Goldman Sachs Exchanges: Great Investors

Macro Challenges and Credit Opportunities: Davidson Kempner's Tony Yoseloff

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Tony Pasquariello: Welcome to another episode of Goldman Sachs Exchanges Great Investors. I'm Tony Pasquariello, global head of Hedge Fund coverage in Goldman Sachs's Global Banking and Markets division. Today, I have the pleasure of speaking with Tony Yoseloff, the managing partner and chief investment officer of Davidson Kempner Capital Management.

Davidson Kempner is a hedge fund with approximately 37 billion in assets under management. Tony joined Davidson Kempner in 1999 and has helped navigate the firm through market cycles along the way. While Davidson Kempner has many different strategies, the firm is known for its focus on opportunistic credit and event-driven investing. We're going to talk about this current market moment, the keys to being a successful credit investor, and where he believes the opportunities are in the alternative investing landscape today.

Tony, welcome to Great Investors.

So let's start with a quick level set on Davidson Kempner. What's the history? What's the heritage of the firm?

Tony Yoseloff: So Davidson Kempner actually started out as Marvin Davidson's family office. Marvin Davidson was a senior executive at Bear Sterns in the 1970s. He left in 1981, and his goal was basically to be able to manage his own money in a way that was noncorrelated to the overall markets but to still be able to generate strong returns. So he started literally in his townhouse. So this was in the basement floor of a townhouse on the Upper East Side.

Tony Pasquariello: Give me a year. When was this?

Tony Yoseloff: So 1983 --

Tony Pasquariello: '83, okay.

Tony Yoseloff: -- is when the firm started. Tom Kempner joined him a couple years later. And the idea was to basically pair investing and opportunistic credit situations, which was Tom's expertise from his time at Goldman Sachs, to investing in different arbitrage situations, particularly risk arbitrage because that would have been big in that era. And those were some of the areas that Marvin ran at Bear Sterns.

Fast forward to 1987, Tom approached Marvin, said, "Hey, I think we got a good thing going here. Maybe we can take in some outside money." So Marvin said, "Well, I don't want to spend my time in this, but, sure, if you want to do it, let's go for it." And they cobbled together $20 million of friends and family money, which was actually a lot of money in 1987, and really started to grow with the industry. That was the early days of Yale, and the Swenson model and the term "absolute return" was invented in that period of time.

I joined the firm in 1998, at which point we were about a billion dollars under management and probably were up to 15 people at that point, which would have been a larger institution. And we've continued to grow with that. But the origins of our firm and the hallmark are still very much in the family office days and managing money for Marvin and his colleagues.

Tony Pasquariello: And what would you say makes the firm unique?

Tony Yoseloff: Well, it's interesting. If you start from what we've become -- and again, the origins of Davidson Kempner was we would have been one of the early absolute return firms. I do think we have a fairly unique mixture of public equity strategies, public debt strategies, and private debt strategies all rolled into one institution. You certainly have institutions that have each of those individually of a size and scale that are equal to or greater than ours, but you don't have that many folks who bring them all together.

You know, in our absolute return related strategies we think it's important to have a healthy combination of both debt and equity related strategies and really to be global in how we invest. About 40% of our investments are outside the United States.

So, you know, for example, if M&A is very attractive or risk arbitrage is very attractive, we'll scale up in that strategy. If credit strategies are very attractive -- and that might be in the US, it might be overseas, it might be structured products versus being core corporate debt or special situations -- we'll scale up in that strategy as well. But it's very interesting to have this combination of both private market and public market investments in one place. I mean, the very large alternative asset managers tend to skew more towards private strategies but don't necessarily have the same breadth and depth of public strategies that we have.

And I think that you learn a lot from both markets. The markets move at different paces. In bad times, so crisis times, COVID, or GFC or whatever, the public markets move a lot more quickly and a lot more steeply. And then the private markets follow, but often their cycle takes a lot longer to materialize than the public market cycle does. So we learn a lot about our private investments from what we see in the public markets. And conversely, we learn a lot about our public investments from what we see in the private markets. And again, having this mindset where you can go back and forth between credit and equity, also very powerful.

Tony Pasquariello: Let's drill into the markets today, the setup today. What are you and your partners most focused on?

Tony Yoseloff: You know, there's a few things that are really of interest in our areas of opportunistic credit and event-driven investing, which are really the areas that we focus on, so I'll talk about a few big themes. The first theme I want to talk about is interest rates. And I know the excitement if you read the newspaper in 2025 is the fact that we're likely to have lower base rates in the United States. That's all been telegraphed by the administration in terms of where things are likely heading, and the Fed seems to be starting to move along.

To me, the bigger interest rate story that we're still unlocking is the dramatic move up in base rates in 2022 and 2023, when you had a 550 basis point, plus or minus, move in base rates in an unprecedented 16-month period of time. So what that means from my perspective is you still have a lot of capital structures that are out there.

Some of these are corporate capital structures. Some of these are real estate related capital structures. Some of these might be other sorts of vehicles that don't make sense based upon where rates are today or even where rates might be going towards because they were never built for normalized interest rates. And if you look at a base rate of around 4% today, that is a normalized interest rate. The 100-year history of the 10-year in the US is between 4-5% in terms of where rates are.

And so as those come home to roost, right? Companies can defer interest payments, but they often have to meet maturities when they actually come and do. There's still a tremendous amount of restructurings that are going on underneath the hood. In public markets, those are often called liability management exercises. And in private markets, those are involuntary pick. Or there's different terms -- payment in kind; i.e., people not paying interest when they're supposed to be paying interest.

And so I don't know if we're going to repeat the history of the 1970s, but we're certainly going to test it. The history of the 1970s is that we cut rates too soon multiple times, and each rate rise was steeper than the prior rate rise, so we're going to test that thesis over the next couple years, I suspect. And either it will be the right answer, or it won't be the right answer. But if it's the wrong answer and you have all these capital structures that don't make sense already and then you put gasoline on that fire, we'll see where things are going. So that's an area that's of real interest to us.

The second area of interest to us is investing across the spectrum globally versus the US. I think there's just a tremendous amount of focus on US markets, and there's good reason for that. US markets are what? 70-plus percent of the global equity cap sits in the US. We are global investors. About 40% of our investments at any period of time sit outside the United States.

The investing climate, the investing stories outside the United States look dramatically different than what stories look like in the United States. So for example, Asia, right? You had slow economies in Asia for a few years. India has probably been the bright spot there. There's been a lot for us to do from a lending perspective in India. I would say there's a reasonable amount of equity capital chasing opportunities in India. There's still a relatively small amount of credit capital chasing opportunities in India relative to the market set. This is growth, capital, these are promoters who are happy to sign up for very substantial rates of return compared to what you would get for similar credit in the US for a couple of years because their equity cost of capital is actually quite a bit higher than that.

Europe is another one. We've been quite busy in Europe in both our credit business and our equities business. Europe is a slow-growth economy. There's also been a real shift where the countries in Southern Europe, which historically have been the laggards, have actually been the leaders in terms of growth. Many investors are afraid to invest in those countries I think in large part because of historic results. You know, we've always been willing to invest throughout Western Europe. We're not limited to the northern countries in terms of where we invest.

The country-by-country nature in terms of how things are set up in Europe and the relatively slow-to-move regulatory environment are certainly factors that always make Europe from an opportunistic credit or event-driven investing perspective interesting places. Just look at where dollars are, right? So I think, like, close to 75% of the leveraged credit dollars in the US come from investors. It's more like 37% in Europe come from investors and the rest come from banks. So there's just tremendous opportunity in a market like that.

And then the third thing I'm really focused on because I think it has impacts across businesses but would have an impact on our business is the M&A cycle as well. After four quite frankly really slow years during the Biden administration and a lead-in to that during COVID where you basically had every buyer have a free shot on goal on undoing their agreements in 2020 because COVID wasn't accounted for in the legal terms of those agreements, so it was sort of a MAC in most cases, you know, it seems like the starter gun has gone off in terms of M&A. I'm sure the bankers in this building are --

Tony Pasquariello: Let's hope.

Tony Yoseloff: -- very active with it. But no, the third quarter I think was the second busiest quarter in the last ten years for M&A, and it was pretty close to the quarter in 2015 that would have been the top period of time. You're seeing transactions that are getting announced that people maybe wouldn't have dreamed of. Number twos buying number threes in heavily consolidated industries or railroad consolidation where you really only have four major players in the US. And we think you're going to see a lot more of that.

First of all, I think there's an openness in the Trump administration to doing large deals, probably with remedies attached to them as opposed to just straight approvals. I do believe that people are going to continue to abide by the antitrust rules of the United States. But if there's an openness to doing things, I think boards are going to take a try. And, you know, my experience with M&A is, if there's M&A in your sector and you don't participate in it, there's a lot of FOMO in that world and you ultimately want to participate. And it's not really just FOMO, it's fear of getting left out and fear of being in a noncompetitive situation when you were in a competitive situation before.

So the administration has only been in place for nine months, plus or minus, and so there's still a lot of room to run in the next three years. Whether that will have legs as much to Europe or Asia I think is still to be determined, but I think there's a lot of excitement in that world, too.

And so a busy M&A environment will have an impact I think throughout markets because all of a sudden it's a real strategic bid for assets. It's not just a financial bid.

So those are kind of the themes that we're particularly spending a lot of time on at DK.

Tony Pasquariello: Let's talk about the business cycle. Each investor is going to have their own way of thinking about the business cycle. And in a way, you've referenced a couple different ones already. In a way, the COVID era, each year has unto itself almost been its own business cycle. Think 2020 versus 2022.

I'm curious, when you walk in the office every day, how much of your process is trying to assess the cycle? And I think what I'm trying to get at is how much is it a top-down versus a bottom-up process?

Tony Yoseloff: Well, you know, as it's starting out, I think for 2025 alone, you can just get lost in the headlines, right?

Tony Pasquariello: That's right.

Tony Yoseloff: I mean, a tremendous amount has happened in this year, whether it's the move in markets post Liberation Day or some of the GO political conflicts we have out there. But if I think about how we actually invest at Davidson Kempner, as a starting point, we are micro investors, right? So we are trying to isolate events in our event-driven mantra or an opportunistic credit. We are trying to either loan to or create assets with a really large margin of safety on it. So even if bad things happen in markets, we can at the very least get our principal back.

One of the investing lessons I learned during the Global Financial Crisis which I kept is, if you have a macro viewpoint that's strong and your micro investments conflict with your macro viewpoint, you need to understand why. Like, so I'm not a believer in the fact that, like, you should avoid a micro investment because it happens to conflict with your macro viewpoint. Like, what if your macro viewpoint is wrong, you know, as an example? And I think the probability of getting your macro viewpoint wrong is higher than the probability of getting your micro viewpoint wrong.

On the other hand, if there's a massive opposition between those two factors and you lose money, you probably should look at yourself and say, "Hey, why was I in this in the first place, you know, if I had this macro viewpoint?" So I do look at things today, we obviously spoke about the interest rate concerns I have. I would say a second set of concerns I would have just general is we haven't had a real recession outside for a few months in COVID since the GFC. I mean, there was a short period of time in the early 2010s that you might refer to as, like, a softening but it wasn't really technically a recession. There was a COVID recession for three or four months the way it played out. That's a really long time in markets. And we could spend the whole podcast talking about valuation excesses or things along those lines.

And so you are seeing a lot of late-cycle behavior out there. And when that ends, who knows? But I just think you need to be prepared for it.

Tony Pasquariello: And let's just spend a minute on that. There's been a lot of talk in the market recently. We've published on this. It's kind of the question of: Are we in a bubble or are we not in a bubble? Do you have a view on that?

Tony Yoseloff: So the answer is: I don't know but I'm quite concerned about it. So let me explain why. So I'd start out with a basic thesis. And by the way, you could have said this three years ago pre the AI trade, let's say, but it's only gotten worse since the AI trade. And this is that 40% of the S&P is in ten stocks, plus or minus. So if you go back and you look at historic levels of concentration in that index over the last 60 years, you only see two periods of time that are close to that. One of them is the early 1970s, that's the 1972-1973 era, which would have been the era of what was called the Nifty Fifty which would have been the greatest growth stocks of that era. And the second era, which is around when I started my career at Davidson Kempner, would have been the 1998-2000 period of time, which I'll call today Internet Bubble 1.0.

And so if you look at what happened in those periods of time, right? The Nifty Fifty, the theory was you had these great growth stocks, and they were going to carry the day. And the theory of the Internet Bubble 1.0 is the Internet is a transformative technology and that ultimately is going to carry the day. So both those trends were right, but if you actually look at what happened, it took you 15 years from the peak of Nifty Fifty to get your money back in terms of where things were. So you sat on dead capital for 15 years. And the reason you got your money back was stocks like Johnson & Johnson and Walmart in particular rode out versus all the companies like Kmart or Kodak or whatever that you've forgotten about that would have been part of that.

It was very similar in the early 2000s, right? If you bought the NASDAQ at the peak of 2000, I think it was, like, March or April 2000. Yeah, it took you to the mid 2010s to get your money back. And again, it was a handful of stocks like Amazon or Apple that really carried you through and a lot of carnage along the way.

So it turns out 15 years to get your money back is a really long period of time, even if you were to look at both indices and you feel quite good about where things are. And so from my perspective, the question is you have all this CapEx that's pouring into AI-related investments. What you hear out there, which is true, is that the great majority of that CapEx is coming from some of the healthiest companies on the planet that are taking their free cash flow and they're investing that money into AI. So it doesn't really matter, quote/unquote, how long it takes to get your money back.

Well, you know, the stats I would throw out there are it took about ten years from when personal computers became popularized in the United States in the 1980s to see productivity gains in the workplace from them. And so that's a very long time to invest a huge amount of CapEx to get the benefits from it. You know, it was probably more like five or six years from when the Internet really became mass marketed in the early 1990s and see productivity gains. Those productivity gains came in the 1990s and early 2000s and then they flatlined for a while after that.

So the way I like to think about it is: Is there going to be an AI wobble at some point? Are investors going to be concerned about how those CapEx dollars are being invested? And right now, there's a little bit of a prisoner's dilemma, let's call it, among the larger firms. You have to invest in it because your peers are investing in it, and so if you're left behind you're not going to have the stronger competitive position to it.

But what happens when the market starts to challenge the assumptions of just what the returns are going to be on this? And, you know, how patient is the market going to be on those returns? You know, I mentioned the concentration that you had three years ago in these Mag 7 type stocks. That was pre-AI, right, in terms of things were. And so my concern and thought process is that these stocks are just so dominant in the overall investing, even if they're not a big part of your investing platform, that they're going to have some sort of impact on you.

And then there's all the secondary companies that are out there, whether it's power production companies or other companies, chip companies, that have -- so secondary companies that have impacts of this, right? If you look at how some of those stocks got hit during April, right, in the selloff, it was very hard, right? It was very hard, very quick. And so we're quite concerned about it, even though it's not really day-to-day what we're investing in. But I think that will impact, we'll have opportunities.

I will say that the early 2000s were a fantastic time for absolute return investing. There was a tremendous amount of dispersion in markets. There's a tremendous amount of dispersion in markets today, both in credit markets and in equity markets, whether it's event-driven strategies or relative value absolute return strategies. And we wrote a white paper on this in January that's available on our website. Absolute return strategies are about separating winners and losers, and I do think this dynamic will have a big impact on separating winners and losers.

The early 1970s, the financial markets weren't as formed as they were today. I think, unfortunately, in those markets you could have hidden in gold or you could have hidden in oil, but there probably weren't that many other places to hide in those markets. And part of that was just the dramatically steep rise that you had in interest rates. And even though I do think there's some risk of that in the US, I don't think it's anything like it was in the 1970s.

Tony Pasquariello: So I want to talk about private capital and private credit. I think you all got involved in that space circa 2010. A lot has happened since then. A lot has happened just in the past four or five years. Where do you think we stand today? Has that all gone a little bit too far or not necessarily?

Tony Yoseloff: It's probably a little bit of both. So, you know, my truisms of investing are that capital chases returns and that markets become efficient over time, right? So if you go back again to the Swenson Model or the Ivy League Model, Yale Model, whatever you want to call, for investing, there's a belief that private markets are always going to outperform public markets, so you should invest heavily in them. I don't share that viewpoint. I share the viewpoint that private markets should outperform public markets because they're less efficient and they take more work to unlock the value, but fundamentally all markets behave in the short term based upon supply-demand dynamics. And those supply-demand dynamics can even out over time, and some markets can become more heavily invested.

And so as you mentioned, we started investing in private capital markets through drawdown funds in the 2010-2011 time frame. I did it simplistically because you could no longer make some of the investments in absolute return strategies post-Global Financial Crisis that you were able to make pre–Global Financial Crisis. And I thought there were going to be really interesting opportunities in providing debt, purchasing secondary debt, and taking control of assets through special situations. And that story has really played out.

If you were to look at the growth of the overall industry, absolute return strategies and private capital strategies away from AR -- so this could be try corporate lending or it could be private equity or it could be growth equity and venture capital -- the AUM of those areas was about the same size going into the Global Financial Crisis. But post Global Financial Crisis, almost all of the growth has come from the private capital portion of things, and the most recent flag of that has really been retail in terms of getting into those markets. And I would say a lot of the retail products that are offered are not exactly what you would get institutional products. Some are but not all of them are.

So I just think you have to go back to the basic supply-demand dynamics of it. Like, I think the area is tremendously interesting. I think it's, outside the United States still in its infancy, compared to what it is in the United States. But you look at areas within the United States -- and I put growth equity into this area -- where it's highly competitive, highly picked over, very well known, very interesting to a large group of investors for a long period of time. And I go back to capital chases returns and markets become efficient over time. And so whatever you expect beta efficient returns to be, like, that just might be what you earn in that asset class.

I don't think that's true for all parts of private credit. The areas that have less growth in them are far more inefficient than the areas that have had more growth in them. And I think those are areas that will likely do better over time. So I do think that the industry in general is going to continue to grow, but you just have to be aware of the amount of capital chasing any particular opportunity.

Tony Pasquariello: I want to ask a couple questions about your career and how you got started in money management, but was there anything on the markets that you want to register that I didn't get to already?

Tony Yoseloff: We spoke about this, but I just want to, like, highlight it. It is amazing how much happens in any given year. And there's a lot that you can paint into that. You can paint into that political administrations. You can paint into a viewpoint that I have that perhaps we're going through a period of deglobalization, right? If the 2000s and the 2010s were a period of globalization, perhaps the 2020s are a period of deglobalization.

You can talk about a period of mass technological change, right? So the AI conversation that we're having we wouldn't have had three years ago, right? Or you can just say the amount of information we're creating in the world today is a multiple of what we were creating ten years ago, which was a huge multiple of what we were creating 30 years ago, and maybe that's why things go faster. So if you think back to these early 1970s periods with fixed commissions and three-martini lunches or whatever people did back in that era -- obviously you and I weren't around for it.

Tony Pasquariello: Oh, the good old days.

Tony Yoseloff: You know, maybe just things move faster today than they moved in that period of time. It's probably all of the above. But it makes for a very dynamic and exciting market, but it's not one to forget that just time does move faster.

Tony Pasquariello: I share that sentiment. So let's talk about your career. I'm a Goldman Sachs lifer. I believe you're a DK lifer. Is that correct?

Tony Yoseloff: I am, yeah.

Tony Pasquariello: What year did you start?

Tony Yoseloff: So I started at Davidson Kempner in the summer of 1998. I started as a summer intern. I graduated from Princeton University and was doing a joint law business degree at Columbia University. Davidson Kempner posted -- and this is old school -- on a bulletin board with probably -- past dot matrix in those days -- but a piece of paper posting for a fulltime risk arbitrage analyst. I sent in a résumé. I was looking for a summer job. They said, "Hey, we think your background with the legal background is good for opportunistic credit. Come join us for a summer," which I did. And then I never left.

And I never left because I was, like, it was a billion dollars and 15 people here. That's probably really good opportunity for me. And I really liked the people I was working with as well, and I thought I could learn a lot. And those things just stayed for a very long period of time. I would have had no idea the level of growth that either we would have had as an institution or the industry would have had, but I quite enjoyed what I was doing from the early days of it.

Tony Pasquariello: That was a wildly interesting time to start in the markets. Is there a lesson from those early days for you that you still carry with you today?

Tony Yoseloff: In terms of investing, one of my lessons of investing, which certainly came from those early days and the discipline of Davidson Kempner, is I always want to know in advance why we're going to lose money on something. You know, I believe when you make an investment there's a little bit of odds setting, odds prediction that go on in that.

And so if you take the old-fashioned risk arbitrage mentality, you know what you're going to make if an investment is successful, like if a deal closes. You know pretty precisely what you're going to lose if the deal doesn't happen. The market effectively is putting a probability on that. And then you have your own probability on that.

And if you can set those odds consistently over time, you'll likely be a good investor.

Obviously when you're doing other sorts of investing there's more permutations to it than, you know, 0-1, does it happen or does it not happen? But that goes back to the early days of Davidson Kempner. And I remember sitting in meetings with Tom Kempner and his reading through my memos. You know, if something didn't go our way and it wasn't going to always go our way, to really make sure that I understood why things wouldn't work out. And that stays with it.

As an aside, fall of 1998 or summer of 1998 was obviously a big market correction. We've had a few of those in the last five years as well. I always like to tell the junior people at our firms, like, don't worry about it. It's actually the best thing you can imagine for your career to sit through a market correction as a younger person because you have no responsibility for it, so you get to just sit and watch and look at what's going on around you. But there's a tremendous amount that you can learn from that. So absorb it all. See what people are saying around you. Take it in through osmosis because they're actually tremendous learning opportunities. Obviously, as a more senior person, they're a little bit less fun, but they're very healthy and obviously a very important part of markets.

Tony Pasquariello: So if someone were to write a book on the hedge fund industry, the history of the hedge fund industry, there'd be some interesting chapters on succession, for better and for worse. I think DK for sure is one of the better stories. You became co-managing partner I believe in 2018 and sole managing partner in 2020. So can you just help us understand what has gone right in the succession of those events within DK?

Tony Yoseloff: You know, I would say a couple of things. And this is probably one of the most frequent things I get calls about from our peers. And it's typically like, "Hey, I want to retire in six months. What do I do?" And, you know, that whole paradigm doesn't really work that well.

You know, as a starting point, good succession plans are planned over a several-year period. So I co-ran the firm with Tom for two years before he retired. I was also the deputy managing partner for five or six years before that and had taken on real managerial responsibility, not just portfolio manager responsibility, over that period of time. So it was a pretty natural glide path. By the time we actually got to becoming co-head of the firm or Tom's retirement, it was pretty natural. It was expected. It was expected by LPs. It was expected internally. So I do think, you know, not every situation allows for it, but if one can have that, that's very important.

My second quip -- and you've seen this perhaps in some other succession planning -- is that the person running the place has to actually want to retire, right? So that's the other place that you have complications where maybe the person involved says they want to retire but they don't really want to retire. Or their investors are saying, "Hey, you've reached a certain age, so perhaps it's time," and they don't really feel that, you know?

So I was around not only obviously from my own succession of Tom, but I was around for the last six years of Tom's succession from Marvin. And so I got a first-hand seat as well as to what worked, what didn't work, what some of the concerns were, what went smoothly. Probably more importantly, what didn't go smoothly in that period of time. But, you know, these businesses are people businesses, right? Money management fundamentally is a people business. Your most valuable assets walk out the door every day. You know, it's a trite saying but it's very true.

Tony Pasquariello: That's right.

Tony Yoseloff: And look, I mean, we had the benefit of Marvin having been a very senior executive at Bear Sterns and Tom having been a relatively junior trader at Goldman Sachs but had a lot of exposure to Goldman Sachs. And so they had both seen over time what worked and what didn't work in those. And I think that's been part of our success is trying to learn from what doesn't work in these situations, knowing that a succession plan is never going to be perfect, and go with what is working. But having the benefit of time is very helpful, too.

Tony Pasquariello: What's the best piece of advice you've ever received?

Tony Yoseloff: Okay, so we're at Goldman Sachs today, and so I'm going to say this and it's a little bit tongue in cheek but it's exactly the piece of advice I got. It came from my post college roommate's mother, still a very close friend, and she literally said to me, she said, "Tony, don't go work at Goldman Sachs." Literally, that was the advice.

And what she said to me -- this is the late 1990s -- she said, "Tony, Goldman Sachs is the best firm on Wall Street. All the best and brightest want to go work at Goldman Sachs. Figure out what's going to be the next Goldman Sachs and get in the ground floor." And that was really good advice.

I mean, I wouldn't necessarily have known that Davidson Kempner or absolute return or alternative asset management was going to be this growth engine, but as I mentioned before, I liked who I was working with, I liked the dynamic of having, you know, a relatively large amount of capital with a relatively small number of people that were managing it. I felt early on that I could be successful in the business. And then I got very fortunate with the growth trajectory that the business was on and the industry was on that would have been far beyond what I dreamed.

It's still very true. Look, there's different risk tolerances that people have in terms of what they were doing, and I certainly probably took some career risk early on doing this where it was not a known name in the 1990s like it might be today. But it was really good advice to follow. And I sort of joke, my roommate ultimately followed the advice just about 15 years later.

Tony Pasquariello: Okay. And when you give advice today to folks starting out their career, I'm imagining it's not: Don't go to Goldman Sachs.

Tony Yoseloff: No. I mean, look, I do talk about opportunity, right? Look, there's many great places to learn how to do things. Wall Street, whether it's Goldman Sachs or Blackstone or any number of different firms, is one of them. But you have to be going to work with people that you feel like you can learn from, and then you figure out at some point in time if you want your life to follow your boss’s lives because that's probably the best window into what things look like.

And so for example, before I went to work at Davidson Kempner, I did a little bit of work at law firms with some folks who turned were the deans of the private equity bar today in terms of their success rate. And what I found was I didn't feel like I was close enough to the deals with the attorney's seat. Being an attorney is a wonderful profession and I'm trained as one, but it just wasn't where I wanted to spend my time.

And then there was a little bit of my boss was there until 1:00 a.m. every morning, and did I really want that ten years into my career as a success? I work extremely hard in what I do, but I wanted a little bit more ability to manage my own time than I felt like I had in that profession. And those were things that sort of steered me on a different path.

So I do think it's important -- you know, I don't like the idea that you have to know exactly what you want to do for your life when you're 22 years old. I'm more into the sampling, I think they call it, version of that than I am into the just go deep into something. But whichever one you choose, part of it is you have to look around and say, "Hey, can I be good at this? Are the people here going to be helpful to me? Do I like working with them?" You do spend more waking hours with your work colleagues than you do with your loved ones. And so is that something I like? And those were things that were important to me.

The other piece of advice I give today to young analysts is you have to get yourself out of your model, right? That's another part of investing that I think is really important. There's this idea sometimes that you have when you're younger that the answers to everything are in your spreadsheet. And the answers to some things are in your spreadsheet, and you can't poo-poo that. And developing analytic skills is extremely important, although perhaps AI and things like that will make that a little bit easier on a going forward basis. Certainly there were innovations in the 1990s and 2000s that made it easier than it would have been old school back in the day when you were literally building that stuff from scratch. But the answers are generally not in there.

A lot of my really good investment theses you could literally have written on the back of a cocktail napkin. That doesn't mean that there wasn't a tremendous amount of work that was done underneath the hood to justify it. But fundamentally, the thesis itself was quite simple.

Tony Pasquariello:	Okay. If we go way back to the very beginning, what was your first investment?

Tony Yoseloff: You know, it's interesting. I'd like to say it was stocks, but it was probably a baseball card. And so I grew up in the 1980s. Baseball cards and Star Wars figures were a big part of my childhood. And from my early days, you know, I would have been sub ten years old. There was the thrill of going to a card show is buying a Nolan Ryan rookie and things along those lines. Unfortunately, in those days I couldn't really afford them in great condition, so I've got a bunch of beat up cards that are iconic baseball cards. But they were still really fun things to have.

I actually had my own baseball card business probably right before I was a teenager where I would buy cards and I would sell cards. And they were really good learning lessons. It was a lot of fun. Cards from the 1980s and 1990s for the most part have not survived the test of time in terms of values. But I learned a tremendous amount doing it.

And that was a natural gateway. The 1990s, when I was in college and in grad school, that was the heyday of mutual funds in the United States. That was the start of online trading. And that was a gateway for me in terms of doing valuation and understanding trading more in financial markets versus the baseball card market.

Tony Pasquariello: Which investor do you admire the most?

Tony Yoseloff: So the investor that I learned the most from -- I mean, the investor I probably admire the most is Warren Buffet, which is a fairly trite answer although I've done a tremendous amount of following and reading and been to a few of the annual meetings.

The investor I learned the most from was actually David Tepper, so another Goldman Sachs alum in terms of what it was. You know, when I started at Davidson Kempner in the 1990s, there weren't that many absolute return firms. There weren't that many firms that specialized in distressed debt, as it would have been called back then. And Appaloosa was one of them, and they did things very differently than Davidson Kempner.

If Davidson Kempner was a solid singles hitter, you know, trying to, you know, always get it right, Appaloosa was a homerun hitter, right? But we would find ourselves sometimes in some of the same names; we just might play them a different way. And so I spent a lot of time, early in my career, reverse engineering what other investors were doing that I thought were clever and trying to figure out how they thought about things that were differently than who I was being taught things. I was obviously taught things extremely well at Davidson Kempner, but I was taught one specific style have investing.

And I found it interesting and the industry was small enough back then that you could really understand what people were doing on a pretty granular basis. But that was a firm in particular that, just because it was so different, I learned a lot from. And then I figured out what worked for us, and I was able to help improve our process over a period of time by bringing in both things from them and from a number of other investors that I admired that I did and what didn't work for us. And so it might work well for other people's risk tolerances or it might work well for what other investors expect of other firms that didn't expect of our firm.

But by the way, it's a continuing process. I mean, one of the beautiful things about investing is there's no patents on anything, and so your job is not only just to do what you're doing but to figure out what other people might be doing better or more innovative or what areas that you're not investing in that you could be investing in and try to stay ahead of the curve. You're not always going to be successful at that, but if all you do is say we've got a process and we're going to stick to our process you're probably not going to succeed because there's a lot of twists and turns along the way.

Tony Pasquariello: Outside of the office, where do you spend your time?

Tony Yoseloff: There's structured time and there's unstructured time. So if I look at my structured time outside the office, I go to a lot of sporting evenings. We do a lot of dinners, and I sit on three boards. I sit on the board of Princeton University, the New York Presbyterian Hospital, and the New York Public Library, all of which are amazing, wonderful institutions. And so my structured time outside the office takes up a reasonable amount of my time outside the office obviously other than time with my family.

But I really like having unstructured time as well. My wife calls it Tony Time, actually, where there's nothing on the calendar for a day. And some of that might be reading. And it can be reading for fun or for work or for both. So I've been reading John Malone's autobiography in the last few days. He's a figure I know quite a bit about, but it's nice to be reminded, one of the all-time great capital allocators in terms of how he thought about their business and an amazing entrepreneur.

It might be napping. It might be returning emails. Or it might just be doing random stuff. But you need some time that's unstructured to let your mind wander because sometimes that's where you wind up with the best answers. And so I try to be protective of that time. It tends to be better on the weekends than during the week. You know, if you don't have plans on a day during the week, you might be tired and not be able to take full advantage of that time. But it's important that we have it.

Tony Pasquariello: Last question. What are you most excited about in the world right now?

Tony Yoseloff: I go back to the rate of change of things, where I have the benefit in what I do and it's a combination of the fact that we're a global firm and the fact that we invest across markets. And so I see public markets, private markets, debt, equity. But if I were to think about my investing lifetime, this is among the greatest periods of change that we've had in a lot of different ways. And so, look, whether it's a fund manager like us using the opportunity with the change in markets and the changes that you're seeing geopolitically and with technology to either take share or improve returns or do different things or enter into markets, it's the same thing with end-user businesses as well. Those businesses, some of them will be able to take advantage of the opportunities to take share from competitors or offer new products or finding better ways to invest capital or new markets to be in.

And I don't know if it's just because we're sitting in 2025 that we think that way. Like, would we have thought that way in 2005 or 2015? Probably? But I think it's more true today than it's been, and I only think it's going to continue.

The Internet became commercialized during my time in college, right? So I was a sophomore in college when I guess it was Mosaic came out, which was University of Illinois predecessor to Netscape. And that first browser led to tremendous things. And so I compare, like, my freshman year of college where we were literally using a MS-DOS program to do email to my senior year of college where you actually could go on Yahoo! and start to buy stuff, right? So that was a tremendous period of change.

And so you take what could be happening over the next several years with AI and then you couple that with some of the deglobalization that we were speaking about, and it's sort of a massive change in how people think about things and we're doing things. And so to me that's fun and that's a really interesting opportunity. And again, I'm sure it felt, like, tremendously different ten years ago but it just wasn't compared to what we have today.

Tony Pasquariello: I think that's right. We're going to leave it there. We covered a lot of ground. Tony, thank you for coming down. Thank you for sharing your insights with us. I really enjoyed that conversation.

Tony Yoseloff: Thank you so much. I appreciate everyone listening in.

Tony Pasquariello: Thank you all for listening to this episode of Goldman Sachs Exchanges: Great Investors, which was recorded on October 20th, 2025. I'm Tony Pasquariello. If you enjoyed this show, we hope you'll follow us on Apple Podcasts, Spotify, or wherever you listen to your podcasts, and leave us a rating or a comment.

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