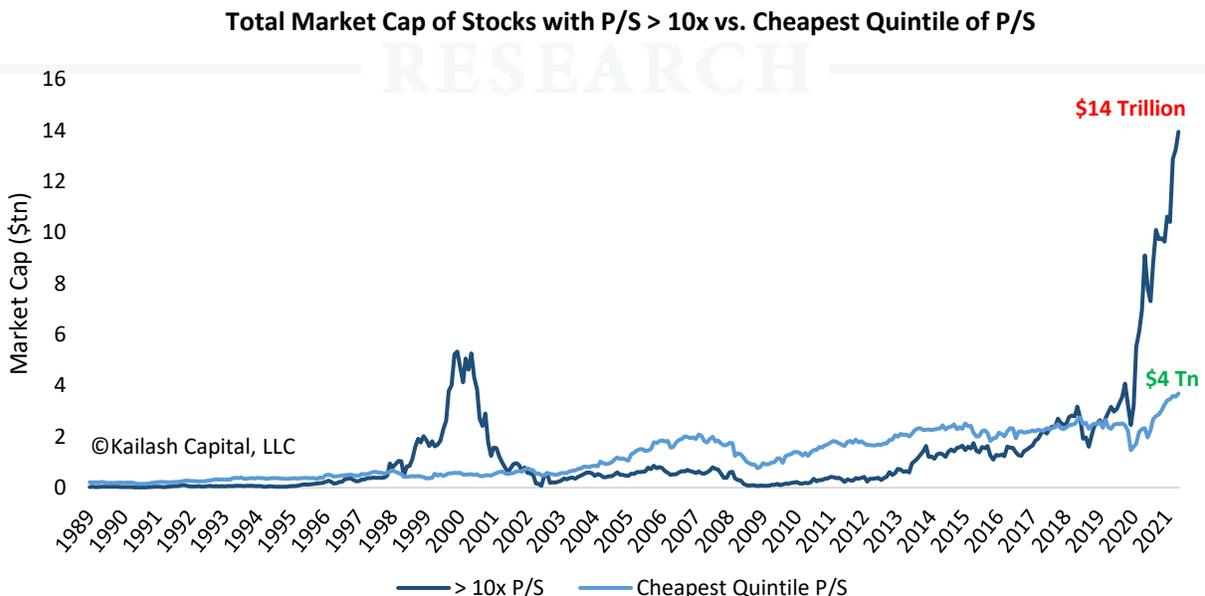
Source: Kailash Capital; published July 2021 (please reach out if you would like the chart updated)

**Scott McNealy: Sun Microsystems Founder**

The KCR research team has been relentless in hammering home the legendary wisdom of [Sun's CEO](#), who articulated some brief and brutal prose on **why** paying 10x sales for a stock was **braindead**. In September, we updated our chart comparing the total market cap of **stocks >10x price to sales** with the total market cap of the **cheapest quintile** of stocks. At \$14 trillion, this crop of crazily priced stocks merely added to the conviction we expressed in our [Nifty Fifty](#) work that **what you pay matters**.

Watching the S&P 500 and other indexes power higher on the back of such overpriced madness has not been fun for financial teetotalers like KCR. But the flip-side of the coin is that charts like this one make the often-difficult task of investing for the long-term easier. **Just avoid buying the stuff at impossible prices.**

**Stocks Priced for the Improbable (Stocks >10 P/S) vs. The Cheapest Stocks in the Market**



Source: Kailash Capital; published September 2021 (please reach out if you would like the chart updated)

## Which is Better Trading or Investing?

Celebrity CEOs, fund managers, and newsletters promising fast-fortunes whipped retail investors into a frenzy of [short-term trading](#) in 2021. KCR's research team brought focus to how [collapsing yields](#) and [soaring leverage](#) combined with novel apps that claimed to be [small investors' ally](#) were really just turning stocks into gambling chips. We put out the chart below showing that companies worth over \$2.5 trillion were changing hands every 40 business days.

Not exactly known for our social graces, we made a point of highlighting that this is exactly the kind of behavior that [obliterates the savings](#) of small investors. We believe that the people claiming to “democratize finance” are often doing investors a horrible disservice.

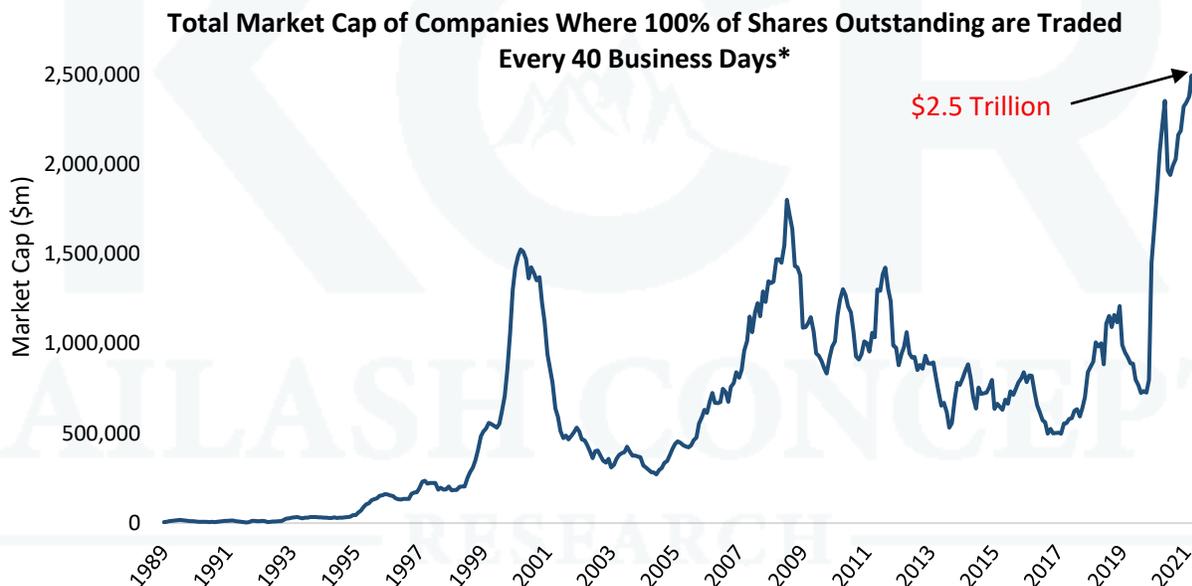
In our view, investing is not meant to be some sort of entertainment. Our combined experience has stretched over a large number of bubbles in many countries. We have **never** seen such initiatives end well for the targeted audience.

To rephrase the message in the below chart: **\$2.5 trillion of companies are being bought and sold, in their ENTIRETY, every two months.** While there are a few firms with sophisticated software that get rich off such activity, we believe the results for small investors lured into this behavior is nothing short of catastrophic.

---

### **\$2.5 Trillion in Market Cap of Firms Bought and Sold in their Entirety in Just Two Months**

---



Source: Kailash Capital; published August 2021 (please reach out if you would like the chart updated)

\*Minimum turnover is 33% or the 95<sup>th</sup> percentile today, with a group average of 51% today

We believe Scott McNealy the CEO of Sun Microsystems, a company co-founded by [Vinod Khosla](#), did the investing world a great favor in 2002, discussing stocks at 10x price to sales. Mr. McNealy was in a unique position to explain how even Silicon Valley's most important engineering creations that advance society can be bad for investors if they pay too much. His candor and honesty are something we admire.

KCR believes that our comically out-of-style affinity for profitability, reasonable prices, and emphasis on long-term returns will come back into style with a vengeance. Today looks like virtually every other bubble we have seen and read about. There is nothing novel or new in our view.

We do not relish the disastrous losses, the incriminating finger-pointing, and other agonies that typify the fall-out from manias like the one we are in. Quite the contrary. Yet we feel that when the “tide goes out” - as it always does - regulators will find evidence of immense conflicts of interest and financial chicanery.

Starting next Wednesday, we will be publishing a two-part series reviewing the lessons of Enron. Again, we do not revisit the painful chapters in history because we enjoy such events. Rather, our affinity for financial history stems from the evidence of greats like [Richard Sylla](#), who have demonstrated the power of the past to help us better see the path forward.

Keeping a level-head felt anything but easy in 2021. Fortunately, we saw many individuals and organizations admired by KCR like [Grant Williams](#), [Grant's Interest Rate Observer](#), [Trapping Value](#), [Herb Greenberg](#), and other long-time legends stand pat. 2020 was a difficult year and we are grateful that 2021 brought advocates of prudence like KCR some relief.

**While 2021 turned into a solid year for folks who remained anchored in facts, we believe the very best is yet to come. We would like to thank all our readers and supporters for their kindness and wish everyone health in the New Year.**



**Disclaimer**

The information, data, analyses, and opinions presented herein (a) do not constitute investment advice, (b) are provided solely for informational purposes and therefore are not, individually or collectively, an offer to buy or sell a security, (c) are not warranted to be correct, complete or accurate, and (d) are subject to change without notice. Kailash Capital, LLC and its affiliates (collectively, “Kailash Capital”) shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information herein may not be reproduced or retransmitted in any manner without the prior written consent of Kailash Capital. In preparing the information, data, analyses, and opinions presented herein, Kailash Capital has obtained data, statistics, and information from sources it believes to be reliable. Kailash Capital, however, does not perform an audit or seeks independent verification of any of the data, statistics, and information it receives. Kailash Capital and its affiliates do not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only and is not intended to provide, and should not be relied on for tax, legal, or accounting advice. You should consult your tax, legal, and accounting advisors before engaging in any transaction.

Nothing herein shall limit or restrict the right of affiliates of Kailash Capital, LLC to perform investment management or advisory services for any other persons or entities. Furthermore, nothing herein shall limit or restrict affiliates of Kailash Capital, LLC from buying, selling or trading securities or other investments for their own accounts or for the accounts of their clients. Affiliates of Kailash Capital, LLC may at any time have, acquire, increase, decrease or dispose of the securities or other investments referenced in this publication. Kailash Capital, LLC shall have no obligation to recommend securities or investments in this publication as result of its affiliates’ investment activities for their own accounts or for the accounts of their clients.

© 2021 Kailash Capital, LLC – All rights reserved.

