

# Bridgewater®

## Daily Observations

March 18, 2020

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### Our Performance

As you know, we have two types of funds—one that is our best strategic asset allocation mix (i.e., our beta funds, which we call our All Weather funds) and the other that has our best alpha positions (which we call our Pure Alpha funds)—and these funds operate at different levels of expected risk and returns and are sometimes combined to make hybrid funds.

The net performances of these funds this year has been about as follows:

- All Weather (10% vol) is down about 12%.
- All Weather (12% vol) is down about 14%.
- All Weather China RMB is down about 9%.
- Pure Alpha (12% vol) is down about 14%.
- Pure Alpha (18% vol) is down about 21%.
- Pure Alpha Major Markets (14% vol) is down about 7%.
- Pure Alpha Major Markets (21% vol) is down about 11%.
- Optimal Portfolio (10% vol) is down about 18%.

Don't hold us to exactly these numbers because there's nothing exact about them in this volatile environment.

What do I think about this performance? While it's not what I would want, it's consistent with what I would have expected under the circumstances. The novel coronavirus is a pandemic that came on fast and hit us at the worst possible moment because we had a long tilt in our positions. We had that long tilt because we were positioned to take advantage of the liquidity in the financial/economic system, the levels of interest rates were low relative to other assets' expected returns, and there were no immediate signs of economic decline (though we did have worries about what a downturn would be like because of the inabilities of central banks to be stimulative at the same time as there were large wealth, political, and geopolitical gaps and conflicts).

We started tracking the coronavirus (and sharing what we were seeing in our *Observations*) in January. At the time we discussed whether we should deviate from our stress-tested systems to override them based on what we were seeing and decided not to because we believed that we shouldn't. We made that decision because we knew we didn't have an edge trading based on our views of the virus and because the range of possible outcomes was so huge. We also felt that this would be another one of a large number of other big unknown risks (e.g., threats of wars with North Korea or Iran, an anti-capitalist getting elected in the US, a cyberattack, an earthquake, etc.) that we had already engineered to handle via our normal risk controls. For those sorts of big potential risks or others we can't even imagine, we have controls that are intended to limit our losses to tolerable amounts.

In this case the risk control process worked as designed. As a result, our losses have been similar to those in our prior worst-performing periods. In the past we have learned and recovered from these periods and expect that to be the case again. For example, we are now delving deeply into the impacts of the virus by companies and sectors and how to measure viruses emerging in various places so that we will be able to have an edge as the coronavirus wave passes from place to place and if it or another virus comes back. That is how we learn and embed our learning into our system, which never forgets and processes information much more quickly, accurately, and unemotionally than we can.

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Estimated through 3/16/2020. Past performance is not necessarily indicative of future results.

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Also, like in the past, we have maintained our liquidity to be able to adjust the portfolio in response to changing conditions. While we lost money this time, we lost a tolerable amount of it so that we have the ability to come back from it, and we remain liquid and can adjust our positions to still give you liquidity rather than prohibit you from getting it.

While this is a wild ride, please know that it isn't our first rodeo. It is just another one of the many big shocks that we have been through in our 45 years of having Bridgewater and my about 15 years before that as an amateur investor. I/we have encountered many such moments, like the breakdown of the monetary system in 1971, the oil shocks of 1971 and 1973, the breaking the back of inflation and the debt crisis of 1980-83, the bursting of the dot-com bubble, the World Trade Center attack that knocked out government and private systems, and the 2008 financial crisis when liquidity seized up and credit risks were all over the place. We encountered all of these and many more, plus we have studied and simulated our trading through many more cases extending back over the last couple of hundred years and across many countries to come up with our timeless and universal rules.

Said differently, while we wish we didn't have these losses, and while we aren't used to pandemics and don't claim to know how to trade them, we view this situation as being like a number of other situations that have happened to us before and that we had plans to deal with. For those who remember what a great year 2008 was for us because we made a lot of money when most everyone else lost huge amounts of it, it is also worth remembering that there were big performance bumps along the way during that year; as of September 2008, we were down roughly 20% (in Pure Alpha 18%) from that year's peak. By keeping losses within predefined limits, maintaining liquidity, and measuring the impacts of events once they occurred, we were able to adapt our portfolios and subsequently produce big up years in both 2010 and 2011.

Over decades, we have developed our plans based on learning both through our real-world encounters with things that we never anticipated before and through examinations of history. These encounters and examinations led us to improve the rules in our systemized game plan. For example, eight years before the 2008 financial crisis our study of the Great Depression led us to understand the mechanics of hitting 0% interest rates in an economic downturn, which led us to build a "Depression Gauge" so that when rates hit 0% in 2008 we had it in our systems and we stuck to it and it helped us a lot.

Similarly the game plan that we had going into this coronavirus crisis used indicators to trigger our defensive moves in a downturn toward a 0% interest rate floor. It also included holding options positions designed to limit our losses in the worst-case scenario regardless of the cause. Please keep in mind that the game plan is never supposed to be something that we blindly follow when it doesn't make sense to us; it's meant to be consistent with what is sensible.

Of course we are questioning if we should have done some things differently; we are exploring this and will systemize whatever we come up with into our decision-making systems.

Like all such past moments that had big impacts on us over the last 50 years or so, we are learning and improving from this process. So all of my partners and I are deeply immersed in researching and developing indicators for the things that took us by surprise so that as this event progresses or if an event like it re-emerges in the future we will turn it to our advantage.

Going forward, the world has now crossed a very dangerous threshold for financial markets and economies that poses great risks for all investors, which is the falling below 0% interest rates in an environment in which there is an economic downturn, a global wealth gap, and populism. It is one we have been preparing for for a long time. I will soon send you my research about this. We do think that we have an edge in knowing how to invest in this environment. Right now we are deep at work, looking at the implications in detail.

I want to assure you that our most important fundamentals are good because we have a GREAT team of people who are very smart and very committed to the mission of beating markets and helping each other and our clients. Those are the most important fundamentals because they will determine our performance and our abilities to help our clients in all ways possible.

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